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Immigration and the labour market:

Theory, evidence and policy

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About this paper

The Equality and Human Rights Commission (the Commission) and the Migration Policy Institute (MPI) have a shared interest in immigration and the impacts of immigration on society. This paper was prepared for the Commission but represents the views of the authors and not official Commission policy.



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Executive summary

The current economic downturn has led to questions over the value of economic migration. Public opinion supports the view that immigrants take natives' jobs and reduce their wages, but most economists disagree. Although basic laws of supply and demand suggest that immigration could reduce wages by increasing the supply of workers, in reality the economy also responds to immigration by increasing demand for labour. This means that the actual impact of immigration is likely to be small, especially in the long run.

Insofar as there is a consensus arising from economic research on immigration, it can be summarised as follows: the impact of immigration on the average wages of all workers is small. There are almost certainly distributional effects – some workers do better than others. Overall, however, other factors such as education, trade, outsourcing, demographic change and technological change affect wages and employment much more than immigration.

However, immigration does have a negative impact on some individuals. Immigrant competition is likely to be concentrated on certain kinds of job that immigrants can easily fill, particularly those that do not require language fluency, cultural knowledge or local experience. This means that **previous immigrants** (foreign-born workers already present in the country) bear the brunt of competition from new immigrants. Most native workers are sheltered from immigrant competition, since they can work in jobs in which they have a comparative advantage over immigrants. But some natives might also lose out due to new immigration if they are unable to move into these 'language-intensive' jobs (for example, due to poor communication skills). However, research on this phenomenon in the UK context is sparse.

Despite these qualifications, the impact of immigration remains small, for several reasons. Immigrants are not competitive in many types of job, and hence are not direct substitutes for natives. Local employers increase demand for low-skilled labour in areas that receive low-skilled immigrant inflows. Immigrants contribute to demand for goods and services that they consume, in turn increasing the demand for labour. And immigrants contribute to labour market efficiency and long-term economic growth.

We know less about other long-term impacts of immigration however. Immigration appears to have encouraged natives to specialise in different kinds of jobs, which may have different long-term career structures and opportunities, and may experience different levels of job security. Further research should address the implications of this shift. More research is also needed on the wider

implications of immigration, such as the effect on employers' incentives to provide on-the-job training.

The research findings do not imply that policymakers can ignore immigrants' role in the labour market. First, the lowest-skilled workers face strong barriers to labour market success, and whether or not immigration is to blame, it is widely perceived to be a contributing factor. Continued interventions to help these workers to compete are essential. Second, integration policies can help to prevent immigrants from becoming concentrated in low-skill jobs (potentially a result of their non-substitutability with natives), as well as to improve public confidence in the immigration system. Third, efforts to increase employer-provided training can play a role in ensuring that immigration does not reduce employers' incentives to train and promote native workers.

1. Introduction

The economic downturn is Europe's central political and policy preoccupation. In such a climate, it is unsurprising that the value of economic migration has come under scrutiny. Concerns are hardly limited to the UK. In September 2008, Italy's government statistics agency blamed immigrants for the country's rising unemployment.¹ A few weeks later, mass redundancies in Spain prompted the government to launch a programme that pays jobless immigrants to go home. Meanwhile, polling evidence shows that publics across Europe and North America see immigration as a significant threat to their own opportunities. According to a recent poll by the German Marshall Fund, a majority of British respondents think that immigrants take jobs away from the native born.² In a similar survey in 2007, almost two-fifths of British respondents cited immigration as one of the top two causes of job loss, and more than half believed that immigration reduced the wages of unskilled Britons.³

These beliefs stand in stark contrast to academic research. Economists and policy analysts point to strong evidence that immigration does not reduce native workers' wages or increase their unemployment rates. The academic consensus – insofar as it exists – is that any negative impacts of immigration on wages and employment rates are modest at most, and that immigration is slightly beneficial to long-term economic growth and competitiveness. Large increases in immigration to the UK since 1997 have been based in part on this rationale.

What explains this divergence between academic and public opinion? Does the public simply not understand the real benefits of immigration? Or have economists got it wrong? This paper reviews the evidence on the impact of immigration, focusing on the potential job loss or wage reductions that immigrants are popularly thought to impose on native workers, and particularly the low-skilled.

This paper examines the ways in which immigration is expected to affect the labour market, and considers the strength of the evidence supporting these expectations. In particular, we extend the discussion beyond the traditional analysis of the impact of immigration on the average wages and employment rates of particular groups of workers, in order to consider the less researched, wider impacts on low-wage workers' experience in the UK labour market (for example, how immigration affects career structure and job stability). Finally, the paper discusses the policy implications for developed countries like the UK, with a focus on low-income and marginalised groups who stand to gain the least from immigration and who, in many cases, already struggle to compete in the labour market.

