CENTRE for ECONOMIC PERFORMANCE

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CEP 2019 ELECTION ANALYSES SERIES

A series of background briefings on the policy issues in the December 2019 UK General Election

Immigration

Jonathan Wadsworth

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CENTRE *for* ECONOMIC PERFORMANCE

Immigration

CEP ELECTION ANALYSIS

Jonathan Wadsworth

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Summary

- Immigration still seems to matter much more politically than it does economically. Immigration's effects on most areas of the economy appear to be small. There are neither large negative effects nor large positive effects.

- Unlike the UK-born population, a majority of immigrants are in work. Immigrants are also over-represented among the unemployed and economically inactive, and under-represented in the child and pensioner populations. These observations help to explain why, on average, immigrants pay more in taxes than they receive in state benefits relative to others.

- Future immigration policy has to determine who is allowed into the UK, into which sectors of the economy, for how long and at what cost. Given the diverse and changing use of migrant labour in different sectors, this is not, and has never been, a straightforward task.

- Immigration policy and informed debate are compromised further by the current ambiguity over measuring the numbers of immigrants in the UK.

Centre for Economic Performance
London School of Economics and Political Science
Houghton Street, London WC2A 2AE, UK
Tel: +44 (0)20 7955 7673
Email: cep.info@lse.ac.uk Web: http://cep.lse.ac.uk

Introduction

Immigration remains a highly contentious issue and its purported effects on the labour market and the wider economy are still highly contested. The discussion in this briefing is intended as a short overview of what we know and what we don't know about immigration to the UK, its economic effects and the possible direction of future migration policy. A longer version of the briefing discusses many of the points raised in more detail. There are links to the relevant discussion throughout this briefing.

How many immigrants are there in the UK?

Immigration has risen a lot over the last 25 years. Immigrants currently comprise 14.3% of the total UK population, about 9.4 million individuals.

Table 1: Immigrants and the UK population

	Total (millions)	UK-born (millions)	Immigrant (millions)	EU (millions)	Non-EU (millions)	Immigrant share (%)	EU share
Total							
1975	55.3	52.1	3.2	0.9	2.3	5.8%	1.6%
1995	57.2	53.3	3.8	1.1	2.7	6.7%	1.9%
2003	58.7	53.6	5.1	1.3	3.8	8.7%	2.1%
2017	65.0	55.5	9.5	3.7	5.8	14.6%	5.6%
2019	65.9	56.5	9.4	3.6	5.8	14.3%	5.5%
Working age							
1975	33.6	31.2	2.5	0.7	1.8	7.3%	2.2%
1995	36.4	33.4	3.0	0.8	2.2	8.2%	2.0%
2003	38.0	34.0	4.0	0.9	3.1	10.5%	2.3%
2017	41.1	33.4	7.7	3.0	4.8	18.5%	7.2%
2019	41.3	33.7	7.6	2.9	4.7	18.4%	7.0%

Source: Author analysis of Labour Force Survey (LFS); working age population is 16-64.

