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The Economic Impact of Immigration

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ABSTRACT

Immigration has become highly significant to the UK economy: immigrants comprise 12% of the total workforce—and a much higher proportion in London. However, we have found no evidence for the argument, made by the Government, business and many others, that net immigration—immigration minus emigration—generates significant economic benefits for the existing UK population.

Overall GDP, which the Government has persistently emphasised, is an irrelevant and misleading criterion for assessing the economic impacts of immigration on the UK. The total size of an economy is not an index of prosperity. The focus of analysis should rather be on the effects of immigration on income per head of the resident population. Both theory and the available empirical evidence indicate that these effects are small, especially in the long run when the economy fully adjusts to the increased supply of labour. In the long run, the main economic effect of immigration is to enlarge the economy, with relatively small costs and benefits for the incomes of the resident population.

The economic impacts of immigration depend critically on the skills of immigrants. Different types of immigrant can have very different impacts on the economy. The issue is not whether immigration is needed but what level and type of immigration is desirable. In this context, net immigration from the EU—which we expect to remain positive—cannot be controlled. The question then is whether additional immigration from elsewhere carries benefits or disadvantages.

Many businesses and public services at present make use of the skills and hard work of immigrants. But this is not an argument for immigration on a scale which exceeds emigration and thus increases the population of the country. We do not support the general claims that net immigration is indispensable to fill labour and skills shortages. Such claims are analytically weak and provide insufficient reason for promoting net immigration. Vacancies are, to a certain extent, a sign of a healthy economy. Immigration increases the size of the economy and overall labour demand, thus creating new vacancies. As a result, immigration is unlikely to be an effective tool for reducing vacancies other than in the short term.

We also question the Government's claim that immigration has generated fiscal benefits. Estimates of the fiscal impacts are critically dependent on who counts as an immigrant (or as a descendant of an immigrant) and on what items to include under costs and benefits. The overall fiscal impact of immigration is likely to be small, though this masks significant variations across different immigrant groups.

Rising population density has potentially important economic consequences for the resident population, including impacts on housing, as well as wider welfare effects, especially in parts of England where immigrants are most concentrated. Although immigration is only one of a number of factors affecting the demand for housing, it does exert a significant impact on the housing market in particular areas. Some of the wider impacts from rising population are hard to measure and highly regional. Some, such as the impact of increasing population density on the cost and speed of implementation of public infrastructure projects, remain poorly understood.

Arguments in favour of high immigration to defuse the "pensions time bomb" do not stand up to scrutiny as they are based on the unreasonable assumption of a static retirement age as people live longer and ignore the fact that, in time, immigrants too will grow old and draw pensions. Increasing the retirement age, as the Government has done, is the only viable approach to resolving this issue.

There are significant unknowns and uncertainties in the existing data on immigration and immigrants in the UK. There are insufficient data about people leaving the UK and about short-term immigration to the UK. Existing data do not allow for accurate measurement of the stock of immigrants at national, regional and local levels. Inevitably, even less is known about the scale of illegal immigration and illegal employment of immigrants. The gaps in migration data create significant difficulties for the analysis and public debate of immigration, the conduct of monetary policy, the provision of public services and a wide range of other public policies.

Our overall conclusion is that the economic benefits to the resident population of net immigration are small, especially in the long run. Of course, many immigrants make a valuable contribution to the UK. But the real issue is how much net immigration is desirable. Here non-economic considerations such as impacts on cultural diversity and social cohesion will be important, but these are outside the scope of our inquiry.

Against this background, we have identified the following priorities for Government action. The Government should:

- improve radically the present entirely inadequate migration statistics;
- review its immigration policies and then explain, on the basis of firm evidence on the economic and other impacts, the reasons for and objectives of the policies, and how they relate to other policy objectives such as improving the skills of the domestic workforce;
- better enforce the minimum wage and other statutory employment conditions, with effective action taken against employers who illegally employ immigrants or who provide employment terms which do not meet minimum standards;
- clarify the objectives and implications of the new, partially points-based immigration system. It is far from clear that the new arrangements will in fact constitute the radical overhaul of the present system suggested by the Government;
- monitor immigration by publishing periodic Immigration Reports giving details of the numbers and characteristics of non-EEA nationals entering the UK under each Tier of the new system;
- give further consideration to which channels of immigration should lead to settlement and citizenship and which ones should be strictly temporary;
- review the implications of its projection that overall net immigration in future years will be around 190,000 people. The Government should have an explicit and reasoned indicative target range for net immigration and adjust its immigration policies in line with that broad objective.

The Economic Impact of Immigration

CHAPTER 1: INTRODUCTION

The UK's immigration debate

1. Immigration has become one of the biggest public policy issues in the UK. Net immigration—defined as immigration minus emigration from the UK—of non-British persons trebled from less than 100,000 per year in the early 1990s to over 300,000 in 2006, reaching a scale unprecedented in our history.[1] Over the same period, the share of adults who considered "immigration and race relations" as the most important issue facing Britain increased from less than 5% to over 40% (see Appendix 4).[2] For most of 2006 and 2007, immigration was the number one issue of concern to the British public, more important than law and order, the National Health Service (NHS) and international terrorism.[3]

2. Net immigration, rather than natural change (births minus deaths), has been the main driver of UK population growth since the early 1990s (see Appendix 5). The UK population is now projected to grow from 60.6 million in 2006 to 71 million in 2031. More than two thirds of this growth is attributable, directly or indirectly,[4] to future net immigration.[5]

3. Given the long-term demographic impacts of, and rising public concern about, the rapid increase in immigration, there is a need for a comprehensive debate about the economic, social and cultural impacts of immigration. Consideration of the economic impacts, with which this report is concerned, must include a critical assessment of the Government's economic case for immigration which has been largely based on three arguments: (i) immigration generates large economic benefits for the UK because it increases economic growth; (ii) immigrants are needed to fill labour and skills shortages and do the jobs that British workers will not do; and (iii) immigration generates fiscal benefits for the UK. The Government's highly positive assessment of the economic impact of immigration on the UK contrasts with the more mixed views of the public. About 37% of the public agree that "immigration is good for the British economy", but 40% disagree. A quarter of the public think that "we need more immigrants to do the jobs that British people don't want to do", but half do not think so.[6]

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1 ONS, Total International Migration (TIM) Tables, 1991–2006

2 Ipsos MORI 2007a, http://www.ipsos-mori.com/polls/trends/issues.shtml#2007

3 Ipsos MORI 2007b, http://www.homeoffice.gov.uk/documents/moripolls0607/BIA_6_monthly_Topline_Resul1.pdf?view=Binary This new survey asks, for the first time, specifically about "immigration" rather than about "immigration and race relations" in general.

4 Net immigration impacts on population growth directly by increasing the number of people, and indirectly through its impact on fertility rates.

5 GAD, Migration and Population Growth, http://www.gad.gov.uk/Demography_Data/Population/2004/methodology/mignote.asp , accessed on 10 Feb 2008

6 Source: Ipsos Mori poll of 1,000 adults aged 16+ in Britain, May–June 2007, available at the Home Office website

Objectives and key issues

4. This report addresses key questions about the economic impacts of immigration on the resident population in the UK. To be as transparent as possible in what has often been a fairly confused debate, it is important to clarify at the outset some basic definitions and the scope of the inquiry. For the purpose of this report, "economic impacts" are defined broadly to include impacts on public services and economic consequences of rising population density, but the report does not discuss the impacts of immigration on cultural diversity and social cohesion[7] (although there may be associated economic impacts). "Immigrants" are defined as foreign-born persons or, where data for foreign born are not available, as foreign nationals (that is, persons without British citizenship). The term "resident population" is meant to indicate a focus (although not an exclusive one) on the impacts of immigration on the pre-existing population (that is, on the population residing in the UK before the arrival of new immigrants) rather than on immigrants or their countries of origin. Finally, the report focuses on the impacts of immigration for the UK as a whole, although some regional differences—important both in terms of the number and impacts of immigrants—are highlighted.

5. The choice of questions addressed in this report reflects the key themes in Britain's growing immigration debate as well as the arguments made by Government over the past ten years:

- What do we know about the scale, characteristics and demographic impacts of recent immigration? (chapter 2)
- How does immigration impact on the incomes and living standards of the resident population? (chapter 3)
- Is there a need for immigrant workers to fill labour and skills shortages? (chapter 4)
- Does immigration generate fiscal benefits for the UK? (chapter 5)
- What are the economic impacts of rising population density? (chapter 6)
- What conclusions do we draw for the UK's immigration policies? (chapter 7)

6. The discussion of these issues is based on a critical review of existing theories and evidence rather than on new data and research. The inquiry has generated more than 70 pieces of written evidence, and another 35 pieces of oral evidence, from a wide range of people and institutions in and outside the UK, including academics, think tanks, employers associations, trades unions, NGOs, local government and government departments across the UK.[8]

7. A recurring theme of our inquiry, highlighted at various points in this report, is the serious inadequacy of the existing data on immigration, emigration and the stock of immigrants in the UK. The lack of reliable and more complete data makes it very difficult to assess the scale, characteristics and impacts of immigration.