Three clarifications are worth making. First, talking about ‘immigration’ as if it were a monolithic category is problematic. Immigrant flows are highly heterogeneous, comprising economic migrants and refugees; highly-skilled permanent migrants and low-skilled seasonal workers; immigrants from within the European Union and from further afield. Different types of immigrants will have different impacts, complicating the assessment of migration’s ‘costs and benefits’, which are typically studied as if immigration were homogeneous. This paper focuses on labour migrants – both permanent and temporary – who work in low-wage jobs. These are the immigrants who are most likely to compete with the UK’s existing low-wage workers.

Second, note that immigration has many effects outside of the labour market. This paper focuses primarily on short- and medium-term impacts on labour market opportunities. We do not consider the social and cultural effects that also play an important, perhaps pivotal, role in shaping public attitudes to immigration, nor do we discuss the fiscal impact of immigration or the effect on public service delivery. We also do not consider in any detail the long-term effects on economic growth and competitiveness, which are widely thought to be positive, particularly in European countries where low fertility rates have led to a declining native workforce.⁴

Finally, the literature we review in this paper is primarily from the field of economics. The bulk of economic research on immigration and the labour market is US-focused. For this reason, the empirical review in this paper is biased towards the American experience, with UK and other Organisation for Economic Co-operation and Development (OECD) country evidence included wherever possible.⁵

2. What do we know about the labour market impact of immigration?

Economic theory suggests that the impact of immigration is likely to be small, and to dissipate over time as the economy adjusts to a larger labour supply. This is borne out by a large number of studies in the US, and confirmed in research with the more limited UK data. That said, certain groups of workers do seem to lose out due to new immigration: previous immigrants, native workers with poor communication skills, and those who are already most likely to drop out of the labour force.

However, other factors are much more important in determining how workers fare in the labour market. Education, economic restructuring and trade, technological progress and demographic change all appear to have a much greater impact than the number of immigrants arriving in the UK.

Why might immigration affect natives' wages or employment rates?

Basic laws of supply and demand imply that increasing the supply of labour should reduce wages for native workers in the short run, since more people are willing to supply their labour at a given wage. If wages cannot adjust (for example, because of a minimum wage or union activity) we might see increased unemployment instead of wage reductions.

At the same time, however, businesses are expected to respond to immigration by hiring more people: they increase production of the goods that immigrants produce, raising the demand for labour and pushing up wages again.⁶ In a small open economy like the UK, wages are eventually expected to return to the 'pre-immigration' level.

This simplified model treats immigrants and natives as homogeneous 'units of labour'. In practice, of course, the two often have different skills and abilities. On the whole, the more different they are, the less 'competition' there will be between them in the labour market. For this and other reasons, immigration is most likely to lead to reductions in wages or employment in the case of low-skilled or low-wage jobs: these jobs, by their nature, require less training or education than more highly paid work, making it more feasible to substitute immigrants for native workers.

This model is typically used to describe the private sector. Despite slightly different dynamics, it is also relevant to the public sector, however. The UK public sector employs significant numbers of immigrant workers, either directly or through sub-contracting. In 2000, 31 per cent of immigrant women and 16 per cent of immigrant men worked in the public sector (these proportions are similar for the UK-born).⁷ In 2005–6, the public sector-dominated health care sector employed 16 per cent of all immigrants.⁸ While immigration is likely to have a different effect on public sector wages and employment as compared to the private sector, where profit maximisation ultimately drives hiring decisions, the general dynamics of supply and demand still apply. Local authorities, for example, determine wage and employment levels according to established pay scales and contracting terms but if wages are high, local authorities are likely to try to cut back on employment numbers. Conversely, the presence of immigrant workers could allow councils to keep wages lower than would be required to attract large numbers of UK-born workers. This means that the fundamental dynamics discussed in this paper also have some relevance to public sector jobs.

One thing common to almost any theoretical model of the impact of immigration is that in the long run, average wages are expected to return, more or less, to the level that would have been observed without immigration.⁹ Reductions in wages and employment are likely only in the short run.

But how short is the short run? Immigration is a flow, not a one-off event; and if the short-run impact of immigration extends over several years, we should care what that short-run impact is. The short run will be short indeed if businesses adjust their investment levels quickly – increasing output and ‘absorbing’ the additional labour. At the same time, who is affected and how badly will depend on the extent to which immigrants substitute for natives in the labour market, rather than taking on different tasks or jobs that natives will not or cannot do. Uncertainty about the influence of these factors means that assessing the magnitude of the impact of a particular wave of immigration is an empirical exercise, not a theoretical one.

This empirical exercise, however, turns out to be rather difficult. To estimate the impact of a given period of immigration, the econometrician needs to compare what actually happened, to what would have happened in the absence of immigration. Economists disagree over the appropriate way of doing this. Many researchers, for example, compare areas that received a large number of immigrants to areas that did not, while attempting to control for the inherent differences between those areas that made some destinations more attractive to immigrants than others.¹⁰ A major problem with this approach, however, is that

if the other factors mentioned above serve to diffuse the impact of immigration nationally, the impact of immigration is not confined to the areas that receive immigrants, meaning that comparisons between areas might not be a good indicator of the overall impact of immigration.