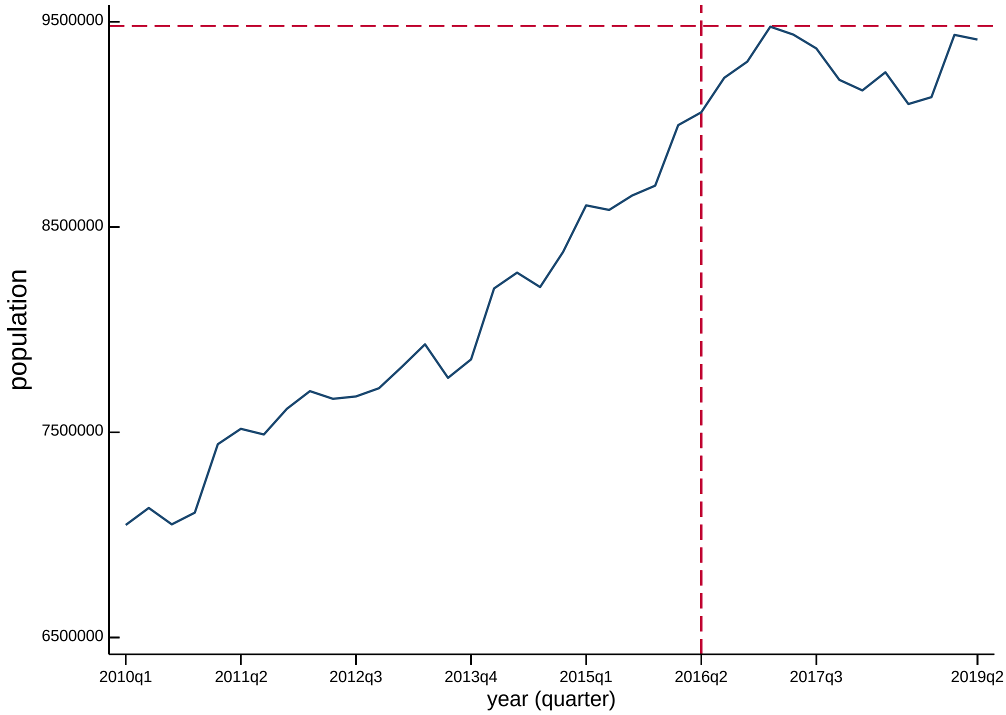
Measuring immigration

Knowing the number of immigrants living in the UK is something of an inexact science. There is no official count of the number of resident immigrants, nor of inflows and outflows, despite net inflows being a longstanding government target until recently.

Instead, different household surveys are used to estimate the numbers. The International Passenger Survey (IPS) and its companion, Long Term International Migration (LTIM), have recently been downgraded to ‘experimental’ status by the Office for National Statistics (ONS) because of concerns about its coverage and weighting (see ONS, 2019). The Labour Force Survey/Annual Population Survey (LFS/APS) is the only official data set that can provide a regular, timely estimate of the *total number* of immigrants living in the UK (not just the yearly flows in and out).

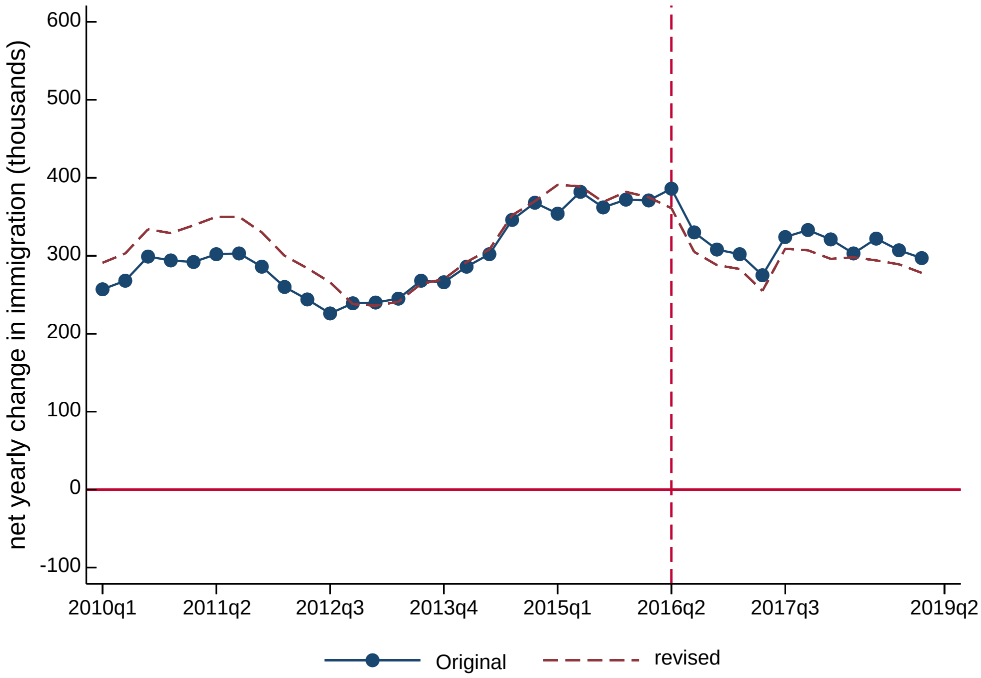
Currently, the various data sources conflict. The LFS (Figure 1) indicates that the immigrant population has been static, and may have even fallen a little, since 2017. In contrast, the IPS says that net inflows (inflows minus outflows) of immigrants to the UK have been consistently positive, in the order of 250,000 a year (see Figure 2). Both data sources use different definitions of immigrants. But policy formulation and informed debate about immigration are currently compromised by the ambiguity in the data.

