Immigration and the UK Labour Market: The latest evidence from economic research

- Immigration to the UK has been rising since 1995. Immigrant inflows to the UK have been falling since 2006, but because immigrants are staying longer, the stock of immigrants in the UK is continuing to rise.

- Immigration has fallen in each of the last three recessions, but these falls have been successively declining.

- By early 2012, 14.5% of the UK's working age population had been born abroad, up from around 8% in 1995 (Figure 1). There are now 5.9 million adults of working age in the UK who were born abroad.

- Immigrants are younger and better educated than their UK-born counterparts, on average (Table 2). The most recent immigrants are better educated still. Around 10% of all migrants are in full-time education. Immigrants are over-represented in the very high-skilled *and* very low-skilled occupations.

- Immigrants are arriving from many more countries than in the past. Poland, India and China are currently the countries that contribute the biggest proportion of *new* arrivals (Table 1).

- Immigrants, on average, are *less* likely to be in social housing than people born in the UK, even when the immigrant is from a developing country. Only immigrants who became UK citizens are neither more nor less likely to be in social housing than UK-born individuals.

- There are potential economic benefits associated with migration, especially to fill gaps in the UK labour market – where there are shortages of workers, whether high- or low-skilled. While there may be costs to particular groups, there is little evidence of an overall negative impact on jobs or wages.

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Introduction

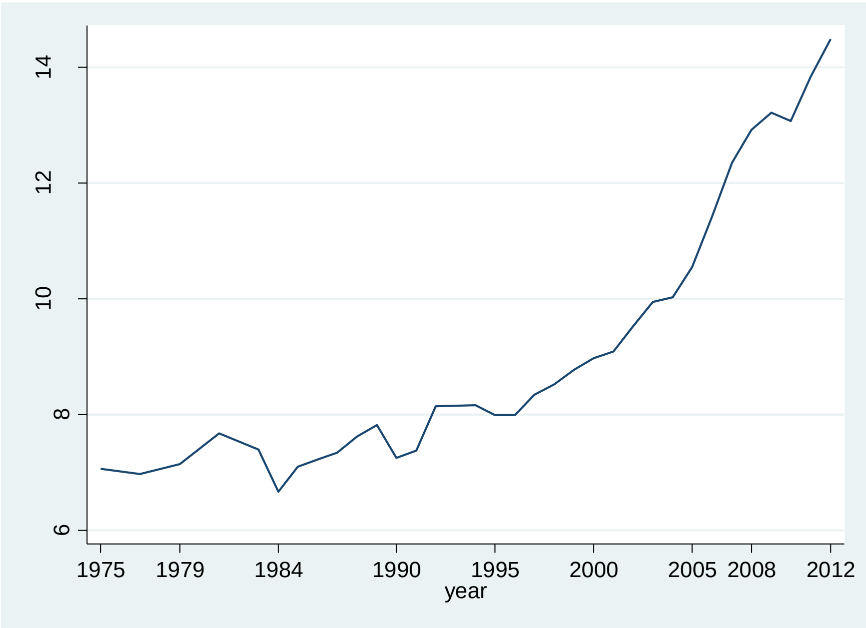
There is little doubt that the share of immigrants in the UK's working age population is now higher than in the past (see Figure 1). Fifteen years of rising immigration between 1993 and 2008 mean that there are now 6.8 million individuals (and 5.3 million adults of working age) living in the UK who were born abroad, up from 2.9 million in total (and 2.3 million of working age) in 1979. Over the same period, the UK-born population grew from 52 million to 54.2 million (and from 30.3 million to 32.7 million of working age).

The stock of immigrants is affected by both the size of inflows and the duration of stay, which in turn is related to the number of outflows of immigrants. According to the Labour Force Survey (LFS), the inflow *rate* of immigrants into the UK has been falling since 2006. However the stock of immigrants is rising again, presumably because immigrants are staying longer, (the stock is approximately the result of the inflow rate multiplied by the average duration of stay).