On the other hand, researchers who study immigration at the national level solve these problems but create different ones. Since there is only one national level, no direct comparison is possible. Therefore, the econometrician often must simulate what would have happened in the absence of immigration, based on a theoretical model of what ought to happen. This involves making assumptions: for example, about the ease of substitution between natives and immigrants, or between skilled and unskilled workers; or about the speed with which businesses adjust investment in response to immigration. Unfortunately, the results of the analysis can be rather sensitive to these choices, making national level analyses quite contentious, too.

What have most empirical studies found?

Insofar as there is a consensus arising from the research, it can be summarised as follows: the impact of immigration on the average wages and the employment of all workers is small.¹¹ There are almost certainly distributional effects – some workers do better than others. Overall, however, other factors affect wages and employment much more than immigration.

Evidence from the United States

A substantial number of studies have examined the impact of immigration to the United States. It is useful to look at these studies in particular, since they use high-quality data, have been replicated again and again for accuracy, and have pushed further into unknown terrain than the studies produced in the UK, giving a more comprehensive assessment of the impact of immigration.

Wages

A 10 per cent increase in the share of immigrants in the US labour force (equivalent to slightly less than the average increase in metropolitan areas between 1990 and 2000)¹² is typically estimated to change average wages across the economy by only a few per cent (positive or negative). Many studies find impacts that are not statistically different from zero.¹³ At the top of the range are estimates such as that of David Card, who finds that a 10 per cent increase in the

immigrant share of the workforce **increased** average wages by six per cent¹⁴ (using the cross-city comparison method that is often thought to overestimate the benefits of immigration). At the other end of the spectrum, George Borjas finds that the same increase in immigration reduced natives' average wages by three to four per cent¹⁵ (using a national level model that does not account for the impact of immigration on capital investment).¹⁶

Wage inequality and low-skilled workers

However, examining the impact of immigration on average wages of all workers in an economy conceals important detail. Immigration is not expected to affect all workers equally: immigrants compete for jobs with 'comparable' workers in the native labour force, potentially lowering their wages while raising wages for workers with whom they do not compete. This means that low-skilled immigration should increase competition at the bottom of the earnings distribution, while high-skilled immigration should increase it nearer the top. In the US, immigration is disproportionately low-skilled – so we should expect it to widen the wage gap between high- and low-skilled workers. While some researchers find effects that are small enough to be statistically no different from zero,¹⁷ many do find that immigration changes widen the distribution. For example the study cited by David Card finds that a 10 per cent increase in the immigrant share of a city increases the wage gap between low- and high-skilled workers by four to five per cent. Borjas, on the other hand, estimates that immigration between 1980 and 2000 reduced the lowest skilled workers' wages by almost nine per cent.¹⁸

The conclusion that low-skilled immigration increases wage inequality is relatively uncontroversial,¹⁹ although as we will discuss, immigration is usually considered a very minor factor affecting inequality.

Employment

Employment rates have received less attention than wages in the US literature, although they have been the primary focus of some of the UK studies reviewed shortly. Most studies find no statistically significant impact on employment.²⁰ An exception is David Card – a researcher generally associated with the 'no wage effect' viewpoint – who does find that immigration to the US in the late 1980s reduced the employment rate of low-skilled natives by one to two per cent, and by up to five per cent in high-immigrant cities like Miami and LA.²¹

Why might the impact of immigration be different in the UK and other OECD countries?

The UK and EU contexts differ from the American one. First, labour market policies and institutions (such as the minimum wage, employment protection legislation and product market flexibility) affect the economy's response to immigration and the ease with which it can adjust, with more flexible economies better able to absorb immigrants without increases in unemployment. Lower labour market flexibility in Europe than in the US could mean that immigration affects employment more than wages.²²

Second, the shape and structure of the economy of the US and the UK differ. Simply put, the UK has a significantly smaller and slightly more open economy.

Third, the UK receives a different profile of immigrants to the US. The flows of low-skilled (and often undocumented) immigrants from Mexico to the US are likely to be very different from the inflow of Eastern European immigrants to the UK after 2004, for example.

Fourth, native workers' mobility, which differs by country, influences the extent to which affected workers can protect themselves from the impact of immigration by moving away from areas with large inflows of immigrants. Higher native mobility in the US²³ might lead to a more dispersed labour market impact of immigration.

Finally, the speed with which immigrants are economically assimilated plays a role. Since immigrants to the EU do not find a job in many cases for several years,²⁴ this reduces the extent to which they compete with native workers.

What have empirical studies found for the United Kingdom and Europe?

Europe

Studies from other European countries have found mixed results, although on the whole, any estimated reductions in wages are small. For Germany, one major study found that immigration had no significant impact,²⁵ while another found moderate negative impacts on wages.²⁶ Jennifer Hunt studied the repatriation of

French nationals from Algeria at the end of the 1960s, and found wage reductions in some of the worst affected regions of France.²⁷ Mixed, inconclusive evidence has been found for Portugal.²⁸ A more recent study from Australia also finds no significant impact.²⁹

United Kingdom

We now turn to the UK. A small body of evidence on the UK experience has emerged over the past decade.³⁰ On the whole, this research has not found any statistically significant effects on wages or employment from immigration.