Figure 1: LFS quarterly estimates of the immigrant population



Source : LFS; author calculations.

Figure 2: IPS/LTIM quarterly estimates of yearly changes in the immigrant population

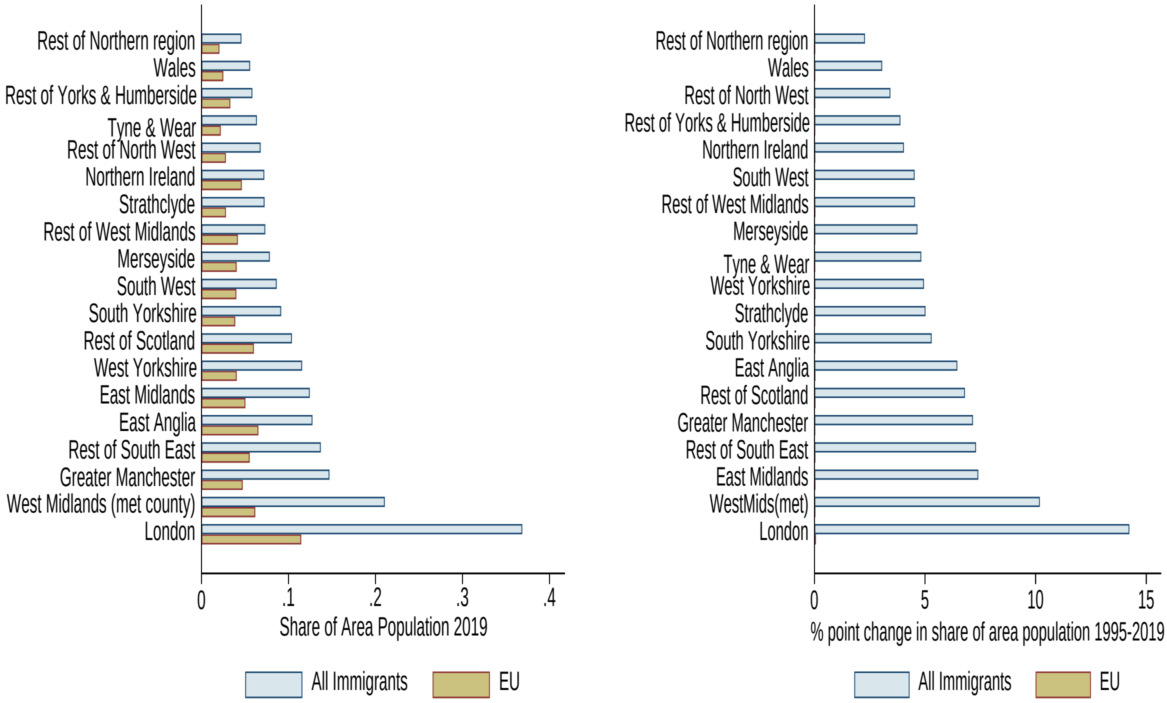


Source: LTIM (2019); author calculations.

Immigration and the regions

The regional distribution of immigrants is far from even. Figure 3 shows that 36% of London's population were born abroad but in North East England, 5% of the population are immigrants. The regions with most immigrants in 2019 were also the regions with the most immigrants in 1995. Indeed, the high immigrant regions in 1995 have experienced the largest increases in immigration since 1995.

Figure 3: The regional distribution of immigration, 1995-2019



Source: author analysis of LFS.

Where do immigrants work?

Immigrants are concentrated in certain sectors and occupations of the economy. In some sectors, notably food manufacture and domestic service (cleaners), immigrants comprise more than a third of the workforce. In contrast, immigrants working in the fishing and water supply industries comprise less than 5% of the workforce.