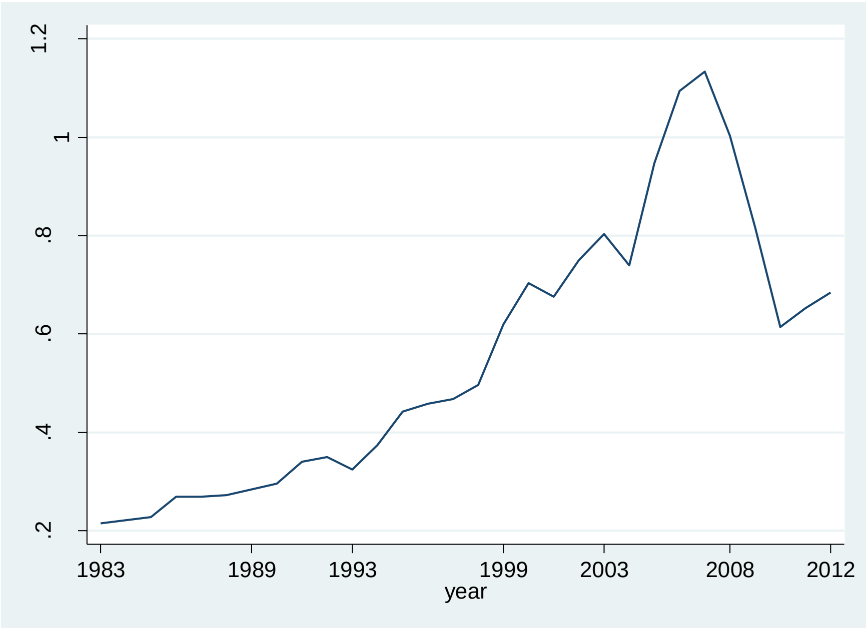
The stock of immigrants in the UK is influenced both by the UK's economic performance relative to other countries and by immigration policy. Just as in Canada and Australia, the UK now has a points-based immigration system, which seeks to restrict immigration from outside the European Union (EU) to skilled individuals. In practice, the number of arrivals who come from outside the EU to study or for family reunion every year still exceeds those arriving for work-related reasons.

Figure 1: The share of immigrants in the UK's working age population

A. Percentage of immigrants in working age population, 1975q2-2012q1



B. Immigrant inflows – percentage of new immigrants in working age population, 1983-2012



Source: LFS

Which countries do immigrants come from?

Table 1 shows the country of origin of the top five 'sender' countries in 2012 for the stock of existing immigrants and the flow of new immigrants.

The sender countries are much less concentrated than in the past. Twenty-five years ago, one third of all immigrants came from just two countries, Ireland and India. Now these two countries account for just 13% of all immigrants. The top three sender countries for the new arrivals to the UK in 2012 were India, China and Poland.

Table 1: Country of origin of immigrants to the UK (percentage share of migrants in brackets)

Largest senders	1985	2012
All immigrants		
1	Ireland (16.5%)	Poland (9.0%)
2	India (13.5%)	India (8.9%)
3	Pakistan (6.9%)	Pakistan (6.0%)
4	Jamaica (5.1%)	Germany (4.1%)
5	Germany (4.6%)	Ireland (3.7%)
New immigrants (arrived in last year)		
1	United States (20.6%)	India (10.4%)
2	Ireland (10.6%)	China (10.0%)
3	India (5.2%)	Poland (5.0%)
4	Pakistan (4.1%)	Romania (4.9%)
5	Germany (3.9%)	United States (4.8%)

Source: LFS

What skills do immigrants have?

Immigrants are, on average, more educated than their UK-born counterparts, and the educational attainment gap has been rising over time since more recent immigrants are more educated, on average, than other immigrants (see Table 2).

While more than half of the UK-born workforce left school at 16 or earlier, fewer than one in six new immigrants finished their education by the age of 16. Just over one in five UK-born members of the workforce finished education at 21 or later compared with more than 40% of all immigrants and more than 50% of all new immigrants.

Table 2: Education and immigrant status (working age population), 2012

	Percentage of group with each level of education		
Age finished education	UK-born	All immigrants	New immigrants
16 or under	50.2%	24.1%	10.4%
17-20	29.8%	34.8%	36.0%
21 or older	20.07%	41.1.%	53.6%

Source: LFS

Education partly reflects immigrants' occupations and industries. There is a larger share of immigrants than UK-born working in professional occupations. But there are more immigrants in processing and elementary occupations (such as bar work and waiters) than might be expected given their qualifications (see Table 3).