First, a study by researchers from University College London (UCL) finds that most workers are unaffected or gain from immigration. While this study found that immigration between 1997 and 2005 increased wage inequality among the bottom half of earners,³¹ the absolute effect of immigration on the lowest-paid workers was small – a reduction of only a few pence per hour over the eight-year period.³² A more recent report by the Institute for Public Policy Research (ippr) largely replicates these results, finding that a one per cent increase in the share of immigrants in the working age population would reduce wages by about 0.3 per cent.³³ Similarly small effects were found in a 2008 study that looks at the effect of immigration within occupational groups: that a one per cent increase in the share of immigrants reduced the wages of semi-skilled and unskilled services workers by about 0.5 per cent.³⁴ Finally, Manning, Manacorda and Wadsworth use a different econometric model and find no statistically significant wage changes for UK-born workers.³⁵

Work produced for the Department for Work and Pensions analyses immigration from Eastern Europe and concludes that immigrants have not displaced native workers in any demographic subgroup (low-skilled, women, workers under the age of 25).³⁶ And the House of Lords' 2008 report, *The Economic Impact of Immigration*, synthesised a large number of studies and information sources, and concluded that both the costs and benefits of immigration to the resident population are small.

Although the small body of research perhaps does not justify complete confidence in the benign nature of immigration to the UK – especially given the inferior quality of the data as compared to the American studies – these results are consistent with other research from around the world that fails to find significant impacts on wage levels and employment rates. The general lesson from the empirical literature is that while negative effects are found in some cases, there is also a substantial amount of counter-evidence, and overall effects are very minor.³⁷

How does immigration affect society's vulnerable groups?

The evidence reviewed so far concerns the effects of immigration on certain groups of workers (such as workers with a given education level or earnings range). It shows that most native workers are largely unaffected by immigration, although some low-skilled workers may experience reductions in wage growth.

There is some evidence, however, that among low-skilled workers, further subgroups may be more strongly affected, since they come into closer competition with immigrant workers, have particular barriers to participation, or are more likely to react to greater competition by dropping out of the labour force (they have more elastic labour supply).

Previous immigrants

The most easily identifiable group that loses out due to immigration is previous immigrants. New immigrants share many characteristics with previous immigrants, making them close substitutes from the employer's point of view. In particular, previous immigrants may lack language skills, blocking their access to a wide range of positions, and narrowing the field of jobs in which they can compete.³⁸

Strong empirical evidence supports the argument that previous immigrants do lose out in the labour market as a result of immigration. Even studies that find that immigration has negligible effects on natives, have found sizeable effects on previous immigrants. For example, a recent US study found that a 10 per cent increase in the share of low-skilled immigrants reduced previous immigrants' wages by eight per cent, compared to 0.6 per cent for low-skilled natives;³⁹ another found that new immigration to California between 1990 and 2004 reduced the wages of previous immigrants by between 10 and 20 per cent.⁴⁰ The one UK study that looks specifically at previous immigrants, finds that the only sizeable effect of immigration is on the wages of this group.⁴¹ A similar result has been found in Germany.⁴²

Language ability appears to be a primary driver behind this phenomenon. An informative US study finds that immigrants with poor language skills are the worst affected of all workers.⁴³ As one might expect, therefore, previous immigrants' vulnerability declines over time as they learn English and gain relevant experience: the longer an immigrant group has been in the host country, the smaller the wage reductions due to new immigration are thought to be.⁴⁴

Workers in manual occupations

Just as previous immigrants face greater competition from new immigrants, largely because of their imperfect language skills, some native groups may also lose out if they are unable to perform tasks that require an ability to communicate fluently. Language is crucial to labour market achievement in many jobs but some natives lack linguistic ability, particularly the children of immigrants.⁴⁵

Later in this paper we discuss in more detail research showing that competition from immigrants is concentrated in manual jobs that do not require language proficiency. As a result, disadvantaged native workers in these jobs may lose out more due to immigration than other workers. Most studies (including those from the UK) do not consider such workers explicitly, in part because of data limitations. However, we know they exist – at least in the US. For example, Patricia Cortes uses a dataset that includes linguistic ability, and finds that even US-born Hispanics are affected disproportionately by new immigration when they have low language proficiency.⁴⁶ Using the cross-area comparison method that is thought to underestimate the impact of immigration, she finds that a 10 per cent increase in the immigrant share of the low-skilled labour force reduces Limited English Proficient (LEP) Hispanic natives' wages by 3.5 per cent.

In other words, while many native workers are sheltered from immigrant competition because they can move into jobs that require linguistic or communicational skill, any native workers without the skills to work in these jobs will be at a disadvantage. Of the US studies that have considered the impact of immigration in jobs that require varying levels of linguistic skill, one specifically points out that African Americans in immigrant-receiving areas largely remained in less interactive occupations, leaving them vulnerable to immigrant competition.⁴⁷

No UK study has considered the impact of immigration using language ability groups or the communication-related requirements of different types of jobs – an important avenue for further research.