Table 3: The sectoral distribution of immigrants, 2019

	Total employment	Percentage of sector who are immigrants	Percentage of sector who are EU immigrants	Average hourly wages	Hiring rate[1]	Percentage of hires from the EU
Largest immigrant sectors						
Food manufacture	310,000	36%	23%	£9.80	15%	26%
Domestic service	40,000	36%	15%	£10.50	13%	24%
Warehousing	390,000	32%	20%	£10.70	20%	23%
Textiles	50,000	31%	20%	£10.00	16%	12%
Hotels	350,000	29%	17%	£8.40	24%	15%
Security	190,000	28%	6%	£10.10	19%	8%
Scientific	150,000	28%	17%	£18.70	17%	17%
Computing	710,000	27%	8%	£22.00	17%	12%
Smallest immigrant sectors						
Metal manufacture	80,000	7%	3%	£13.20	13%	6%
Drinks manufacture	60,000	7%	4%	£14.50	15%	10%
Fishing	20,000	5%	4%	£11.50	4%	0%
Water supply	80,000	2%	1%	£15.20	11%	3%
UK	32,600,000	18%	7%	£12.30	15%	9%

Source: LFS four-quarter average ending 2019q2. Note: Sectors based on two-digit SIC 2007; hiring rate is approximated by the percentage of the workforce in employment for less than one year; average wage is median hourly wage.

Many of the occupations that employ a large fraction of immigrants are less skilled. Again there are exceptions. Many immigrants work as scientific and health professionals (EU migrants are over-represented among scientists but less so among health professionals). In contrast, government administration makes little use of immigrant labour.

Table 4: The occupational distribution of EU immigrants, 2019

	Total	Percentage of sector who are immigrants	Percentage of sector who are EU immigrants	Percentage of UK-born in sector who are graduates	Percentage of EU in sector who are graduates	Hiring rate
Largest immigrant workforce share						
Packers	260,000	43%	28%	4%	20%	22%
Cleaner managers	80,000	39%	30%	3%	35%	12%
Food process	230,000	36%	25%	6%	27%	17%
Chefs and cooks	460,000	33%	13%	7%	22%	18%
Textiles	50,000	33%	16%	11%	23%	12%
Cleaners	740,000	31%	17%	2%	20%	20%
Scientists	220,000	29%	16%	74%	91%	15%
Storage	460,000	28%	19%	4%	33%	22%
Health professionals	560,000	28%	9%	82%	82%	14%
Smallest immigrant workforce						
Government administration	340,000	7%	2%	24%	33%	10%
Farm managers	40,000	6%	1%	25%	1%	4%
Senior protection	60,000	6%	2%	25%	38%	3%
Agriculture	390,000	4%	2%	12%	22%	9%

Source: LFS, four quarter pooled 2018q2-2019q2; classifications based on three-digit SOC 2010 codes averaged over four quarters; a graduate is defined as having left full-time education aged 21 and over.

Immigrant pay

The pay of immigrants and the UK-born reflects the occupation and sector distributions of each group and the history of entry regulations for each group.