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7 The impact of migration on community cohesion is currently the subject of a separate inquiry by the Communities and Local Government Committee of The House of Commons. See: http://www.parliament.uk/parliamentary_committees/clg/clgsubccm_200708.cfm

8 The evidence is available in volume II of this report, HL 82-II

8. While our inquiry has assessed the overall economic impact of immigration, it is important to bear in mind that as a member of the European Union, the UK cannot regulate the number or selection of nationals of the European Economic Area (EEA)[9] entering the country. Most EEA nationals also have the automatic right to work in the UK. Asylum seekers have rights to humanitarian protection in the UK by virtue of international human rights treaties. This leaves as the major area of discretionary policy the entry of non-EEA nationals other than asylum seekers. When such nationals come to reside here, they have the right to bring their families with them. We do not discuss what these rights should be, but when considering the entry of foreign workers allowance must also be made for the fact that many of them will bring families with them. The economic impact on the resident population should be a central criterion for regulating the immigration and employment of these non-EEA, non-asylum seekers wishing to come here.

[9] EU 27 and Iceland, Liechtenstein and Norway

CHAPTER 2: KEY FEATURES OF IMMIGRATION AND IMMIGRANTS IN THE UK

9. This chapter reviews key features of the scale, characteristics and demographic impacts of recent migration to the UK. Although necessary to understand the economic impacts of immigration, the discussion comes with a strong health warning: the existing data about gross and net immigration flows to the UK, and about the stock of immigrants in the UK, are seriously inadequate. The National Statistician, Karen Dunnell, told us that "there is now broad recognition that available estimates of migrant numbers are inadequate to meet all the purposes for which they are now required. They are the weakest component in population estimates and projections in the United Kingdom, both nationally and at local level" (p 35). The Statistics Commission, which monitors official figures, described the available statistical information on immigration as "weak" (p 505).

10. Among the numerous reasons for the inadequacy of the current data, four stand out. First, there are insufficient data about people leaving the UK. The available annual emigration estimates are based on annual samples of fewer than 1,000 migrants leaving the UK. Second, very few data exist on short-term migration to the UK. The available data on gross and net immigration flows include only those immigrants who say they intend to stay for longer than 12 months (defined by the Office for National Statistics (ONS) as "long-term migrants"). The ONS has only very recently started to publish experimental data on short-term migration.[10]

11. Third, existing data do not allow for an accurate measurement of the stock of immigrants at national, regional and local levels. Labour Force Survey (LFS) data, the main source of data for measuring the annual stock of immigrants in the UK, exclude people who have lived in the UK for less than six months. People who do not live in households, such as those in hostels, caravan parks and other communal establishments, are also excluded. Councils across the country, but especially in the south of England, claim that the current data on the numbers of immigrants in their areas are significant under-estimates. In their evidence to us, Hammersmith and Fulham Council described the latest ONS revisions as "plainly wrong" (p 470), while Slough Council declared that the official methodology is "not fit for purpose" (p 273).

12. Fourth, as is the case in most immigration countries, we know very little about the scale of illegal immigration and illegal employment of immigrants in the UK. According to Home Office estimates, there were about 430,000 migrants residing illegally in the UK in 2001. This estimate comes with a number of caveats. Describing the difficulties with measuring illegal immigration, Professor John Salt of University College London told us that "no country in the world knows how many people there are who are living or working illegally, with the probable exception of Australia where they count everybody in and they count everybody out" (Q 599). Dr Bridget Anderson of Oxford University's Centre on Migration, Policy and Society, pointed out that the Home Office estimate excludes immigrants who are residing in the UK legally but breaching the conditions (including any employment

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[10] Research report on short-term migration, ONS, October 2007 available at: http://www.statistics.gov.uk/about/data/methodology/specific/population/future/imps/updates/downloads/STM_Research_Report.pdf

restrictions) attached to their immigration status, a situation Dr Anderson described as "semi-compliance" (Q 223). For example, some immigrants on student visas work more than the 20 hours legally allowed during term time (Q 223). It can be extremely difficult and contentious, in practice, to define and draw a clear line between "legal" and "illegal" in the employment of immigrants.

Past and future net immigration and population growth

13. Between 2001 and 2006, the UK population grew by 2.5% (about one and a half million people in total), which is the fastest rate of growth since the first half of the 1960s when the birth rate was much higher than today.[11] Most of the recent population growth has been driven by rising net immigration of foreign nationals (see Table 1 and Figure 1). There has also been a long term trend of net emigration of British nationals from the UK. During the period 2001–06, total net immigration accounted for almost two thirds of the UK's population growth (see Appendix 5).[12] This figure does not take account of the positive impact of immigration on fertility rates which, if included, would make the role of net immigration in accounting for population growth even bigger. According to the Home Office, in both 2002 and 2005, the fertility rates of foreign-born mothers (2.3 and 2.5, respectively) were 0.8 higher than that of UK-born mothers (1.5 and 1.7) (p 47).

TABLE 1

Average annual migration 1997–2006 (Thousands)

	Non-British	British	Total
Gross Immigration	391	98	489
Gross Emigration	158	170	327
Net Immigration*	234	–72	162

Source: ONS Total International Migration (TIM) tables

Notes: Net Immigration and Total figures do not add up exactly due to rounding errors.

** A positive number indicates net immigration; a negative number shows net emigration*

14. The rise in net immigration has increased the share of foreign-born persons in the UK population. Foreign-born persons currently account for about 10% of the population (and about 12% of the working-age population aged 16–64), up from just over 6% in 1981 and just over 8% in 2001. Appendix 6 shows that the current proportion of foreign-born persons in the population in the UK is still significantly smaller than in Australia (24%), Switzerland (23%), and Canada (19%) and just under those in the United States (13%), Ireland (11%) and the Netherlands (11%). However, it is higher than in France (8%) and Denmark (7%).

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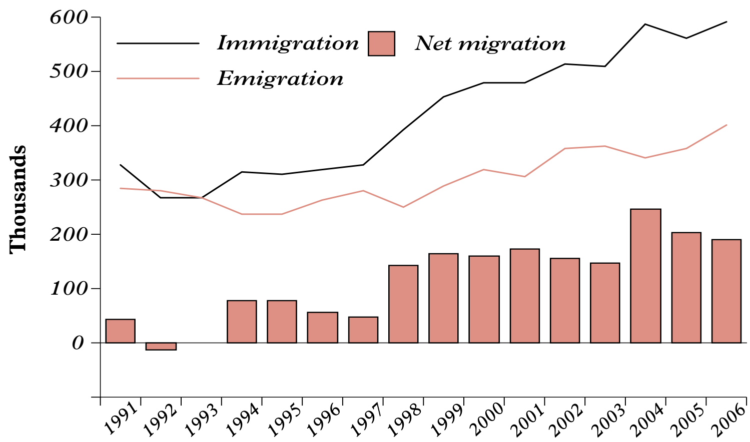
[11] ONS 2007, Population Trends, Winter 2007, p.10, Table 1 and note from ONS covering the population each year in the 1960s. One has to go back to 1961–66—when the population rose 3.5%—to find a faster five-year period of population growth than 2001–06.

[12] ONS 2007, Population Trends, Winter 2007, p.53, Table 1.6

FIGURE 1

Total long-term immigration to the UK, 1991 to 2006



Source: Total International Migration estimates, ONS

15. Table 2 below, based on data from the Labour Force Survey, shows the share of all immigrants and new immigrants (defined as those who entered the UK up to two years ago) in the UK's working-age population by country of birth. In 2006, the largest numbers of immigrants were born in Africa and the Middle East (3% of the working-age population) and the Indian sub-continent (2.5%). Those born in the A8 countries—Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia—made up less than 1% of the working age population, just over 7% of the total immigrant population of working age. However, A8 immigrants account for one in three of new immigrants since 2004 (Bank of England p 394).

TABLE 2

Share of immigrants in the working age population (aged 16–64) by country of birth

	All Immigrants			New Immigrants		
	2006	1995	*Change (pp)*	2006	1995	*Change (pp)*
Per cent of population *(of which)*	**12.00**	**8.16**	***3.84***	**1.29**	**0.52**	***0.77***
A8	0.87	0.10	*0.77*	0.40	0.02	*0.38*
Africa & Middle East	2.97	1.64	*1.34*	0.21	0.10	*0.11*
Indian Sub-Continent	2.52	1.85	*0.67*	0.17	0.16	*0.11*
EU14	2.10	2.23	*–0.14*	0.17	0.14	*0.03*
Americas	1.25	1.00	*0.25*	0.12	0.07	*0.05*
Rest of Asia	1.07	0.63	*0.43*	0.10	0.07	*0.04*
Rest of Europe	0.82	0.46	*0.36*	0.07	0.04	*0.03*
Australia & NZ	0.39	0.24	*0.15*	0.05	0.03	*0.01*

Notes:

Based on individuals aged 16–64.

'New' immigrants are those who entered the UK in the survey year or the (calendar) year before the survey was carried out.

Country of birth data by all A8 countries are only available from 1998. For 1995, Poland, Hungary and Czechoslovakia (which account for 80% of those in the A8) are used to proxy the A8.