Workers with elastic labour supply or barriers to labour market participation

In addition to the workers with poor language or communication skills, another group that may be affected by immigration comprises workers who for some reason are marginal to the labour market: people who are most likely to drop out or become discouraged workers, who work in part-time, low-skilled jobs (such

as single mothers or young people) or who would like to work but face barriers to doing so (because of their welfare status, for example, or an inability to travel or relocate for work). These workers are typically characterised not only by their weak attachment to the labour force, but also by low skill levels.

Why are they vulnerable to immigrant competition? First, they are candidates for the same kinds of jobs – for example in hospitality, retail or manufacturing. Second, most of these jobs do not require any advanced skills; employers are simply looking for reliability, commitment and a ‘good work ethic’. In fact, there is evidence that in certain low-wage jobs such as agriculture, retail, hospitality or manufacturing, employers actually prefer immigrants to local workers. Employer surveys show again and again that for low-wage jobs, immigrants are more ‘employable’ – not because their wages are lower, but because they are more productive.⁴⁸ A recent ippr report, for example, cites a construction recruiter’s particularly telling remarks: ‘Polish workers won’t be cheaper, they’ll be more productive. You’ll get a cost saving, but not through salary reduction. It’s about productivity, work ethic and commitment.’⁴⁹

Note that while some of the UK workers’ disadvantages relative to immigrants can be overcome (for example by reducing barriers to participation such as limits on combining earned income and welfare receipt),⁵⁰ immigrants’ ‘work ethic’ is in many ways almost inherent to their immigrant status, making it difficult to replicate these qualities by training local workers. Immigrants are willing to work hard in jobs with no clear potential for upward mobility (such as most seasonal agricultural work): because they see this ‘low-status’ work as temporary; because they are gaining non-financial benefits such as learning English; or because the wage does not seem low in comparison with earnings in their home country. To a certain extent, therefore, it is inevitable that immigrants will be more productive than native workers in certain roles.

What evidence is there that marginal labour force participants are adversely affected by immigration? A recent US study shows that immigration has much larger effects on teenagers than on adults. Using the area comparison methodology usually associated with a low estimated impact of immigration, Christopher Smith finds that a 10 per cent increase in the immigrant share of the labour market (equivalent to slightly more than the actual average increase experienced in US cities between 1990 and 2000) reduced teenage employment rates by 4.8 per cent – over three times the effect found for adults. One explanation for this change is that teenagers have more elastic labour supply than adults: that is, they are more willing to drop out of the labour market if the cost of finding employment rises or the wage falls.⁵¹ This finding is in line with recent

estimates (also from the US), that employment of African Americans – another group thought to have relatively elastic labour supply – is more responsive to immigration than that of White workers.⁵²

UK research on the impact of immigration has not focused on either teenagers or ethnic minorities, and there is only limited evidence on the effect on women.⁵³ This represents another important avenue for future research (see Chapter 5).

How do these effects compare to other factors that affect wages and employment?

The studies reviewed suggest that immigration has very little effect on the vast majority of workers; and that even the stronger impacts on the most vulnerable groups are relatively small. Of course, it is likely that some of the very short term, local effects do not show up in these studies that look at overall changes in wages and employment over time; and these impacts may well be keenly felt by local workers. That said, the evidence implies that workers adjust to these changes fast enough for immigration to cause no lasting damage to wages and employment levels.

What is a small effect in the context of the labour market? It is hard to quantify directly the influence of different factors affecting wages and wage inequality. But it is not difficult to show that effects of the magnitude discussed – a few per cent of wages over several years – are dwarfed by other, much more important variables.

First, the return on one additional year of education is typically estimated at about 10 per cent of earnings,⁵⁴ suggesting that investments in education would be very much more effective in raising earnings for the low-skilled, than limiting migration. Second, demographic change is another important factor: baby boomers' demographic bulge was found to have reduced the earnings of competing high-school dropouts in the US by 12 per cent between 1967 and 1975.⁵⁵ This is higher than even the largest estimates of the impact of US immigration on low-skilled wages.

Third, immigration is just one part of a much larger process of global economic integration that involves changing patterns of trade, investment and technological development that have made life difficult for many low-wage workers. As an

indication, a study on US wage inequality found that trade and outsourcing had increased the wage gap between skilled and unskilled workers by 15 per cent, while computerisation had increased that gap by up to 35 per cent.⁵⁶ Again, these effects are significantly larger than the highest estimates of the impact of immigration on inequality.