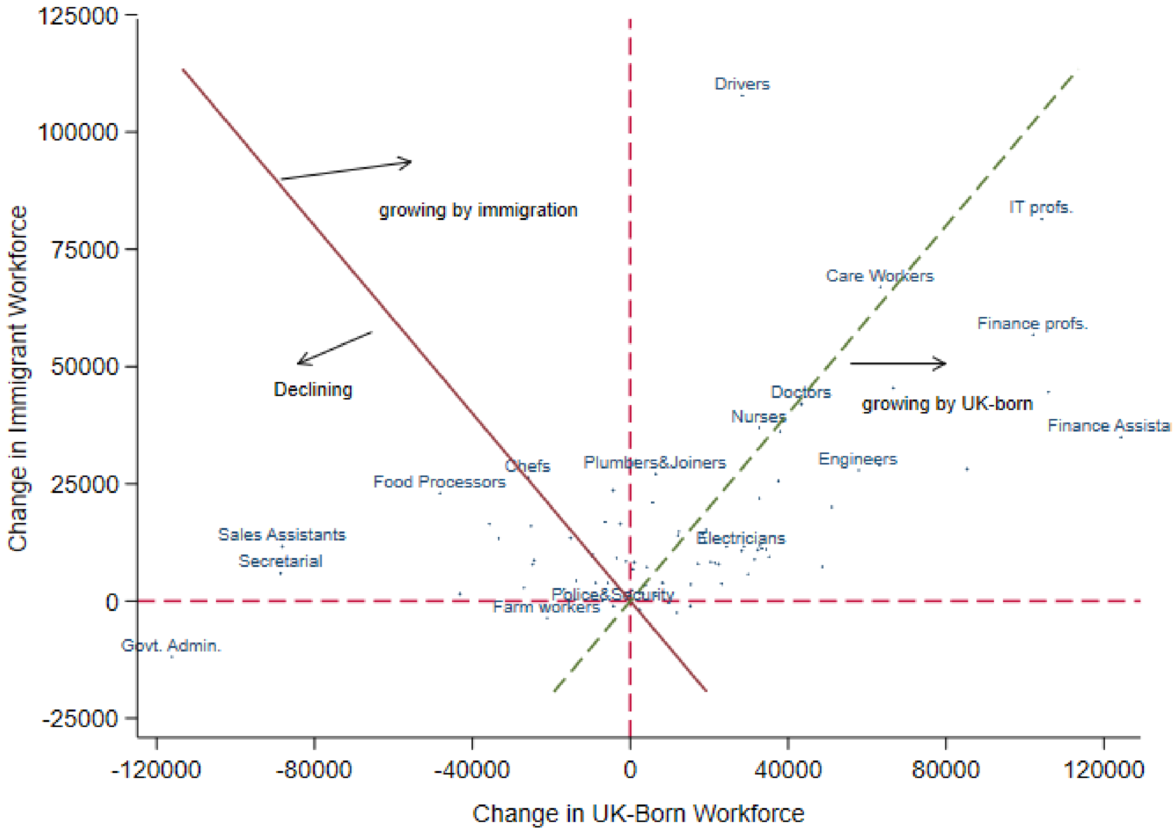
Different sector needs

Not only is there wide variation in the proportion of immigrants employed in different sectors, but there are also differences in how this has changed over time. The experience of occupations with respect to the employment of immigrants and the UK-born is diverse, reflecting differing sector needs and ways of working.

Along the green line in Figure 4, there is equal growth in the numbers of immigrants and UK-born (for example, nursing). The red line shows equal and opposite growth – so that chefs are a stable occupation only because a rise in the number of immigrant chefs is just offsetting the fall in the number of UK-born chefs. To the right of the green line, the number of UK-born workers in the occupation has grown faster than the number of immigrants (for example, IT hired more UK-born workers than immigrants).

Between the red and green lines (plumbing, for example), immigrant numbers have grown faster than the number of UK-born employees. To the left of the red line, occupations are declining – some, like sales, with growing immigrant numbers more than offset by falling UK-born. Others, like government administration, are in decline with falling numbers of both groups.

Figure 4: Changes in immigrant and UK-born employment by occupation, 2011-2019



Source APS; author calculations.