Rest of Europe includes countries not in the EU15 and A8.

pp =percentage points

Source: Bank of England (p.2) based on data from LFS.

Projections

16. Under the principal variant of the most recent (2006-based) population projections of the Government Actuary's Department (GAD), the UK population is expected to grow from 60.6 million in 2006, to 71 million in 2031 and 85 million in 2081 (Table 3 and Appendix 7 show the latest projections). That is equivalent to an annual growth rate of 0.6% during the period 2006–2031, which is faster than the 0.5% per year growth experienced from 2001 to 2006. Just under half of the projected UK population growth during the period 2006–2031 is from net immigration. The remaining half is accounted for by natural increase—births in excess of deaths—of which 31% would occur in the absence of immigration and 23% arises from the positive effect of net immigration on natural change. GAD thus concludes that, in total, 69% of the UK's population growth during 2006–2031 in the principal projection is attributable, directly or indirectly, to future net-migration.[13]

17. In the long term, all of the projected growth in the UK population is attributable to net immigration. If there was no migration (that is, zero immigration and zero emigration), the projected population in 2081 would be 3.3 million lower than in 2006. Professor Robert Rowthorn of Cambridge University calculated that, with zero net immigration or "balanced migration" (i.e. when immigration equals emigration), the population would be 3.7 million higher by 2081 (p 27). Balanced migration increases population growth because immigrants are, on average, younger than emigrants and are thus more likely to have children (p 2).

TABLE 3

Projected changes in UK population, 2006–2081 (millions)

	Assumed net immigration	Population projections			
		2006	**2031**	**2056**	**2081**
High Migration	0.250	60.6	73	82.8	91.9
Principal Projection	0.190	60.6	71.1	78.6	85.3
Low Migration	0.130	60.6	69.2	74.3	78.6
Balanced Migration	0	60.6	65.1	65.2	64.3
No migration (natural change only)	0	60.6	63.8	61.5	57.3

Source: Government Actuary's Department (GAD 2007), 2006-based projection database; except for "balanced migration" which is taken from written evidence by Robert Rowthorn (p 27).

18. Projecting future population growth depends critically on the underlying assumptions about future natural change (births minus deaths) and future net immigration. The estimates for future net immigration are projections based on past trends rather than results of forecasting models. Consequently, GAD's projections of net immigration, natural change and population growth involve a high degree of uncertainty. GAD's assumptions about future long-term net immigration changed three times over the past five years

13 GAD, Migration and Population Growth, http://www.gad.gov.uk/Demography_Data/Population/2006/methodology/mignote.asp

(130,000 per year in 2003-based projections; 145,000 in 2004-based; 190,000 in 2006-based).

19. Net immigration is extremely difficult to predict because of the complexity and variability of its determinants. The scale and patterns of immigration are determined by a range of economic, social and political factors. These include differences in economic conditions (e.g. wages and unemployment) and life satisfaction between the UK and other countries; employer demand for immigrant labour in the UK; national and international recruitment agencies that help connect employers in the UK with immigrants abroad and/or already in the UK; immigrant networks (immigrants' contacts with family and friends abroad and in the UK); and government policy in the UK and other immigration countries. The increase in immigration since the late 1990s was significantly influenced by the Government's Managed Migration policies. These encouraged labour immigration through, first, an expansion of the work permit system (the annual number of work permits issued to non-EEA nationals increased from fewer than 30,000 in the mid 1990s to an annual average of over 80,000 in the early 2000s),[14] and then the decision to grant nationals of the A8 countries immediate free access to the British labour market when their countries joined the European Union in May 2004 (over 750,000 A8 nationals registered for employment in the UK during May 2004–December 2007).[15] The much larger then expected immigration of A8 workers since May 2004 is a good example of the difficulties in predicting and measuring migration flows and migrant stocks in the UK (see Appendix 9).

20. The development of future immigration, including from Eastern Europe, is uncertain. On the one hand, net immigration may decline due to a slowdown in the British economy, economic growth in the A8 countries and the opening up to A8 workers of other EU countries' labour markets, most notably Germany and Austria, in the coming years. Professor Rowthorn told us that the experience of Irish immigrants into the UK showed that if the economy of the sending country "develops dramatically then emigration flows dry up—in fact they may go into reverse" (Q 12). He added that A8 immigration "might take 10 or 15 years to tail off but my guess is that the net flows will tail off and probably … faster than people think" (Q 32).

21. On the other hand, we received evidence from Professor David Blanchflower, an external members of the Monetary Policy Committee (MPC), and from the Institute of Directors, that the experience of other countries has shown that immigrant networks may perpetuate immigration even when the economic factors that triggered immigration in the first place, such as large differences in the standard of living between migrant sending and receiving countries, decline[16] (Blanchflower p 197–198). Referring to immigration in general, rather than immigration from Eastern Europe in particular, Mr Martin Wolf of the Financial Times said he "would be extremely surprised if the demand from immigrants to come into this country … did not remain pretty strong". This was based on the "extraordinarily large" number of people gaining an education throughout the world and the fact that Britain is an attractive destination due to its relatively high income and the fact that it speaks English (Q 399). Dr Bridget Anderson also emphasized

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14 See Appendix 11.

15 Home Office 2008, Accession Monitoring Report May 2004–December 2007

16 Institute of Directors, Immigration: a business perspective (January 2007), p 12

the importance of learning English and to "have fun" as a key factor that motivates young East Europeans to migrate to the UK (Q 213).

Key features of recent migration to the UK

22. Immigration to the UK has been highly concentrated in London while the rest of the South East, as well as Yorkshire and Humber, have also attracted large shares relative to the rest of the country. Recent immigration, however, has been more widely distributed across the UK with a still substantial but much smaller proportion of net immigration in London. As shown in Table 4, the areas mentioned above accounted for almost three quarters of international net immigration to the UK during the period 1991–2006 but just under 60% of net immigration in 2004–2006. London has seen the biggest change with more than half of net immigration in 1991–2006 and 36% in 2004–06. The recent change has been mainly due to the arrival of Eastern European migrants who have been much more widely distributed across the UK than other migrant groups. Between May 2004 and December 2007, Anglia had the greatest number of A8 workers registering with employers in the area (15% of the total), followed by the Midlands (13%) and London (12%).[17]

TABLE 4

Total international net immigration by region, 1991–2006

	1991–2006		2004–2006	
	Thousands	%	Thousands	%
England	+1,854	99.7%	+598	93.6%
London	+989	53.2%	+230	36.0%
South East	+200	10.8%	+64	10.0%
Yorkshire and Humber	+182	9.8%	+80	12.5%
Rest of England	+483	26.0%	+224	35.1%
Wales	+27	1.5%	+7	1.1%
Scotland	–2	–0.1%	+26	4.1%
Total UK*	+1,860	100.0%	+639	100%

International net immigration refers to all net immigration from outside the UK (including that of British nationals)

**Figures for Northern Ireland are currently being revised. They are included in the total for the UK but not reported separately.*

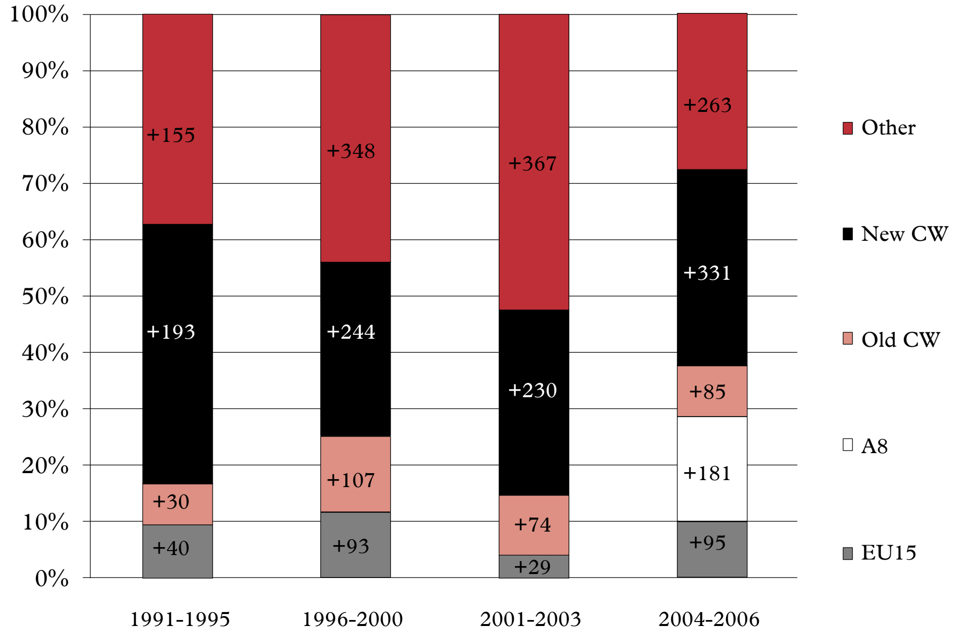
Source: ONS, Total International Migration (TIM) tables, 1991-2006

23. Between 1995 and 2006, two-thirds of the growth in the foreign-born population of working age was of people born in Africa and Asia (see Table 2). In the last few years there has been a large additional net inflow from the EU, which accounted for just under a third of all net immigration in 2004–06, including 19% from the A8 countries. Figure 2 shows the changes in the pattern of net immigration since the early 1990s.