This occupational mix in both high-skilled and less skilled jobs is reflected in the distribution of immigrants across industries. The health, hotel and restaurant sectors employ relatively more migrant workers than other sectors. The agriculture and energy sectors employ relatively fewer migrant workers than other sectors (see Table 4).

Table 3: Occupational distribution of immigrants and UK-born, 2012

	Percentage of UK-born	Percentage of immigrants	Percentage of occupation who are immigrants
Managerial	10.1%	8.8%	12.7%
Professional	19.0%	23.0%	16.7%
Assistant professional	14.7%	11.7%	11.7%
Administrative	11.5%	7.7%	10.0%
Skilled trades	11.2%	9.3%	12.2%
Personal service	9.0%	8.2%	13.2%
Sales	8.5%	6.7%	11.6%
Processing	6.3%	8.4%	18.4%
Elementary occupations	9.9%	16.2%	21.4%

Source: LFS

Table 4: Industrial distribution of immigrants and UK-born, 2012

	Percentage of UK-born	Percentage of immigrants	Percentage of industry who are immigrants
Agriculture	1.0%	1.0%	9.4%
Manufacturing	10.9%	10.0%	13.2%
Energy	1.3%	0.8%	7.5%
Construction	7.5%	5.5%	10.9%
Retail	14.1%	13.3%	13.6%
Hotels and restaurants	14.3%	9.9%	26.2%
Transport	7.7%	5.9%	17.8%
Finance	17.3%	21.4%	17.0%
Public administration	6.9%	3.8%	8.4%
Education	10.4%	8.2%	11.6%
Health	13.1%	14.3%	15.6%
Other	6.3%	4.2%	10.1%

Source: LFS

The labour market costs and benefits of immigration

Unlike in the United States, where the skill composition of immigrants is tilted towards the unskilled, the skill composition of immigrants to the UK is more biased towards skilled workers. It might be expected therefore that there would be more pressure on wages among skilled workers in the UK, unless immigrants look for jobs that are not commensurate with their skills or it is harder to transfer certain acquired skills from one country to another.

Furthermore, if demand for labour is rising, there may be no effects of immigration on wages and employment. An open economy may adjust by means other than wages: one such mechanism is adjustment by changing the mix of goods the economy produces.

If labour demand exceeds labour supply in the receiving country, the impact of immigration will be different from that in a country already at full employment. Concerns about substitution and displacement of the UK-born workforce become more prevalent when output is demand-constrained, as in a recession or when capital is less mobile.

In short, recent empirical research on the labour market effects of immigration to the UK finds little evidence of overall adverse effects of immigration on wages and employment for people born in the UK.

Nevertheless, there may be some downward pressure in the low wage labour market where (despite their higher relative education levels) many new immigrants tend to find work. There may also be a positive effect on wages in the high wage labour markets where it may take more time for the skills that immigrants bring to transfer.

The evidence from research shows that:

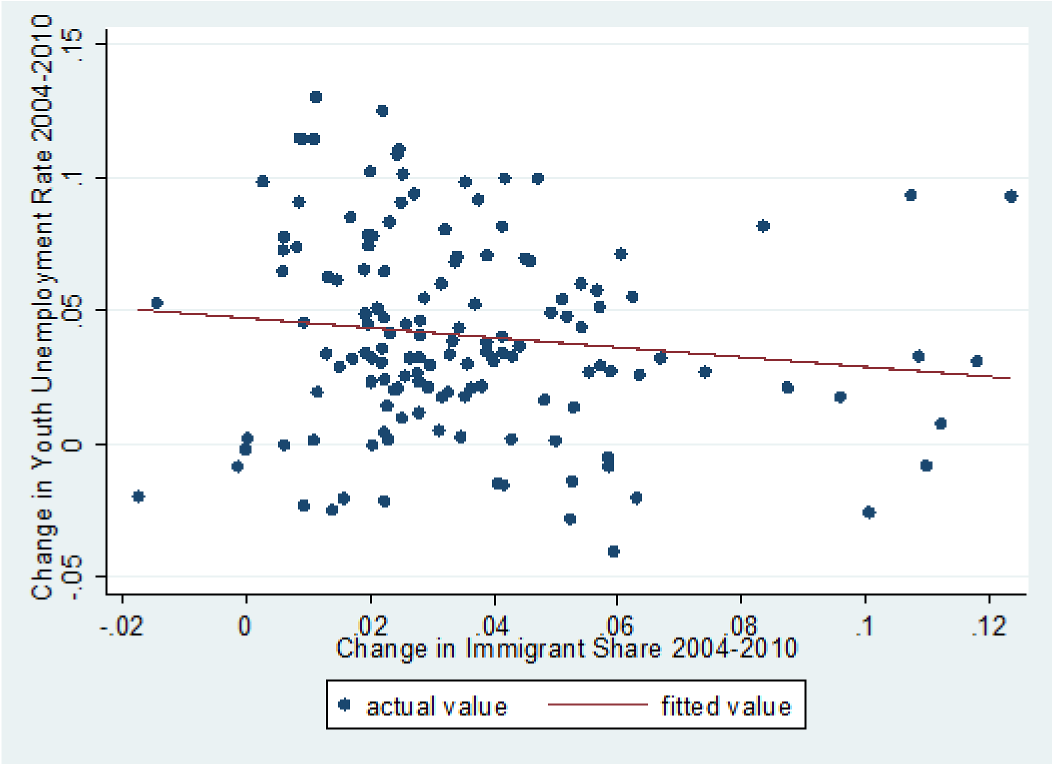
1) Immigrants and native-born workers are not close substitutes, on average (existing migrants are closer substitutes for new migrants). This means that native-born workers are, on average, cushioned from rises in supply caused by rising immigration (Manacorda et al, 2007).

2) The less skilled are closer substitutes for immigrants than the more highly skilled, so any pressures from increased competition from jobs is more likely to be found among less skilled workers (Manacorda et al, 2007). These effects appear to be borne out by other studies, but the effects are not large (Dustmann et al, 2008; Nickell and Salaheen, 2008).

3) There is no evidence that EU migrants affect the labour market performance of native-born workers (Lemos and Portes, 2007; Goujard et al, 2011).

Figure 2 shows the lack of correlation between changes in the native-born youth unemployment rate and changes in the share of immigrants living in an area between 2004 and 2010. Native-born youth unemployment rose less in areas that experienced a larger change in the share of immigrants.

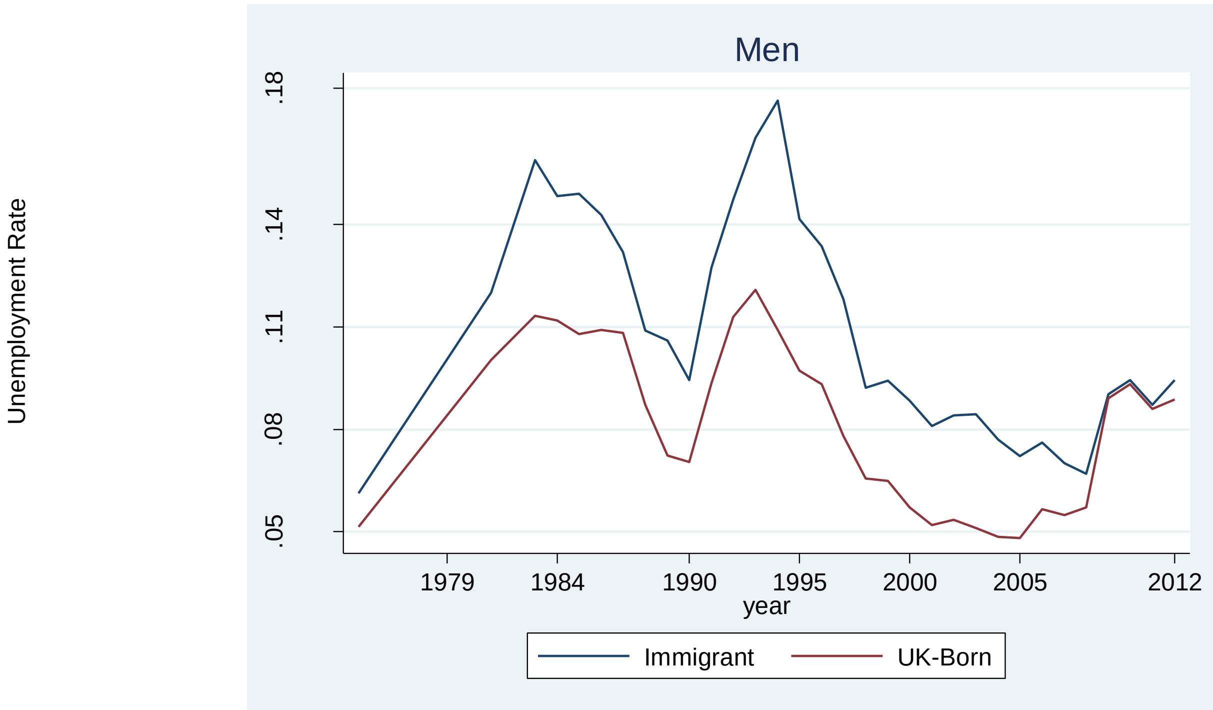
Figure 2: Youth unemployment and changes in immigration 2004-2010