Indeed, skill-biased technical change (in other words, technological advances such as computerisation that benefit high-skilled workers much more than low-skilled ones) has been estimated to affect wage inequality more than any other factor.⁵⁷ Of course, while it is artificial to consider immigration as a distinct process with no influence on technological change, findings such as these give an indication of the relatively small contribution that immigration alone makes in the context of a complex economy. As a result, few economists studying inequality believe that immigration is a primary contributor.⁵⁸

If other factors are so much more important, why does the public still consider immigration a significant threat to the low-skilled? This apparent contradiction has a certain logic. Immigration is a highly visible, if minor, manifestation of a whole host of trends that have put the low-skilled at a relative disadvantage over the course of the last few decades. Low-skilled workers are likely to be concerned about immigration because they are already vulnerable in many other ways. Even if immigration is not the major cause of their problems, therefore, any policies designed to improve confidence in the immigration system should also address the unstable position of many low-wage workers in the UK economy.

Prices and real income

Wages and employment rates have been the focus of immigration research, because they are crucial to workers' standard of living. However, immigrants may also affect the prices of the goods and services that they produce and consume – suggesting that the impact of immigration on real income (after accounting for price changes) may be different from that on wages alone.

Immigration lowers the prices of goods with 'immigrant-intensive' production methods. Since many immigrants earn lower wages than natives (and indeed, may cause natives to earn slightly lower wages too), they make production cheaper. In a competitive market, this cost saving will be passed on to consumers.

Evidence from the US shows that immigrants reduce the price of 'immigrant-intensive' services such as gardening and housekeeping.¹ Currently these services are consumed mainly by the wealthy, although increasing demand for personal care for the elderly as a result of demographic change may make price reductions in these services important for lower-earning groups too. Analysts from the Bank of England have argued that recent UK immigration from Eastern Europe has reduced inflationary pressures by restraining the growth in wages across the board² – although this relies on the strongly disputed assumption that immigrants reduce wage growth for natives.

How do immigrants affect the prices of goods they consume? On the one hand, they increase demand, so prices should be expected to rise. Housing is particularly important, since it is the largest single expense for many families. US research suggests that housing prices have increased due to immigration.³ According to House of Lords select committee evidence in 2007, about one-third of the increase in households in England over the next 15 to 20 years will be due to immigration.⁴ Note, however, that the rise in private rents has been lower than expected in the UK during the period of recent migration from Eastern Europe,⁵ with no systematic evidence to show that rental prices have been affected. Claims that immigrants have crowded natives out of social housing in the UK have also been debunked.⁶

On the other hand, evidence exists that immigrants can actually reduce the retail prices of goods that they consume, since they make the market more competitive by searching more intensively for bargains.⁷

1 Cortes, 'The Effect of Low-Skilled Immigration on U.S. Prices: Evidence from CPI Data', *Journal of Political Economy* 116, No.3 (2008): 381-422.

2 David G. Blanchflower, Jumana Saleheen and Chris Shadforth, *The Impact of the Recent Migration from Eastern Europe on the UK Economy* (IZA Discussion Paper 2615, February 2007).

3 Albert Saiz, *Immigration and Housing Rents in American Cities* (IZA Discussion Paper 2189, 2006); Ottaviano and Peri, *The Effects of Immigration on U.S. Wages and Rents: A General Equilibrium Approach* (CReAM Discussion Paper 13/07, 2007). David Card, *How Immigration Affects U.S. Cities*. (CReAM Discussion Paper 11/07, 2007).

4 House of Lords, *The Economic Impact of Immigration. Volume II: Evidence*, Q349.

5 House of Lords, *The Economic Impact of Immigration. Volume I: Report*, 48.

6 Alan Travis, *Alleged jumping of housing queues by new arrivals is a myth, research reveals*, *The Guardian*, April 21 2008. <http://www.guardian.co.uk/uk/2008/apr/21/immigration.housing>

7 Saul Lach, *Immigration and Prices* (Tjalling C. Koopmans Research Institute Discussion Paper 05-25, 2005).

3. Why are the estimates of the impact of immigration so small?

The evidence suggests that most workers are not adversely affected by immigration (and may in fact gain), while certain groups are more likely to lose out. In this section we discuss why this should be. Why, despite the strong popular appeal of the argument that immigrants lower natives' wages and take their jobs, do repeated studies suggest that this is not the case for most workers?

Two types of factors may help explain this phenomenon. First, immigrants are likely to expand the total number of jobs available: because they have different skills from natives; and because local economies respond to a larger labour supply by creating jobs. Second, native workers are thought to respond to immigrants' arrival by changing their positioning in the labour market. This protects them from the potentially adverse effects of a larger labour supply.

Imperfect substitution: 'immigrants do the jobs that natives don't want'

Immigrants and natives are likely to have different sets of skills, preventing employers from viewing them as perfect substitutes, and reducing the extent to which immigrants can compete with low-skilled natives in the labour market. Immigrants' lack of language fluency, cultural knowledge or relevant local experience may prevent them from filling particular jobs. For example, an immigrant with poor language skills may be able to compete with a UK citizen washing dishes in a restaurant, but is unlikely to find a job in a call centre. As discussed above, competition is concentrated in jobs where immigrants can compete (for example, because they require little communication),⁵⁹ while workers in 'communication-intensive' jobs will be sheltered from immigrant competition.