[17] Home Office 2008, Accession Monitoring Report, May 2004–December 2007, p. 17

FIGURE 2

Scale and composition of foreign net immigration to the UK by nationality, 1991–2006 (thousands and %)



EU15: the fifteen EU member states before EU enlargement in 2004
A8: the eight East European countries that joined the EU in 2004
Old Commonwealth (Old CW): Canada, Australia, New Zealand and South Africa
New Commonwealth (New CW): all other Commonwealth countries
Source: ONS, Total International Migration (TIM) tables, 1991-2006

24. The economic impact of immigration depends partly on immigrants' length of stay in the UK. Among new immigrants in 2005, 44% said they intended to stay for 1–2 years (up from 35% in 1996), followed by 19% who said they intended to stay for 3–4 years, and 30% more than 4 years (down from 39% in 1996).[18] Among A8 workers registering for employment in the 12 months to September 2007, 62% said they intended to stay for less than one year (including 57% saying that they would stay for less than three months).[19] As intentions may change, these data cannot be considered reliable indicators of immigrants' likely degree of permanency and length of stay in the UK. Recent research on Eastern Europeans suggests that, over time, a significant share of immigrants change their intentions from a short-term to a longer-term or permanent stay in the UK.[20] Another recent paper found significant variation in return propensities across immigrants from different origin countries and of different ethnicity.[21] Return migration is significant for immigrants from the EU, the Americas and Australia and New Zealand. In contrast, it is much less pronounced for immigrants from the Indian sub-continent and from Africa.

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[18] ONS 2007, International Migration, Series MN no.32, Table 2.11, p.17

[19] Home Office 2008, Accession Monitoring Report, May 2004–September 2007, p. 16

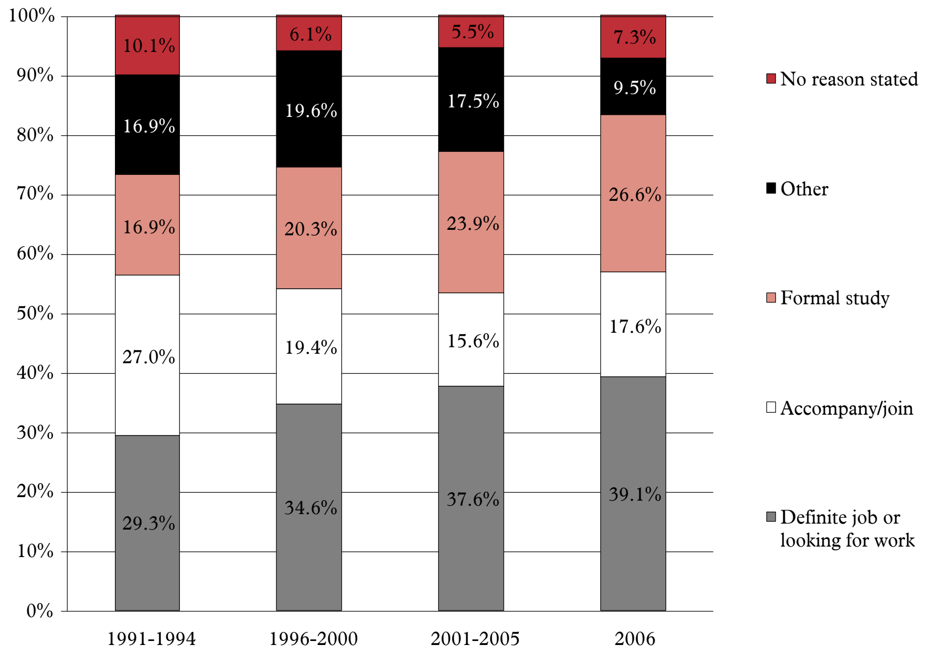
[20] Spencer, S., Ruhs, M., Anderson, B. and Rogaly B. (May 2007), *Migrants' lives beyond the workplace: The experiences of East and Central Europeans in the UK*, Joseph Rowntree Foundation, London

[21] Dustmann, C. And Y. Weiss (2007), *Return Migration: Theory and Empirical Evidence from the UK*, British Journal of Industrial relations 45(2): 236–256

25. Intentions of stay are related to immigrants' reasons for coming to the UK, which are, in turn, often—but not always—reflected in immigrants' immigration status when entering the UK. The ONS provides data on annual immigration by purpose of visit for all persons (including British citizens) who intend to stay for more than 12 months, while the Home Office publishes data on the immigration status of all non-EEA nationals (including those staying for less than 12 months) arriving in the UK. Although both sets of data are incomplete and not always consistent, broad patterns can be identified. In recent years, the main reason for immigration (including that of British nationals) has been work (39% in 2006, one of the highest shares among major OECD countries),[22] followed by study (27%) and accompanying/joining family members/partners. Compared to the early 1990s, the shares of work-related immigration and immigration for studying in the UK have each increased by about 10%, while the share of family immigration and immigration for other reasons declined (see Figure 3).

FIGURE 3

All immigration (incl. British nationals) by reason of visit, 1991–2006



Source: ONS, Total International Migration (TIM) tables, 1991-2006

26. Among non-EEA nationals, whose immigration the UK can control, Home Office data suggest that students have been the biggest group in recent years (309,000 in 2006), followed by work-related migrants (about 167,000) and family members/dependants (about 118,000).[23]

27. The existing data about emigration from the UK, based on the International Passenger Survey, do not contain any information about the leaving person's legal (immigration) status in the UK. So it is impossible to describe the composition of the current immigrant population in the UK by its immigration status. Professor David Coleman of Oxford University explained: "The International Passenger Survey … was invented back in the

22 OECD (2007), International Migration Outlook 2006

23 Home Office, Control of Immigration Statistics 2006, Table 2.2, p.33

1960s as an instrument for the Board of Trade for balance of trade, tourism and things of that kind. It is only incidentally used to measure migration. It does so by using a small fraction of its interviews … to take a voluntary sample of those coming in, about 1,800 a year, and those going out, about 800 a year or thereabouts. Those are then grossed up to make migration assumptions from different categories of people by age, marital status, country of origin, nationality and all the rest of it. That is intrinsically unsatisfactory because it is voluntary and it is quite a small sample survey" (Q 268).

28. Immigration status is important to the analysis of the economic impacts of immigration because it determines an immigrant's rights in the UK, including rights in the labour market, access to welfare benefits and rights to family-reunion, and rights to stay permanently in the UK and acquire British citizenship. As shown in Appendix 8, different types of immigration status are associated with different rights and restrictions. For example, unless they are highly skilled, immigrants holding work permits may only work for the employer specified on the permit. In contrast, EEA nationals and non-EEA nationals with permanent residence status in the UK have complete freedom of employment in the UK. Immigrants employed on low-skilled work permits do not have rights to family reunion, but those on skilled and highly skilled permits do. Access to welfare benefits, such as jobseekers' allowance, varies across different types of status.

A profile of immigrant workers in the UK

29. Labour Force Survey data for 2006 suggest that the three most popular sectors for foreign-born workers in the UK are public administration, education and health (32%), distribution, hotels and restaurants (21%) and banking, finance and insurance (20%). Among A8 immigrants, the top sectors are distribution, hotels and restaurants (24%), manufacturing (21%) and construction (14%). (ONS p50) In some sectors and regions, the share of immigrants is much higher.

30. The submission from the Bank of England showed that, although employed across all occupations, immigrants are concentrated at the high and low skill end of the occupation distribution (p 401). The City of London illustrates this range of occupations, where immigrants are widely found among the staff of the restaurants serving financial executives, many of whom are also immigrants. Overall, more foreign-born workers are in highly-skilled jobs than the UK-born (49% vs 42%), with similar levels for elementary occupations (12% vs 11%). But A8 immigrants are more concentrated in low-skilled jobs, with 38% in elementary occupations and only 13% in higher skilled occupations (ONS p 51). Dr Drinkwater of Surrey University and Professor Blanchflower told us that, for recent A8 immigrants, there is a significant mismatch between their education/skills and their employment in the UK (Q 235; Q 319)

31. Measuring immigrants' skills and educational qualifications is difficult because few qualifications obtained abroad are directly comparable to British ones. Analysis of the age at which people left full-time education—over 21s are assumed to have a degree, and those who left school aged 16–20 are assumed to have completed secondary school—indicates that immigrants are generally more skilled than UK-born persons. Labour Force Survey data suggest that 66% of the UK-born population have only completed secondary

school while 17% have a degree. A smaller fraction (51%) of migrants have only secondary school qualifications and a greater fraction (37%) have degrees (Bank of England p 394).

32. Data from the LFS show that among new immigrants (those arrived up to two years ago), the proportion of persons with degrees is particularly high (46%) and the proportion of persons with only secondary schooling particularly low (48%), compared to the UK-born population (Bank of England, p 395). Dr Drinkwater noted that Poles appear to be higher educated than other recent migrants from the A8 countries (p 136).