Source: LFS

There is also now very little difference between the unemployment rates of immigrant and UK-born men. Historically the employment gap has widened in recessions and narrowed in economic recoveries. This has not been observed during the latest recession. Unemployment rates for immigrants and UK-born have risen together by similar amounts (see Figure 3).

Figure 3. Unemployment for immigrants and UK-born men



Source: LFS

The higher average unemployment rate of immigrants in the past was explained in part by a relative lack of skills and the fact that many of them were employed in casual and insecure jobs: anyone who is in this sort of job faces much higher risks of subsequent unemployment.

Changes in the skill mix of immigrants over time can explain the convergence in unemployment rates (though immigrants remain, on average, more likely to be unemployed given their qualifications). New immigrants cannot claim state benefits unless they are working or have paid sufficient contributions when in work.

Among women, there are much lower employment rates for some immigrant communities compared with UK-born women. Age and education can account for around one quarter of these differences among women born in Pakistan and Bangladesh, but more research is needed to understand the reasons for these differences.

Net fiscal impact of immigration

EU immigrants tend to pay their way because this group of immigrants are more likely to be in work and make less use of welfare and other public services, their net contribution is positive (Dustmann et al, 2009).

Population pressures

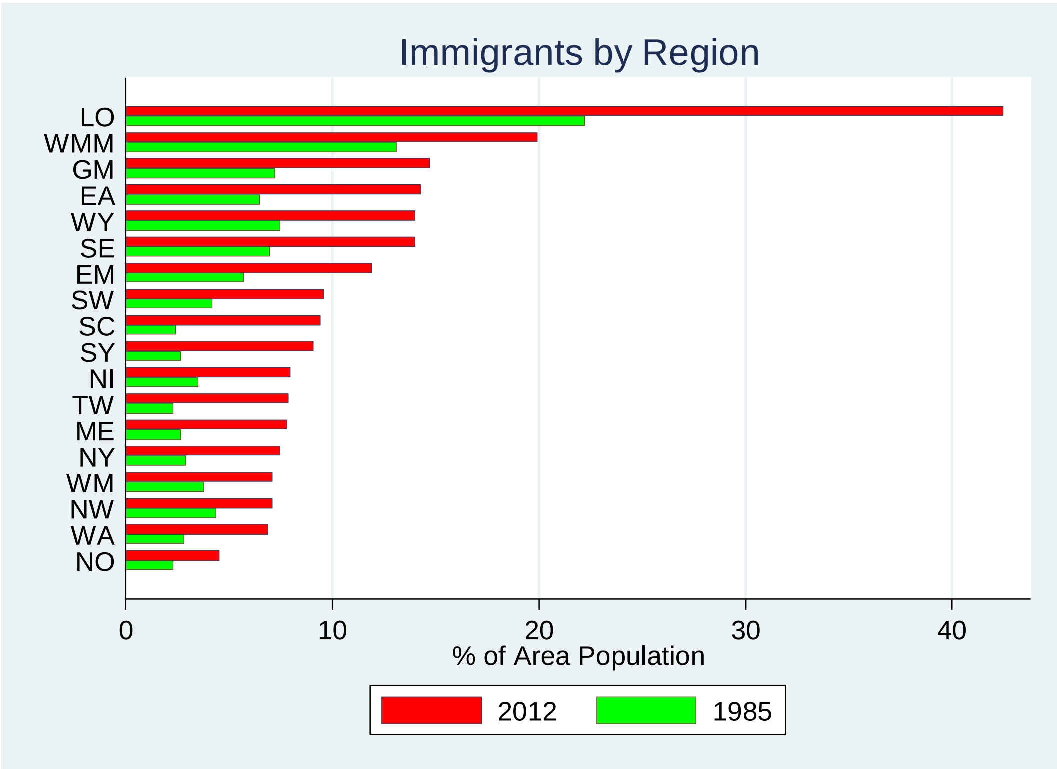
There has been some concern that rising immigration puts extra pressure on schools. This is an area in which there is still little hard evidence.