Differences between natives and immigrants give rise to the argument that 'immigrants do the jobs that natives will not do' – jobs with low prestige or poor working conditions such as agriculture or food processing. For example, research commissioned by the Migration Advisory Committee found that in April 2008, 84 per cent of the peak season agricultural workforce was foreign-born.⁶⁰ The study suggests that many of these jobs simply would not exist without immigrants to fill them.

The notion that immigrants do jobs that natives don't want is politically important in the immigration debate,⁶¹ primarily because it is a strong argument in favour of

immigration. UK commentary relies frequently on this reasoning,⁶² although it is important not to overstate the argument: it is very difficult to know whether UK-born workers would be working in immigrant-dense sectors under a theoretical zero-immigration scenario, because without immigration the economy (and the nature of tasks performed in different sectors) could be quite different.

In fact, there is still disagreement about the true extent to which low-skilled immigrants are complements, rather than substitutes, for low-skilled native workers; and some (respected) labour economists argue that complementarities do not exist at all – that immigrants and natives are perfect substitutes.⁶³ However, there is strong evidence that at least in some cases, low-skilled immigrants cannot be substituted for low-skilled natives. The fact that previous immigrants, individuals with poor language skills, and workers in manual jobs are affected most by immigration, is evidence that some workers are better substitutes for new immigrants than others.⁶⁴

As discussed above, the nature of employment is likely to play an important role in determining the extent to which immigrants and natives are substitutes from the employer perspective. It should be easier, for example, for immigrants to replace natives in some low-skilled jobs that require little training or education. On the other hand, substitution is likely to be less of a concern at higher skill levels, for three reasons. First, highly-skilled workers experience faster wage growth with or without immigration, so even if immigration did slow wage growth slightly, this is likely to be dwarfed by wage gains due to other factors. Second, higher skill levels are likely to prepare individuals to adapt more effectively to immigrant competition. And third, positive spillover effects (such as learning from immigrants' distinctive skills, or faster problem solving that is thought to arise from diverse minds working on a single problem)⁶⁵ are more likely to occur to a meaningful extent in skilled occupations, but not in unskilled ones. Together with the fact that immigration is skewed to low-skilled sectors of the economy, this best explains the greater impact that immigration is thought to have on the low-skilled.⁶⁶

Note that although having immigrants do jobs that natives do not want may seem like a good idea from an economic perspective, it may have drawbacks. Employers that rely on migrant labour may perpetuate the existence of a swathe of jobs filled only by migrants. This could exacerbate problems of social cohesion, by contributing to the development of an immigrant underclass. Taken seriously, this concern provides a rationale for making integration policies central to long-term immigration strategy.

Economic adjustment: immigration increases the number of jobs

Imperfect substitution suggests that at least some immigrants' jobs would not exist without immigrants to fill them. In other words, the economy does not provide a fixed number of jobs that either natives or immigrants can take, but adjusts to the labour supply. Here we explain four further ways in which immigration is thought to increase the number of jobs available. First, immigration makes it cheaper to produce goods and services, so businesses may produce more of them and sell them to other regions or countries. Second, the greater availability of immigrant labour will encourage businesses to make use of it (instead of using more labour-saving technology). Third, immigrants boost demand for goods and services, which in turn increases demand for the labour used to produce them. And fourth, immigrants contribute to economic efficiency through their choices about where to work. In the long-term, this allows the economy to produce more and hence demand more labour.

Trade: does immigration increase output?

If workers become cheaper in the short run due to immigration, this makes businesses that use their labour more profitable. As a result, firms can produce 'immigrant-intensive goods' (for example, in the agriculture or textiles industries) at a lower price. This makes them more competitive, allowing them to expand production and export abroad or to other regions within the country.

What evidence is there that this occurs? A study on Israel showed that while immigration reduces wages in the short run, the response from investment can actually boost earnings in the long run.⁶⁷ Immigration has been found to increase exports of the goods that immigrants produce to other regions or countries, offsetting declines in wages due to the increased supply of workers.⁶⁸ As an example, economists have argued that this phenomenon may have slowed the decline of immigrant-heavy industries in California during the 1970s and 1980s.⁶⁹

Since this adjustment occurs through trade, it can only have an impact on traded goods. For example, the textiles industry is thought to have been particularly responsive.⁷⁰ While the traditional traded sector – manufacturing – accounts for a small and decreasing proportion of jobs (about 10 per cent of both the UK and US labour forces),⁷¹ the rise of trade in services could potentially increase the scope for trade to boost exports.

The pace of technical change – expanding the number of low-skilled jobs

Many firms have a choice over the kinds of technology they use. They can either use larger numbers of low-skilled workers, or replace these workers with (potentially expensive) labour-saving technology. Recent research has argued that rather than increasing exports to other markets as described above, businesses and industries adjust to a larger labour supply by changing their production process.