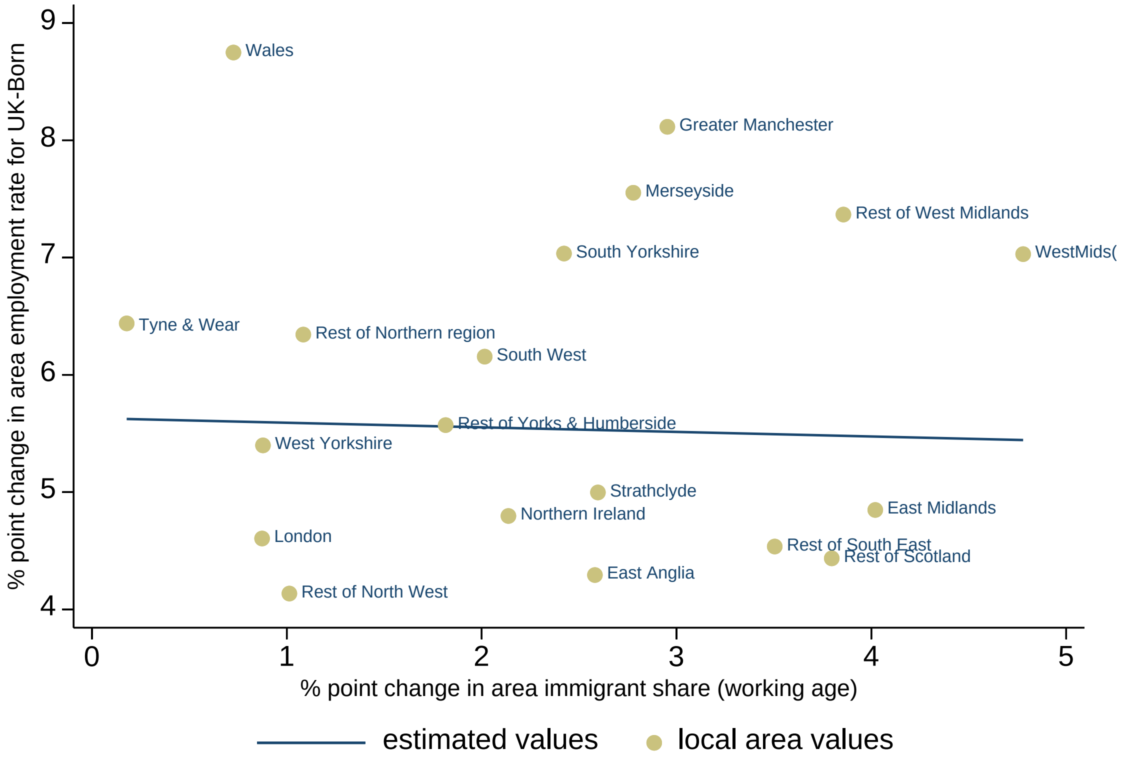
The labour market effects of immigration

The essential point about immigration's effects on the labour market prospects of UK-born workers can be summarised by the following two figures, which are intended to summarise the findings of the detailed academic studies that have preceded them.

The graphs plot changes in wages or employment of the UK-born against changes in immigration across regions since the end of the last recession. The solid line summarises the relationship between changes in immigration to the area and changes in the employment and wage rates of UK-born individuals in that area over the period from 2011 to 2019. If immigration reduced employment or wage prospects, we would expect a strong *downward* sloping line: more immigrants would mean fewer jobs and/or lower wages for local workers.

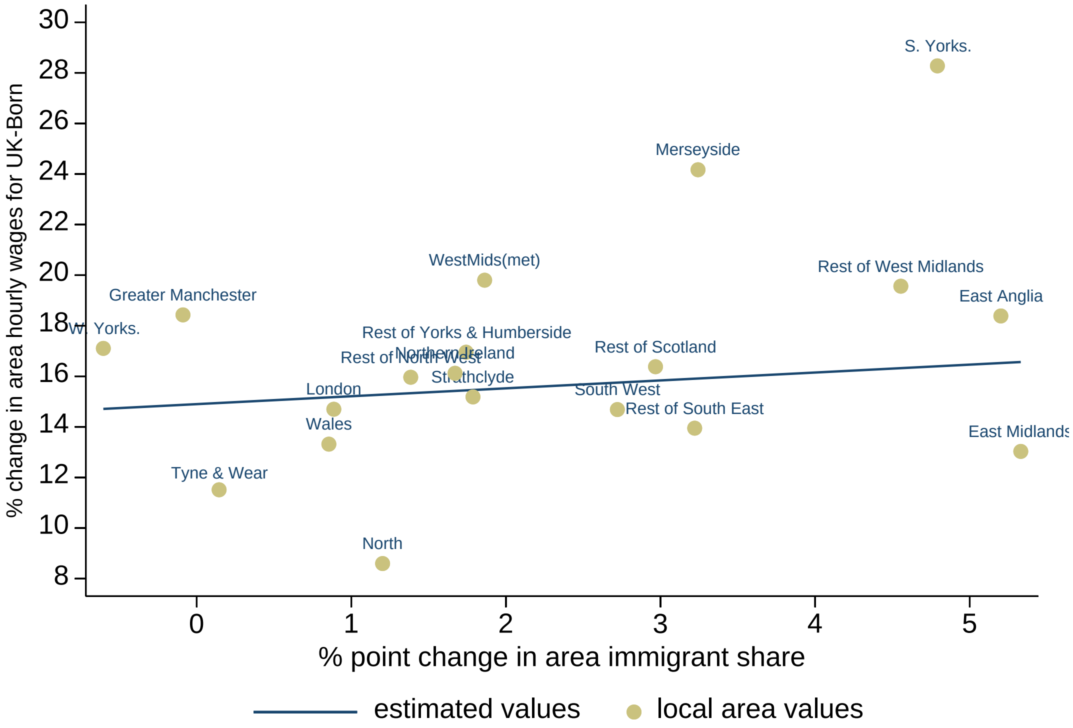
It is clear from the graphs that there is little relationship between immigration and the employment or wage rates of those born in the UK. Immigration is not associated with *either* deteriorating *or* improving job prospects for UK-born workers, on average, (the longer version of this briefing shows similar graphs for less skilled UK-born workers).