33. There is very large variation in the labour market outcomes, including employment rates and earnings, across and within different migrant groups. Average figures for immigrants' employment rates and earnings conceal significant differences between the labour market outcomes of different types of immigrants, especially between low-, medium- and high-skilled workers, but also between men and women.[24]

34. The overall employment rate of immigrants (68%) is lower than that of UK-born persons (about 75%), but the gap has been declining in recent years.

35. The employment rate of A8 immigrants is over 80%, while that of immigrants born in Bangladesh is only around 50% (Bangladeshi women have an employment rate of about 19%) (ONS p 331). When employed, the average immigrant worker worked one and a half hours per week more in 2006 than the average individual born in the UK (Bank of England, p 395).

36. The average earnings of immigrants have been higher than that of UK-born persons since the early 1990s but the gap has been declining in recent years. In 2006, the average hourly wage of all immigrants was £11.90 compared to £11.50 for UK-born workers. The earnings gap is partly explained by the fact that immigrants are more likely than UK-born persons to live in London where hourly rates are higher than in the rest of the UK. The recent decline is partly due to the low average rates at which new immigrants are employed in the UK (£9 per hour in 2006) (Bank of England, p 397). Dr Drinkwater noted that average earnings of Eastern Europeans have been particularly low, with recently arrived Poles earning an average of £6 per hour during 2003–2006 (p 136), and also that the vast majority of recent A8 immigrants have been employed in low-paying jobs at around the minimum wage (p 136).

37. The determinants of immigrants' earnings in the UK include proficiency in English language skills, work experience, education, ethnicity, agency working[25] and length of time spent in the UK. (Drinkwater and Anderson Q 226–228).[26] Immigration status is likely to matter but, on its own, illegal working by immigrants does not necessarily translate into lower wages. (Anderson Q 225).

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24 For a more detailed discussion of the variation in labour market outcomes across different migrant groups, see IPPR 2007, Britain's Immigrants: an economic profile.

25 The wages of workers (all workers not just immigrants) employed by agencies ("employment businesses") are typically lower than those of workers directly employed by businesses producing goods or providing services (Hadley Q 150). Also see Anderson et al (2004).The TUC argues that since agency workers enjoy fewer employment rights than other temporary or permanent workers, they may be vulnerable to employment under low wages and sub-standard working conditions (see TUC 2007, 2006).

26 For a recent analysis of the characteristics and labour market outcome of migrants in the British labour market based on Labour Force Survey data, see, for example, Dustmann and Fabbri (2005) "Immigrants in the British Labour Market" , *Fiscal Studies* , vol.26, no.4, pp.423–470, 2005

38. **Government policy can help immigrants raise their productivity and outcomes in the British labour market. In particular, given that language proficiency can be a key factor to economic success in the British labour market[27], the Government should consider whether further steps are needed to help give immigrants who come and take up employment in the UK access to English language training.**

Improving data on immigration and migrants

39. **There is a clear and urgent need to improve the data and information about gross and net migration flows to and from the UK, and about the size, geographical distribution and characteristics of the immigrant stock.** The inadequacies of the current data create a number of problems. They reduce the efficiency of the allocation of government resources to local councils that provide public services across the UK. The Statistics Commission pointed out that "some £100 billion a year is being distributed through formulae that are directly affected by migration estimates" (p 506). Problems with migration data led Mervyn King, Governor of the Bank of England, to tell the Committee in 2006: "We just do not know how big the population of the United Kingdom is."[28] This makes it difficult for the Monetary Policy Committee (MPC) to assess potential output, predict inflation and set interest rates. Professor Stephen Nickell, a former member of the MPC, said that "we [the MPC] used to worry about this quite a lot", although "I do not think we made mistakes because of in-migration" (Q 45, 48). More generally, inaccurate data on migration have obvious adverse impacts on the empirical analysis of the scale and impacts of immigration and population growth.

40. A series of measures—outlined in an inter-departmental report published in December 2006[29]—have been proposed to improve migration data and statistics. They include: increasing sample sizes in surveys; collecting more data from migrants through landing cards; the partial points-based system being introduced this year (see Appendix 12) and the e-Borders project (which includes passport scanning) currently being developed; creating better links between the various data sources that are already used; and improving statistical and demographic models. The ONS also started issuing "experimental" short-term migration estimates in October 2007. Karen Dunnell, the National Statistician, suggested to us that data held by local authorities could improve migration statistics (Q 68).

41. It is too early to assess the effectiveness of the Government's measures to improve migration statistics, some of which will take many years to implement. It is still unclear, for example, whether adequate funding is being made available to implement the recommendations made by the inter-departmental taskforce on migration. Procurement for the e-Borders programme, which is meant to record electronically all arrivals and departures, is now under way, and the success of the programme will obviously depend on effective implementation of the technology. The

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27 Research suggests that that language proficiency is lowest among those groups that exhibit the largest disadvantages in the labour market, and that language is an important determinant for economic success. See Dustmann and Fabbri (2003)

28 Economic Affairs Committee, 1st Report (2006–07), *The Current State of Monetary Policy (HL 14)*, 6

29 ONS, Report of the Inter-departmental Task Force on Migration Statistics, December 15, 2006

Statistics Commission noted that there has been reluctance on the part of some government departments to develop and share data on migration (p 507). Moreover, linking administrative databases held by different government departments can be difficult because of data protection and privacy issues as well as running the risk of losing data "in transit"—as the recent loss of a large amount of personal data related to child benefits has illustrated. The main challenge in using data provided by local councils is to get all councils to implement a uniform method for collecting and reporting data on migration. However, councils appear to be reluctant to commit the resources to introduce such uniform methods (LGA Q 446).

42. Professor David Coleman and Professor John Salt of University College London both suggested that new ways and a "step change" of collecting data on migration and migrants are necessary, as "the instruments which the ONS has at its disposal are really at the end of their useful life" (Coleman Q 268) and "we have pushed existing data as far as we can" (Salt Q 605). Professors Salt and Coleman both proposed that the Government should consider setting up a population register, divided into a register for citizens and non-citizens.

43. **It is unrealistic to expect that the Government can have complete data on migration. The key questions are how, by how much, and at what cost, the current gaps in the available data can be reduced. But clearly there is ample room for improvement in UK migration statistics. The Government should make a clear commitment to improving migration statistics and facilitating more comprehensive assessments of the scale, characteristics and impacts of immigration.**

CHAPTER 3: IMPACTS ON THE LABOUR MARKET AND MACRO-ECONOMY

44. The Government, business organisations and many others argue that immigration creates significant economic benefits for the UK. In a major speech on immigration in December 2007, the Home Secretary, Jacqui Smith MP, spoke of the "purity of the macroeconomic case for migration".[30] Making a similar point, the Immigration Minister, Liam Byrne MP, recently said that "there are obviously enormous economic benefits of immigration … There is a big positive impact on the economy which is worth about £6 billion".[31] The £6 billion figure is based on calculations by the Treasury, which also suggest, as the Government frequently points out, that immigration contributed about 15–20% to output growth during the period 2001–2006 (Home Office, p 319).

45. The CBI and Business for New Europe (BNE) endorsed the Government's highly positive assessment, emphasizing that immigration has been of "great economic benefit" to the economy (p 97, p 417). The Institute for Public Policy Research (IPPR) suggested that increased diversity brings "huge economic benefits" (Q 492). The assessment of the Trades Union Congress (TUC) was also positive though more cautious: "Overall, immigration has been good for this country. We have more jobs, higher wages, better services and lower taxes than we would have had without immigration … it is important not to overstate these benefits … but it is not negligible either" (p 124).

46. Given its widespread support and centrality in the Government's case for immigration, it is important to scrutinize the economic logic and available evidence underlying the claim that immigration creates significant economic benefits for the UK. This must begin with clarity about whose impacts the analysis should focus on and about what yardstick to use to measure the economic effects of immigration. Broadly speaking, international migration has economic and other consequences for three groups of people: residents in the migrant-receiving country, residents in the migrant-sending country, and migrants themselves.

47. The biggest beneficiaries from international migration are migrants themselves, as employment in higher-income countries enables them to earn higher wages and incomes than in their home countries. Immigrants' families and, in some cases, the economies of their countries of origin may also benefit. However, the economic impacts of emigration remain disputed, largely because the negative effects of the brain drain need to be balanced against the potentially beneficial effects of remittances.[32]

48. **Immigration creates significant benefits for immigrants and their families, and, in some cases, also for immigrants' countries of origin.** Although these effects may be given some consideration in the design of UK

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30 Shared protections, shared values: next steps on migration, speech by the Home Secretary, Jacqui Smith MP, at the London School of Economics and Political Science on 5 December 2007.

31 Home Affairs Select Committee hearing with Liam Byrne and Lin Homer on November 27, 2007 available at: http://www.publications.parliament.uk/pa/cm200708/cmselect/cmhaff/123/7112701.htm

32 A recent report by the International Development Select Committee of the House of Common focused on migration and development, see: http://www.publications.parliament.uk/pa/cm200304/cmselect/cmintdev/79/79.pdf

immigration policies**, an objective analysis of the economic impacts of immigration on the UK should focus on the impacts on the resident (or "pre-existing") population in the UK.** This includes British citizens and non-British long term-residents but excludes new immigrants and their countries of origin.