Where do immigrants settle?

While the stock of immigrants has risen in all regions over time, it has risen most in London. Although there is some evidence to suggest that new immigrants are more regionally dispersed than in the past, immigrants constituted 42% of London's population in 2012 (see Figure 4).

The geographical dispersion of immigrant share across local areas is much larger. Around 60% of the working age populations of Brent and Westminster were born overseas compared with less than 3% of the populations of Knowsley and Redcar & Cleveland.

Figure 4: Immigrant share of regions' working age populations

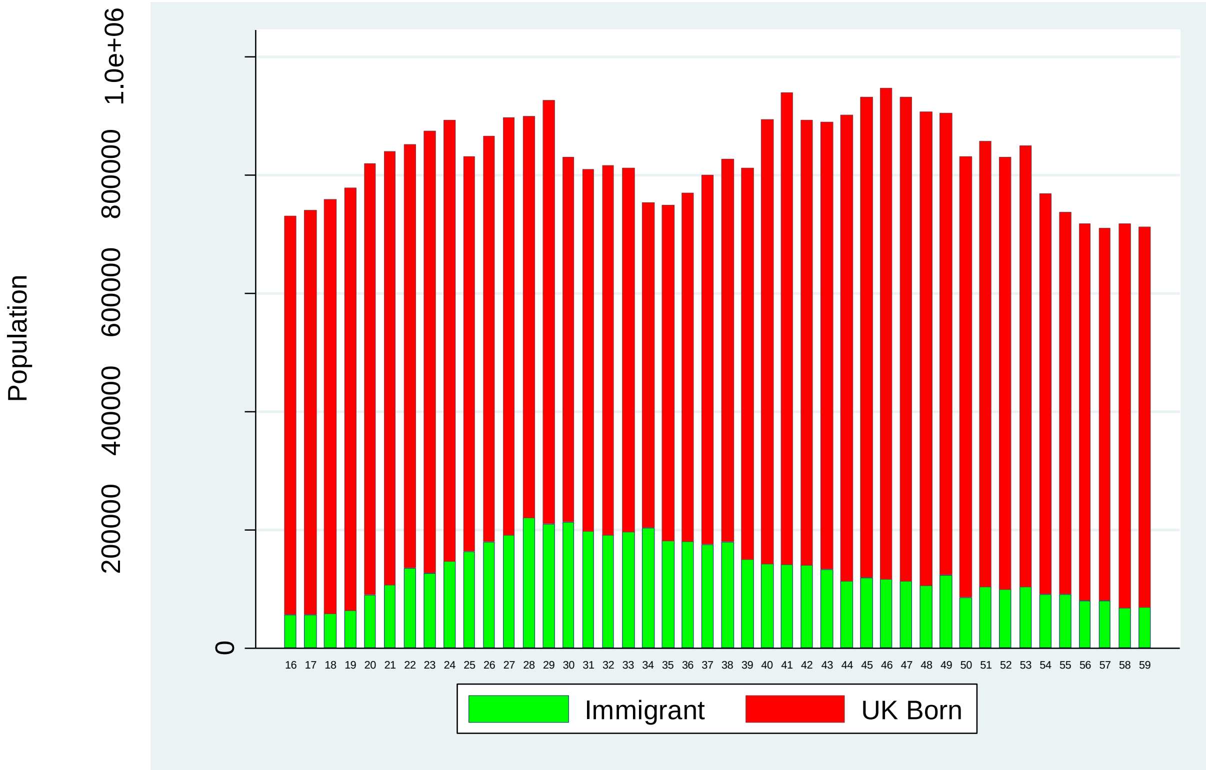


Source: LFS

Note: LO=London, WMM=West Midlands Met., GM=Greater Manchester, SE=South East, EA=East Anglia, WY=West Yorkshire, EM=East Midlands, SW=South West, TW=Tyne & Wear, NW=North West, SC=Scotland, SY=South Yorkshire, WM=Rest of West Midlands, NI=Northern Ireland, NY=North Yorkshire, WA=Wales, ME=Merseyside, NO=North of England

Figure 5 compares the numbers of immigrants in each age group with the numbers of UK-born individuals in the same age group. Since most immigrants to the UK arrive as young adults, with regard to the adult population there is clearly most supply pressure among adults in their late twenties, though this matters less if immigrants or native-born workers are substitutes across all age groups.

Figure 5: Numbers of immigrants by age group, 2012



Source: LFS

Housing

Concerns have also been raised that rising immigration may be putting pressure on the housing system. Any increase in population means increased demand for housing services and if supply does not meet demand, this could lead to rising prices or increased queues for social housing.

There is, as yet, no evidence of the effect of immigration on house prices and rents, though we do know that immigrants are much less likely to be in owner occupation and much more likely to be in private rental accommodation (see Table 5).

With regard to social housing, new immigrants from outside the EU have no entitlement to social housing. Entitlement depends on citizenship, which in turn depends on years of residency in the UK, and then household needs.

Table 5 summarises the percentage point differences in the effect of immigrant status relative to UK-born individuals on the chances of being in social housing accommodation after controlling for age, qualifications, labour force status, marital status, number of children and region of residence. Table 5 also gives estimates for all immigrants and then for different groups of immigrants – immigrants who are now UK citizens, EU citizens, immigrants from the OECD and other immigrants.