Figure 5: Changes in immigration and the employment of UK-born residents, 2011-2019



Source LFS (four quarters of each year); author calculations.

Figure 6: Changes in immigration and wages of UK-born residents, 2011-2019



Source LFS (four quarters of each year); author calculations.

Immigration and public services

It is sometimes suggested that immigration could compromise public services by increasing demand and competition for publicly provided resources. Unlike the UK-born population, a majority of immigrants are in employment and so are over-represented among the total number in work. Immigrants are also over-represented in the unemployed and economically inactive populations, and under-represented among children and pensionable age populations. Immigrants are younger and therefore more likely to be healthier. They are also more highly qualified on average than the UK population, and more likely to be in (higher paid) work than the average UK-born individual.

All this underlies the reason why several studies, summarised by the Migration Advisory Committee (MAC, 2018) find that immigrants are net fiscal contributors, paying more in taxes than they receive in benefits and, as such, are less likely to put pressure on public services like the NHS or schools. The size of these positive contributions is, however, small (MAC, 2018).

Table 2: Immigrants by activity status, 2019

	All	Employed	Unemployed	Inactive	Student	Child under 16	Pension age
Total (millions)							
UK-born	56.5	24.9	0.9	5.3	2.6	11.9	10.9
Immigrant	9.4	5.5	0.3	1.2	0.6	0.8	1.0
of which							
EU	3.6	2.3	0.1	0.3	0.2	0.4	0.3
Non-EU	5.8	3.2	0.2	0.9	0.4	0.4	0.7
As percentage of total							
UK-born	100%	43.8%	1.7%	9.6%	4.6%	21.1%	19.2%
Immigrant	100%	58.9%	2.7%	13.2%	6.1%	8.0%	11.0%
of which							
EU	100%	65.2%	2.0%	8.0%	5.2%	9.9%	9.7%
Non-EU	100%	55.0%	3.2%	16.6%	6.7%	6.8%	11.8%

Source: author analysis of LFS; working age population is 16-64.

Immigration policy options

Immigration to the UK contains three distinct groups: workers and their families; students; and refugees. All three groups are covered by different rules and visa schemes. Future policy has to balance the costs and benefits of changing the rules for each area. A new government has to decide essentially who gets in, for how long and at what cost among the many disparate groups of potential immigrants. This is not an easy task.

The policy options offered by the different political parties in this election vary from retaining the existing system to a points-based system that shows no favour for EU migrants over non-EU migrants. The various issues and policy possibilities are discussed further in the long version of this briefing.

The immediate consequences of Brexit, if it happens, may be very different from what governments may want from a long-term immigration strategy. Policy may have to be designed flexibly to address the resulting short-term versus long-term issues.