49. **GDP—which measures the total output created by immigrants and pre-existing residents in the UK—is an irrelevant and misleading measure for the economic impacts of immigration on the resident population. The total size of an economy is not an indicator of prosperity or of residents' living standards.**

50. **GDP per capita is a better measure than GDP because it takes account of the fact that immigration increases not only GDP but also population. However, even GDP per capita is an imperfect criterion for measuring the economic impacts of immigration on the resident population because it includes the per capita income of immigrants, which may raise or lower GDP per capita through a compositional effect.** A new immigrant with a higher average income than the average resident worker could raise GDP per capita without necessarily changing the average income of the resident population.

51. **Rather than referring to total GDP when discussing the economic impacts of immigration, the Government should focus on the per capita income (as a measure of the standard of living) of the resident population.**

52. The remainder of this section analyses the economic theory and empirical evidence available to assess the economic impacts of immigration on the resident population in the UK.

Impacts of immigration on the resident population in theory

53. Professor Barry Chiswick of the University of Illinois stressed that the economic impacts of immigration critically depend on the characteristics of the immigrants and of the economy of the migrant-receiving country (p 424). Professor Christian Dustmann of University College London noted that the impacts of immigration can vary with and depend on: the skills mix of migrants and the native population; the capital structure of the receiving economy; and whether and how quickly the economy adjusts to immigration through, for example a change in capital, technology, and/or the output mix (QQ 159–161). Most economic analyses of immigration thus distinguish between the impacts of low-skilled and high-skilled immigration, and between short-run and long-run effects.

54. In the short run, it is typically assumed that capital and technology are fixed or at least not fully adjustable, so that the primary effect of immigration is to increase the supply of workers in the economy. In a simple short-run model of the labour market, immigration lowers the wages of local workers who are "substitutes" and compete with immigrants for jobs, and increases the wages of locals whose skills complement those of immigrants. In the short run, immigration also increases the profit of capital owners and employers who benefit from the increased supply of labour.

55. Importantly, immigration creates a positive income effect for the resident population in aggregate only if immigrants are, on average, "different" from existing residents in terms of their skills and human/physical capital.

Moreover, immigration increases the total income of the resident population only if the relative earnings of some residents, that is, those with similar skills and competing with immigrants, decline.[33]

56. In the long run, it is assumed that capital and technology may partially or fully adjust to immigration. For example, because immigration increases the returns to capital in the short run, investment is likely to increase in the long run, thereby driving down profit margins. More investment in, for example, machines and equipment, increases the demand for labour to operate the equipment, thus raising wages back towards their pre-immigration rates. Whether and how quickly these adjustments take place is an empirical question. If the economy does adjust significantly or fully, immigration will have little or no impact on the income of the resident population in the long run. If full international capital mobility is assumed, immigration will impact on productivity and incomes only if the skill mix of immigrants remains different from that of resident workers. The more similar immigrants become to resident workers in terms of their skills and employment, the smaller will be their impacts on the incomes of resident workers.

57. Professor Stephen Nickell pointed out that monetary policy plays an important role in responding to any short-term impacts of immigration on wages and/or unemployment. He gave the example of a scenario where there is an inflow of immigrant workers, "initially unemployment goes up, downward pressures on wages, downward pressure on inflation, monetary policy is loosened, some expansion in the economy absorbs the extra workers and at the end the thing [the economy] looks much the same as it did at the beginning except there are more people" (Q 37).

58. Most economists giving evidence to us suggested that the likely long-term effect of immigration is to expand employment and the economy, with small or no impacts on the per capita income of the resident population. This conclusion, and the economic model underlying it, have, however, been criticised because they exclude the possibility of dynamic effects and spill-over effects that may arise from, for example, having a bigger economy (that is, a higher GDP), a more diverse society, a greater share of highly skilled and motivated people, a higher population density and more congested living spaces. In theory, such dynamic and/or spillover effects could be positive or negative, that is, they could raise or lower the productivity of the resident population, even in the long run. Economists are divided about the likely existence and direction of the net impacts arising from such effects.

59. Professor Rowthorn argued that a greater population density, urban sprawl and congestion could reduce the productivity of the resident population (p 4).

60. Others, including the Government, insist that there are good reasons to expect significant positive dynamic and spillover effects from immigration. For example, John Elliott, Chief Economist at the Home Office, suggested that: "… in the longer run we will expect more dynamic effects to come into play. We can think of migrants contributing to the productivity of native workers directly though spillover effects. One might imagine a migrant surgeon standing next to a domestic surgeon and them learning from each other" (Q 511).

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[33] For more on the theory of the short-run impacts, see Borjas, G. (1995), "The Economic Benefits from Immigration", *Journal of Economic Perspectives* 9(2): 322.

61. Making a similar point, Jonathan Portes, Chief Economist at the Department of Work and Pensions (DWP), said: "The second effect [of immigration] … is analogous with the new trade theory which is based on the observation that there are dynamic effects from trade which go beyond those that simply come from the static model of things being either substitutes or complements." Mr Portes added: "I think we would expect from that theoretical perspective there to be dynamic effects in terms of increased competition, possibly cluster effects" (Q 517).

Empirical evidence for the UK

GDP per capita

62. There has been no empirical research that has analysed the impact of immigration on the per capita income of the resident population in the UK. A few studies have analysed the impact on GDP and GDP per capita. The Home Office submission presents data on the impacts on GDP (+£6 billion in 2006) but does not give any estimates of the impact on GDP per capita. It states that "there is no quantitative evidence available on the impact of immigration on GDP per head" (p 318). It is unclear why the Government has not commissioned research into this issue, especially since the Immigration Minister, Liam Byrne MP, told us, "I personally do think that GDP per capita is the key thing to focus on" (Q 513).[34]

63. The National Institute of Economic and Social Research (NIESR) estimated that immigration during the period 1998–2005 contributed to a rise in real GDP of about 3%. However, the research by the NIESR also suggests that immigrants during that period made up 3.8% of the population, which suggests that immigration had a slightly negative impact on GDP per capita. However, this GDP estimate captures the effects of an increase in the supply of labour only. It does not take account of the further increase in GDP that would result from an increase in capital. If capital is factored in, this could lead to GDP estimates showing a slightly positive impact on GDP per head.[35]

64. Using their model of the economy, the NIESR also analysed the impact of projected future A8 immigration. Taking 2005 as the baseline, A8 immigration was found to have a negative impact on GDP per capita in the short run (over the first four years) and a positive but small impact on GDP per capita in the longer run (0.3% higher by 2015). According to the NIESR, the negative effect in the short term is due to a short-term increase in unemployment and the slow adjustment in the capital stock in response to immigration. The long-term positive effect reflects the relatively high proportion of immigrants that are of working age and the increase in the capital stock (p 149).

65. According to the ITEM Club, the impact of the most recent wave of immigration on GDP per capita has been neutral or even slightly negative.[36]

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34 The Home Office did subsequently produce a calculation which claimed an estimated 0.15% annual gain in GDP per capita for the resident working population (Q 512–513, p358). However, the methodology behind this calculation, especially the assumption that the impact of immigration on the returns to capital is similar to the impact on the returns to labour, is questionable.

35 It should be noted even this slightly positive impact on GDP per capita may not be present at the GNP per capita level once the impact of investment income returns to overseas capital is taken into account. (NIESR Q 239–242).

36 Ernst Ernst & Young ITEM Club Special Report: Migration and the UK economy, December 2007. Available at: http://www.ey.com/global/assets.nsf/UK/ITEM_Club_Special_Report_-_Migration_and_the_UK_economy/$file/EY_ITEM_Migration_Report_Dec_2007.pdf

The Scottish Executive said that the impact of immigration on GDP per head is "generally minimal" (p 504).

66. **The overall conclusion from existing evidence is that immigration has very small impacts on GDP per capita, whether these impacts are positive or negative. This conclusion is in line with findings of studies of the economic impacts of immigration in other countries including the US.[37] The Government should initiate research in this area, in view of the paucity of evidence for the UK.**

67. Some of our witnesses argued that that the existing estimates of the impacts of immigration on GDP per capita ignore dynamic and spillover effects of immigration and therefore do not measure the "true contribution" of migrants to the UK economy. Most of the examples witnesses gave involved highly skilled migrants and related to finance, the medical sector and higher education. Such individual cases make a point about gross immigration but throw little light on the desirability of positive net immigration. Such individual cases make a point about gross immigration but throw little light on the desirability of positive net immigration.

68. According to Mr Portes of the DWP, "the City of London is an obvious example of where you might have clustering effects that will generate gains which are quite difficult to quantify in short-term economic studies" (Q 517). Making a similar point, Dr Danny Sriskandarajah of the IPPR argued "the fact that that sector [finance], which is so critical to the UK's competitiveness, can attract a diverse workforce, which comes with international networks and with knowledge of working across the world, I think, is critical to the success of that sector and, therefore, has positive spin-offs for the rest of the economy and host population" (Q 492) Dr Sriskandarajah also suggested, however, that "it is very difficult to quantify diversity" (Q 492). John Martin of the OECD said that there is very little work in this area (Q 473).