Table 5: Immigration and housing tenure

	Percentage point difference relative to UK-born individuals, net of controls		
	Owner occupation	Private rental	Social housing
All immigrants	-38	+43	-5
Effect of one extra year in the UK	+1	-1	+ 0.1
Of which:			
UK citizens	+6	-6	0
EU citizens	-27	+33	-6
OECD immigrants	+4	+4	-8
Other immigrants	-19	+21	-2

Source: Annual Population Survey 2008, Population of Working Age

The column on social housing shows that immigrants, on average, are five percentage points *less* likely to be in social housing on arrival. Thereafter, the chances of being observed in social housing rise by around 0.08 percentage points each year. A positive effect of years of residence is to be expected, since this is correlated with residency conditions and increased entitlement to welfare services.

Overall, this suggests that immigrants are, on average, less likely to be in social housing. Disaggregating the stock of immigrants by country of origin, Table 5 shows that immigrants from the EU, from the OECD and other immigrants are all less likely to be in social housing. Only immigrants who became UK citizens are neither more nor less likely to be in social housing than UK-born individuals.

Conclusions

During periods of strong economic growth, migration is and has always been important for filling gaps in the labour market. On balance, the evidence for the UK labour market suggests that fears about the consequences of rising immigration have been exaggerated. It is hard to find evidence of much displacement of UK workers or lower wages, on average. Immigrants, especially in recent years, tend to be younger and better educated than the UK-born and are less likely to be unemployed. They certainly do *not* receive preferential access to housing.

But there have been some effects. The less skilled may have experienced greater downward pressure on wages and greater competition for jobs than others, but these effects still appear to have been modest. Unfortunately we do not know much about whether the effects of immigration are different in downturns. We also need to understand more about how capital and sectoral shifts in demand respond to immigration over the longer run.

Future migration trends will, as ever, depend on relative economic performance and opportunity. But we still need to know more about the effects of rising immigration beyond the labour market in areas like prices, housing, health, crime and welfare.

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For further information

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