With regard to the labour market, firms with labour shortages can train more, automate more, change work practices (such as pay or working conditions) or move instead of using labour from abroad. Indeed, it may well be that the change in direction of EU immigration flows following Brexit has already forced some adjustment by firms, so the immediate migration response of increased outflows and a fall in inflows after the vote has forced firms to address the new reality without there being any change in policy.

If not, sector-specific and time-limited or seasonal migration schemes (from the EU or elsewhere) could allow workers into the less skilled sectors until businesses had adapted to the new policy environment. The downside of such a policy is that sectors may postpone any changes to their business model.

Any quotas or work visas for EU nationals after Brexit are also likely to favour graduate sector jobs. This is partly because the existing immigration policy for non-EU citizens is almost exclusively restricted to graduate-level jobs and partly because the net fiscal contribution from graduates is likely to be higher than from non-graduate jobs. Whether there are more shortages in this area or in the vocational sector due to the UK's relatively poor training record (OECD, 2017) is open to discussion. It may be that a revised shortage list could be broadened, again, to include the type of shortage vocational jobs that were originally on the list.

Immigration could also be targeted at individuals rather than jobs, effectively reverting to a points-based system, a form of which was in place in the UK in the late 2000s but subsequently dropped by the coalition government of 2010-2015. Coming up with a coherent points system is not an easy thing to do. Targeting individual graduates may not help graduate sectors if the graduates migrate to less skilled occupations (as suggested by Table 4).

Occupation-based entry shortage schemes rather than individual points-based entry have the advantage that labour market signals can better determine which sectors are in shortage. Letting firms and workers interact within informed general government imposed guidelines (such as restricting entry to graduate or higher paying jobs) is probably a better way to get good job matches. Restricting by occupation rather than people will probably reduce migration flows more, since the set of eligible occupations is easier to restrict than a set of eligible individuals.

Limiting immigration to those with job offers in certain occupations does not, however, automatically restrict migration to these sectors. Students can work in the UK before and after graduation. Non-EEA family migrants can work in any sector in the UK. Firms can bring in employees from international subsidiaries in occupations not on a shortage list (inter-company transfers). Workers can leave jobs for other sectors.

There are also issues of regional or, more likely, country-specific immigration schemes to consider. Scotland has some additional leeway over its work route since it has its own shortage occupation list. Country/regional-based schemes are easier to operate with temporary visas. With permanent residence, individuals can move away from the area that sought to attract migrants, which can then negate the effect of the policy to attract migrants.

But temporary visas bring other problems in the form of monopsony issues. If individuals are tied to a particular employer, this gives the employer more power over a worker than if the worker were free to choose where to work. Temporary visas increase the likelihood that some individuals may overstay the length of their visa.

The Immigration Skills Charge on any firm hiring labour from outside the EU has been in place since 2017. It is too early to tell whether this has deterred some firms from hiring, but knowledge of this policy and its effects would be welcome in helping decide whether and how to extend to hiring workers from the EU.

Conclusions

Immigration still seems to matter much more politically than it does economically. All the empirical work that has been done on UK immigration shows very small labour market effects, either positive or negative. Any reduction in EU immigration would have a small negative impact on the public finances since EU migrants pay more in taxes than they receive in benefits and public services (whereas UK-born and non-EU migrants receive more in benefits than they pay in taxes), but these net payments are not very big.

The options for future immigration policy are many and varied and there are no easy answers as to what to do or what to prioritise. It may well be that immigration policy, like so many policies in the UK, evolves and reacts to events and the unforeseen consequences of previous actions. As such, this makes it hard to design a new migration system.

Further reading

For a more in-depth analysis please click here:
http://cep.lse.ac.uk/pubs/download/ea052_in_depth.pdf

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Jonathan Wadsworth is a Professor of Economics at Royal Holloway, University of London and a senior research fellow at the Centre for Economic Performance.

For further information, contact:
Jonathan Wadsworth: j.wadsworth@lse.ac.uk
Helen Ward: 07970 254872, h.ward1@lse.ac.uk
Romesh Vaitilingam: romesh@vaitilingam.com

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