69. **Although possible in theory, we found no systematic empirical evidence to suggest that net immigration creates significant dynamic benefits for the resident population in the UK. This does not necessarily mean that such effects do not exist but that there is currently no systematic evidence for them and it is possible that there are also negative dynamic and wider welfare effects.**

Wages

70. As Professor Rowthorn stated, there are three methodological difficulties in undertaking analysis of the labour market impacts of immigration (p 7). First, since immigrants tend to go to areas that are experiencing strong economic growth and labour demand, rising growth in wages and employment may cause immigration as well as being affected by it. Second, immigration from abroad into a certain area may cause some residents to move from that area to another part of the country or abroad. If this happens, the labour market impact of immigration into a certain area may be dissipated across the country, which makes it harder to measure through local labour market analysis. Third, the available migration data are often based on small samples of the population and may thus be subject to

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[37] See Smith, J. and B. Edmonston, ed. (1997) *The New Americans, Economic, Demographic and Fiscal Impacts of Immigration*, National Academy Press, Washington D.C.

significant measurement error. Most analysis of the labour market impacts of immigration in the UK and elsewhere have used various econometric techniques to address some of these issues but some difficulties and caveats typically remain.

71. In the UK, the most recent study by Professor Dustmann and others concludes that immigration has a positive absolute wage effect for natives, but lowers wages of those workers employed in the lowest paid jobs. [38] This work suggests that every 1% increase in the ratio of immigrants to natives in the working age population ratio led to a 0.5% decrease in wages at the 1st decile (the lowest 10% of wage earners), a 0.6% increase in wages at the median, and a 0.4% increase in wages at the 9th decile. These effects are fairly modest. Explaining these results, Professor Dustmann and Professor Ian Preston told us that, as theory suggests, "immigrants appear to be most concentrated at precisely the same points where we find the most negative wage effects" (Q 159). Professor Dustmann expressed confidence in the robustness of his conclusions which cover the period 1997–2005, but added that future immigration may have different effects (Q 166).

72. Most of our witnesses agreed that there is some negative effect of immigration on the wages of low-skilled workers. However, there were disagreements over the extent of the effects and the amount of evidence. Professor Blanchflower said there was "some evidence" to suggest that A8 workers have lowered wage increases amongst the least skilled "but the effects are not enormous" (Q 318). The Institute of Directors argued that the effect on wage growth has "probably been limited".[39] The City of London Corporation was the most pessimistic about the impact on the low-paid. It concluded that the concentration of immigrants in low-paid jobs in the capital had led to "significant downward pressure on wages at the bottom end of the market". While this had encouraged growth in the number of these jobs, earnings among workers in this sector ended up "falling behind growth in the cost of living" (p 427). Professor Nickell suggested that home care staff and cleaners were among those whose pay was adversely affected by immigration (Q 37).

73. Even if immigrants are not competing directly for the same jobs in many cases, they may still have a strong indirect effect in depressing wages for resident workers. Professor Blanchflower found that wage growth slowed in both the UK and Ireland following A8 accession although both economies were booming. He attributed this to a rise in the fear of unemployment caused by high immigration, which in turn leads to lower wage settlements (p 196).

74. A number of witnesses pointed out that a significant proportion of the low-paid workers whose wages have been adversely affected by immigration are previous immigrants and existing ethnic minority groups (Rowthorn p 8, 24; ESRC p 448). This is because recent immigrants frequently enter sectors which already employ a large number of earlier immigrants, many of whom have since become British citizens. Slough Council said that some of the Pakistani community in the borough felt their jobs were being lost to the new

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38 Dustmann et al, A Study of Migrant Workers and the National Minimum Wage and Enforcement Issues that Arise, Low Pay Commission (2007)

39 Institute of Directors, Immigration: a business perspective, (January 2007), p 15

incoming Polish community, which is higher skilled and prepared to work for lower wages (p 276).

75. Professor William Brown, a former member of the Low Pay Commission, argued that the national minimum wage (NMW) has played an important role in shielding low-paid workers in the UK from more adverse impacts of immigration. "It is probable that, in the absence of the NMW, wages at the lower end of the income distribution, which were already deteriorating relative to the median during the 1990s, would have subsequently experienced additional deterioration as a result of immigration" (Brown p 413). Although there is a "general belief that the NMW is enforced" (Brown p 413), the Low Pay Commission recently recommended that the Government take action to prioritise targeted enforcement of the minimum wage in those sectors that employ significant numbers of immigrant workers.[40]

76. Research by Dr Steve French on immigrant workers in Staffordshire found that some employers and agencies imposed various charges on immigrants' salaries, thus reducing their pay below the minimum wage; Dr French gave an example of a worker who had his salary cut to £3.50 an hour (p 460) This work showed that immigrant workers had little knowledge of their rights. Separate research commissioned by the Low Pay Commission found some evidence of immigrants receiving less than the minimum wage, partly because employers were housing them and deducting more than the legally allowed accommodation offset from workers' salaries.[41]

77. Although the Government has said that it would step up enforcement against employers, it is unclear how effective the new measures will be. Between 2002 and 2006, in England and Wales, only 45 employers were proceeded against for illegally employing immigrants of whom 27 were found guilty.[42]

78. **The available evidence suggests that immigration has had a small negative impact on the lowest-paid workers in the UK, and a small positive impact on the earnings of higher-paid workers. Resident workers whose wages have been adversely affected by immigration are likely to include a significant proportion of previous immigrants and workers from ethnic minority groups.**

79. **Effective means must be found for enforcing the law against employers who illegally employ immigrants or who employ immigrants at wages and employment conditions that do not meet minimum standards.**

Unemployment

80. The Government's preferred finding on the employment effects of immigration is that from a DWP study.[43] This analysed the impact of labour immigration of A8 workers, measured by the number of workers registered in the Worker Registration Scheme, on the claimant count rate of citizens, that

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40 Low Pay Commission Report 2006, National Minimum Wage

41 Steve French and Jutta Möhrke, The impact of 'new arrivals' upon the North Staffordshire labour market, Low Pay Commission, November 2006

42 Home Office, Control of Immigration Statistics 2006, Table 6.7, p 88

43 DWP Working Paper 29, Gilpin et al, The impact of free movement of workers from Central and Eastern Europe on the UK labour market, February 2006

is, on the proportion of the working age population in receipt of Jobseeker's Allowance. Using data up to November 2005, the study found "no discernible statistical evidence which supports the view that the inflow of A8 migrants is contributing to a rise in claimant unemployment in the UK" (p 122).

81. In an earlier study, Professor Dustmann argued that "if there is an impact of immigration on unemployment then it is statistically poorly determined and probably small in size". [44]

82. Dr Rebecca Riley of the NIESR questioned whether such a strong conclusion could be drawn from the DWP study as it did not take account of the possibility of emigration of resident workers to another part of the UK or overseas in response to immigration from abroad (Q 261). Analysis by the NIESR based on simulation models suggests that immigration increases unemployment in the short term, with close to zero effects in the long term (p 149, 151).

83. Professor Rowthorn also disagreed with the clear conclusion the Government has drawn from the DWP study and the previous study by Professor Dustmann. He pointed out that both studies did find relatively large but statistically insignificant effects of immigration on unemployment. He argued that finding effects that are statistically insignificant "does not mean that they are 'small', as the authors claim. It simply means that there is too much noise in the system to estimate them accurately" (p 8). Professor Richard Pearson also warned that studies such as that by the DWP have "severe methodological limitations" (p 485).

84. The recent ITEM Club report points to the potential negative impact of immigration on youth unemployment. The report notes that youth unemployment increased by about 100,000 since early 2004 and the participation rate has dropped from 69.4% to 67.4%. "Given the age and skill profile of many of the new immigrants, it is possible that 'native' youngsters may have been losing out in the battle for entry-level jobs".[45] The Royal Society of Edinburgh also noted that a high proportion of A8 migrants were under 24 years old and said that further research was needed on the impact on the youth labour market (p 503).

85. **The available evidence is insufficient to draw clear conclusions about the impact of immigration on unemployment in the UK. It is possible, although not yet proven, that immigration adversely affects the employment opportunities of young people who are competing with young immigrants from the A8 countries. More research is needed to examine the impact of recent immigration on unemployment among different groups of resident workers in the UK.**

Training and apprenticeship

86. Liam Byrne MP told us that there was a danger of immigration discouraging British employers from investing in training of local workers, particularly at

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[44] Dustmann et al, The local labour market effects of immigration in the UK, Home Office Online Report 06/03, 2003

[45] Ernst & Young ITEM Club Special Report: Migration and the UK economy, p.9, December 2007. Available at: http://www.ey.com/global/assets.nsf/UK/ITEM_Club_Special_Report_-_Migration_and_the_UK_economy/$file/EY_ITEM_Migration_Report_Dec_2007.pdf

"the low end" of the labour market. He said: "That is one of the reasons why I have said that when the points system is introduced ... I do not see a need for low skilled migration from outside Europe" (Q 521). Mr Portes of the DWP added: "There clearly is a risk here that too much migration in some of the wrong sectors would indeed reduce the incentives [for training]." Mr Portes said that the Migration Advisory Committee will take this risk into account when "advising on which sectors migrants might help to fill in terms of labour market shortages" (Q 521).

