

What are the effects of increased immigration on the wages and employment of people who are already here, whether they are native-born or earlier immigrants? Research by **Marco Manacorda, Alan Manning** and **Jonathan Wadsworth** investigates.

The labour market effects of immigration

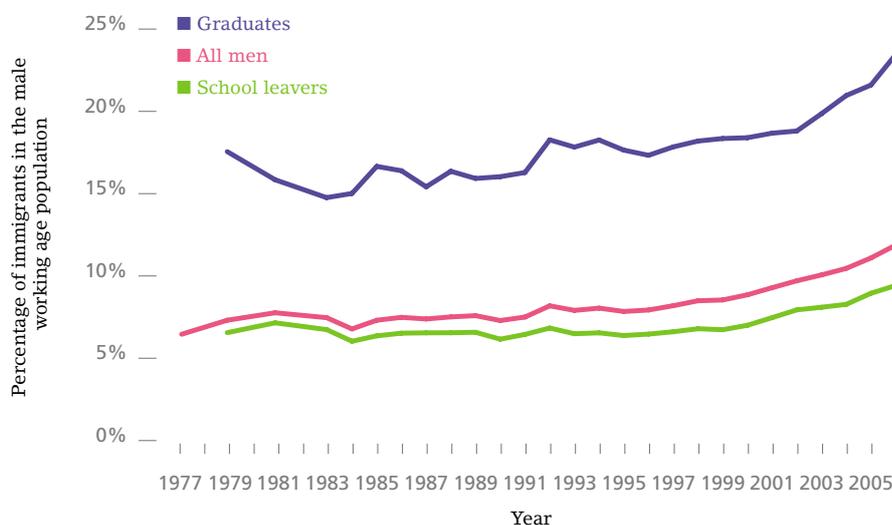
During the past ten years there has been a significant increase in the number of individuals coming to live and work in the UK. By 2007, 12.5% of the working age population had been born overseas, up from 8.5% at the end of the last recession in 1993 and 7% in the mid-1970s.

The addition to the UK labour force over this period caused by the rise in the number of working age immigrants from 2.3 to 4.2 million is about the same as that stemming from the increase in the native-born working age population caused by the baby boom generation reaching adulthood. The relative rise in immigrant numbers in recent years has been greater among those with higher levels of educational attainment (See Figure 1).

These trends have stimulated a heated debate about the effects of immigration, a debate that has taken on renewed vigour following the wave of immigration from the countries that have recently joined the European Union and following evidence of a loosening of the UK labour market.

Yet, despite immigration being at the forefront of the political debate, research-based evidence on its effects on the labour market is far from conclusive. The largest body of evidence comes from the

Figure 1:
Immigrant shares in male population of working age



United States, where researchers have reached different conclusions. In a number of papers, David Card at Berkeley finds little discernible impact of immigration on the wages of native-born workers, while George Borjas at Harvard argues that immigration has a pronounced effect on the native wage structure.

Evidence for the UK is scant and we should not automatically assume that the impact of immigration will be similar to

that found in the United States. The most convincing study – by Christian Dustmann and colleagues – finds that immigration has no large discernible effect on the level of native wages.

At first glance, this finding is puzzling since simple economic reasoning and perhaps popular belief suggest that a large increase in labour supply – such as the one brought about by immigration – should lower the wages and/or

employment of workers in the recipient country. But this conclusion is based on the often unspoken assumption that natives and migrants are highly substitutable in production – that an employer can easily replace a native-born worker with an equally skilled migrant worker. This need not be the case and it is therefore a matter for empirical verification.

A simple test of the degree of substitutability between these different production inputs is the responsiveness of the wage differential between native and migrant workers with any given level of skill to labour force changes brought about by migration. The intuition behind this test is that if natives and migrants are perfectly substitutable in production, we would expect their wages to respond similarly to changes in labour supply, be it

from natives or migrants, leaving the differential unaffected,

Conversely, if we find that the native-migrant wage differential is sensitive to the share of migrants in the population, and in particular if this differential increases as migration rises, this will be evidence of imperfect substitutability, potentially explaining why natives appear to suffer few losses from migration.

To do this, our study focuses on men's labour market outcomes using micro-data spanning the period from the late 1970s to the mid-2000s. Because it is well known that workers with different labour market experience and skills are imperfect substitutes in production, we decompose the labour force into different groups defined by age and education in addition to migration status. We estimate the trends in immigration along these

dimensions as well as the correlation between these trends and the wages and employment of natives and previous migrants.

Measuring migrants' skills is not an easy task with UK data since the definition of qualifications varies between natives and migrants, with large numbers of migrants being classified in official surveys as holding unspecified 'other qualifications'. To cut through this problem, we measure completed education in terms of the age at which the individual left full-time education. According to this metric, over the three decades of analysis, migrants have been on average more skilled than natives and increasingly so.

This is shown in Table 1. The relative supply of skilled to less skilled labour has grown more among immigrants. At the



The main labour market impact of increased immigration to the UK is felt by immigrants who are already here

Table 1:
Male immigrants and native-born workers in Britain
(five year averages)

	1975	1985	1995	2005
Percentage share of university graduates among:				
Native-born	6.0%	12.2%	15.4%	21.6%
Immigrants	9.9%	22.7%	32.9%	40.4%
Percentage wage gap between university graduates and school leavers among:				
Native-born	12.3%	12.2%	16.4%	24.4%
Immigrants	25.7%	24.3%	29.6%	29.9%

same time, the returns to education have risen faster for natives. A way to rationalise this is that the returns to education among each of these groups respond to their own relative supply, implying imperfect substitutability.

Our estimates indicate that a 10% rise in the share of immigrants in the UK population is associated with an *increase* in the native-migrant wage differential of around 1.9%. We take this as evidence that migrants and natives are imperfect substitutes in production.

This finding is highly robust and squares well with our other finding that the extent of occupational segregation between migrants and natives in the UK labour market is sizeable. We show that between 20% and 34% of immigrants would have to change jobs to match the occupational distribution of employment among natives.

Interestingly, we find that migration particularly affects wage differentials between natives and recent migrants as well as those who migrated in adulthood. It appears that newly arrived migrants bear

force brought about by immigration over the three decades of our analysis are due to the inflow of skilled migrants. Because of this, our study is unable to shed much light on what appears to have been a recent increase in unskilled migration. This inflow might have rather different effects on the wage and employment structure of natives than the one estimated in our research.

Indeed our analysis shows that unskilled natives are relatively more substitutable with respect to migrants than skilled natives, although differences between the two groups are not statistically significant. More data and longer time series are needed to estimate this effect precisely.

Newly arrived migrants bear disproportionately the cost of increased migration in terms of lower wages

disproportionately the cost of new migration inflows. This cost manifests itself in terms of lower wages rather than employment losses.

We use these estimates to determine the effect of increased immigration on the level of native wages. Our calculations show that this effect is negligible. This result depends on the imperfect substitutability between migrants and natives coupled with the fact that migrants still account for a relatively low share of the workforce.

Our conclusion does not imply that immigration to the UK has no costs, but rather that the effects on groups other than immigrants themselves has been, on average, small.

As a caveat to our conclusion, recall that most of the changes in the labour

This article summarises 'The Impact of Immigration on the Structure of Male Wages: Theory and Evidence from Britain' by Marco Manacorda, Alan Manning and Jonathan Wadsworth, CEP Discussion Paper No. 754 (<http://cep.lse.ac.uk/pubs/download/dp0754.pdf>).

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Further reading

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