87. Brendan Barber of the TUC warned that large infrastructure projects such as the London Olympics "could be entirely undertaken by migrant labour, if one simply left the key contractors to make these [recruitment] decisions for themselves. If that were to be the case, rather than there to be a positive investment in the skills and training of others in the communities of East London ... if it passed the East London economy by, that would be a disaster" (Q 194).

88. Jack Dromey of Unite said that "this is also a tremendous opportunity for Government to use the power of public procurement to target those young white kids out of work in Barking and those young second generation Bangladeshi kids in Tower Hamlets with a view to offering them apprenticeships, such that a legacy of 2012 becomes a project of which we are all proud ... [with] a new generation of Barking and Bangladeshi bricklayers" (Q 194).

89. UCATT, the largest specialist union representing construction workers in the UK and Republic of Ireland, emphasised "the continued necessity of migrant workers for the construction sector", but also argued that "more apprenticeship places must be offered to young people in the construction industry" (p 509). It pointed out that in 2006 there were 50,000 applications for construction apprenticeships but only 9,000 places available. (UCATT p 509). Stephen Ratcliffe of the Construction Confederation said that immigration did not affect employers' incentives to provide apprenticeship to young British people (Q 137).

90. Employer organisations such as the CBI and the Recruitment and Employment Confederation noted that training is at an all-time high in the UK. They advocated a "twin-track" approach which involves encouraging immigration to fill shortages in the short term while at the same time investing in domestic skill development to help fill shortages in the long term (CBI p 123).

91. The empirical evidence on the impact of immigration on the provision of apprenticeships to young British workers is limited. Professor Linda Clarke, of the University of Westminster, studied the recruitment practices of employers at Terminal 5, one of Europe's largest construction projects. According to LFS data, only 2.8% of those employed in the construction industry are from ethnic minority groups although they constitute 7% of the economically active population. Professor Clarke identified employers' reliance on recruitment agencies, "which tend to target a traditional white male and migrant workforce rather than local and diverse labour", as one of the key obstacles to a more inclusive and local labour force at Terminal 5 (p 432). She also noted that "the recruitment of migrant workers—available quickly and possessing the necessary skills and experience—appears to many stakeholders as justifiable. It was claimed too that if training is provided by a company, there is the danger of 'poaching' by competitors, and therefore

skilled migrants are preferred [by employers] to taking on apprentices" (p 430).

92. A number of witnesses suggested that there is a potential adverse impact of immigration on training opportunities for British workers in other sectors besides construction. For example, Professor Pearson suggested that, in the NHS, "the employment of overseas nationals in training roles limited the career development of junior UK doctors, potentially reducing the long attractiveness of a medical career to UK nationals" (p 485). Dr Edwin Borman of the British Medical Association explained how immigration of migrant doctors and the increased number of UK-born doctors has led to an oversupply of doctors seeking postgraduate training posts in Britain. He suggested that this was partly due to an "utter failure of an effective medical planning structure" (Q 302).

93. **Our recent report on apprenticeship and skills argued that the Government was not doing enough to develop high quality apprenticeships.[46] Although the evidence is limited, there is a clear danger that immigration has some adverse impact on training opportunities and apprenticeships offered to British workers.** The Government acknowledged this danger in its evidence to us (Q 521). If immigration has adverse impacts on training, apprenticeships and domestic skill development, the twin track approach advocated by many employers—immigration to fill shortages in the short run, and skill development of British workers to fill shortages in the long run—will not work. **The Government should consider further measures to ensure that employers recruiting immigrants are also investing in training and skills development of British workers.**

Macro-impacts: Inflation and unemployment

94. Professor Nickell suggested that immigration may reduce the equilibrium rate of unemployment. "This will happen if, for example, immigrant workers are more flexible and reduce the extent of skill mismatch, are more elastic suppliers of labour with higher levels of motivation and reliability ... This effect may, however, decrease over very long periods of time as migrants become more like the native population" He went on to say that "there is certainly a broad acceptance in the UK ... that immigration has had a tendency to reduce inflationary pressure" but cautions that "rigorous empirical analysis in this area is in short supply".[47]

95. Professor Blanchflower argued that the recent inflow of workers from Eastern Europe has lowered the natural rate of unemployment. He suggested that immigration also seems to have reduced inflationary pressures by increasing potential supply more than demand for several reasons: because locals may have cut consumption because of greater fear of unemployment; because remittances by migrant workers mean that less of their earnings is spent in the UK; and because firms may substitute some labour for capital which would curb the rise of investment. The NIESR economic model suggested that A8 immigration lowered inflation slightly in the short and medium term.

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46 Economic Affairs Committee, 5th Report (2006–07), *Apprenticeship: a key route to skill* (HL 138)

47 Professor Stephen Nickell, Immigration: Trends and Macroeconomic Implications, paper prepared for the Bank of International Settlements conference in honour of Palle Anderson on 'Globalisation and Population Trends: Implication for Labour Markets and Inflation', 2/3 December 2007, p 12

The model then shows inflation almost returning to its base level over a period of 10 years. (p 151).

96. Richard Barwell of the Bank of England has cited the importance of immigrants' length of stay in determining the impact on inflation. "If the majority of immigrants do intend to return home in the near future, it is likely that they will try to save a large fraction of their income. So recent inflows may have had only a muted impact on aggregate demand." On balance, immigrants have probably had a larger impact on aggregate supply than demand, "so migration has probably helped to ease inflationary pressures in the economy, at least temporarily."[48] This is particularly true of EU immigration because so much of it is temporary. It is less true of immigration from outside the EU.

97. **In the short term, immigration creates winners and losers in economic terms. The biggest winners include immigrants and their employers in the UK. Consumers may also benefit from immigration through lower prices. The losers are likely to include those employed in low-paid jobs and directly competing with new immigrant workers. This group includes some ethnic minorities and a significant share of immigrants already working in the UK.**

98. **In the short term, immigration may put pressure on the employment opportunities of young people. In the long run, the economic impacts of immigration on the resident population are likely to be fairly small. Thus a key question is how quickly the economy adjusts to immigration. Much more empirical work might usefully be done on the labour market and macroeconomic impacts of immigration in the UK.**

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[48] Richard Barwell, The macroeconomic impact of international migration, Bank of England Quarterly Bulletin, First Quarter 2007

CHAPTER 4: IMMIGRATION AND LABOUR SHORTAGES

99. The Government, business community and other groups argue that migrants are needed to fill labour and skills shortages in the UK, and that British people often cannot or do not want to fill vacancies. The speech of the previous Prime Minister, Tony Blair, to the CBI just before EU enlargement on 27 April 2004 expressed this view clearly:

> "There are half a million vacancies in our job market and our strong and growing economy needs migration to fill these vacancies ... some [of which] are for unskilled jobs which people living here are not prepared to do ... [moreover] a quarter of all health professionals are overseas born ... 23% of staff in our higher education institutions are non-UK nationals ... our public services would be close to collapse without their contribution".

100. Most employers giving evidence to us echoed this view, citing a better "work ethic" and "attitude" as one of the main reasons why they employed immigrants rather than British workers. Sainsbury's said: "We have found migrant workers to have a very satisfactory work ethic, in many cases superior to domestic workers" (p 492). The National Farmers Union (NFU) told us that migrants "are an attractive source of labour to UK employers because of their work ethos, efficiency and dependency" and that they do jobs "the domestic workforce is unwilling to do" (p 100). Tom Hadley of the Recruitment and Employment Confederation (REC) suggested that "sometimes in the UK you almost feel that there is an attitude gap rather than a skills gap" (Q 147). The British Hospitality Association suggested that "in many cases, they [migrants] are seen as having more to offer than the domestic workforce" (p 406).

101. A recent study of employers' use of migrant labour[49], commissioned by the Home Office and cited in their evidence to us (p 198), suggests that employers' preference for immigrants because of their "general attitude and work ethic" is not exceptional but fairly prevalent across various sectors, especially in low-skilled occupations. Susan Anderson of the CBI explained that employers are simply making a rational business choice:

> "If you have the choice between two individuals, one of whom seems really enthusiastic about work, who wants to get on ... who wants to learn and wants to move on and wants to perform well, then you are going to choose that individual with that positive attitude. If those positive attitudes are coming more from the migrant worker than the UK-born, then I am afraid you are going to go for the migrant workers. We know what the solution to that disadvantage would be: a bit more enthusiasm from the indigenous worker" (Q 103).

102. **Although clearly benefiting employers, immigration that is in the best interest of individual employers is not always in the best interest of the economy as a whole.** If, as Liam Byrne MP says, the Government is "not actually running British immigration policy in the exclusive interests of the British business community" (Q 534), it is important to examine the economic basis of the arguments that immigrants are needed to fill and

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49 Dench, S., Hurstfield, J., Hill, D., and K. Akroyd. 2006. *Employers' use of migrant labour* Home Office Online Reports. 03/06 and 04/06