When low-skilled immigrant labour is readily available, firms are likely to take advantage of it to produce goods more cheaply, rather than spending money on capital goods (machinery). In other words, firms in areas with larger numbers of low-skilled workers will create more low-skilled jobs. Studies from the US confirm that this phenomenon occurs.⁷² Strong evidence also exists for Germany⁷³ and Israel.⁷⁴

What does this process look like in practice? In his evidence to the House of Lords investigation into the economic impact of immigration, UCL economist Christian Dustmann pointed to the difference between the wine industries in Australia and California: in Australia cheap migrant labour is less readily available and the industry relies more on mechanical processing, suggesting that technological adaptation to labour supply played a role.⁷⁵ Similarly, nascent technologies in Japan to mechanise some elements of home care for older people have been developed in response to a lack of workers to carry out these low-skilled jobs.⁷⁶ Finally, Philip Martin points to the mechanisation of the tomato-processing industry after the end of the ‘bracero’ programme in the 1960s, as evidence that immigration slows down the adoption of labour-saving technology.⁷⁷

What is the significance of technical change in the wider debate about the impact of immigration? First, it may explain the fact that wages and employment rates do not appear to decline in response to immigration – in areas with more low-skilled immigrants, firms simply demand more low-skilled labour. In fact, the combination of technical change and increased capital investment described above is likely to have ensured the survival of categories of low-skilled jobs that might otherwise have disappeared. As noted earlier, economists have suggested that immigration slowed the decline of immigrant-heavy industries during the 1970s and 1980s in California. Both immigrants and low-skilled natives who rely on the survival of these jobs stand to benefit.

On the other hand, an implication of this trend is that immigration slows down gains in productivity. Should policymakers have mixed feelings about this

phenomenon? Commentators have used the slowdown in productivity growth as an argument against immigration, suggesting that it hinders long-term economic growth. The reality is not so simple, however. Average productivity, by definition, should fall if we introduce workers into the economy with lower skill levels than the average native worker, since low-skilled workers are less productive. But this does not have to mean that anyone is worse off. Low-skilled natives may gain because the industries in which they work are kept alive. Mid- to high-skilled workers whose labour is likely to be complementary to that of immigrants, may move up in the labour market hierarchy.⁷⁸ Businesses benefit from cheaper production, and consumers benefit from cheaper goods.

Indeed, the argument that employers would simply upgrade their technology if there were no low-skilled immigration is problematic. First, labour-saving technology can be expensive, ultimately pushing up prices for consumers.⁷⁹ In many cases only large producers would be able to afford to mechanise their work: others may simply go out of business.⁸⁰ Finally, many types of production process simply cannot be mechanised (for example, harvesting soft fruit or cutting hair).

This is subject to a caveat, however. Immigration could increase the concentration of low-skilled workers in certain local areas, potentially reinforcing a ‘low-skills equilibrium’, in which the low-skill profile of local labour supply means that employers only create low-productivity jobs, failing to invest in creating a more skilled workforce, and reducing individuals’ incentives to invest in their own human capital.⁸¹ Studies on local economic development suggest that the skill profile of an area is essential to employers’ location decisions, with human capital playing a key role in attracting employers that offer high-quality jobs.⁸² Indeed, case study research on the regional impact of UK immigration has suggested that migrants are perpetuating the low-skill profile of available jobs in areas such as Yorkshire and Humberside, where large proportions of the food-processing workforce are migrants willing to work at very low wages, reducing employers’ incentives to up-skill their workforce.⁸³ Of course, some areas will be at greater risk of developing low-skill equilibria than others – depending, among other things, on the existing skill level of their populations, their proximity to areas of high growth and the effectiveness of local policies to increase education and training locally.

Product demand

Immigration may increase the number of jobs in the economy for another reason: immigrants themselves spend money in the domestic market, pushing

up demand for goods and services and hence for the labour that produces them. The logic is that if the size of a city doubled, its inhabitants' wages would not necessarily fall.

Research on this topic is scarce. One study from the US suggests that the increased demand from immigration fully offsets its downward pressure on wages⁸⁴ – a finding that seems overoptimistic given that many migrants send remittances home rather than spending their entire income in the host country. Indeed, some are concerned that immigrants fail to boost local economies by spending locally: the *Daily Mail* published an article in 2007 that accused Polish immigrants of 'siphoning off' £1.1bn in remittances from the British economy.⁸⁵ (It should be remembered of course that despite being a wealthy country, the UK overall receives more remittances from abroad than it sends.) Remittances notwithstanding, the fact remains that migrants spend a large proportion of their incomes in the local economy.

Labour market efficiency

If economic growth is stronger in some areas of the country than in others, those areas will create greater demand for labour and will experience higher growth in wages, which should in turn attract workers to that region. The economy is most efficient when the population is responsive to these changes, moving to the areas where productivity is highest. However, the fact that native workers are not very mobile (especially in the UK and Europe) means that wage differences⁸⁶ between areas often persist longer than they would in the textbook economic model. On the other hand, newly-arrived immigrants are more sensitive to these wage differences, moving to areas with higher wages. Estimates suggest that third-country immigrants in EU countries are 11 times more likely to move than EU nationals.⁸⁷

This suggests that immigrants increase labour market efficiency and economic growth in countries with low mobility. Indeed, economist Klaus Zimmerman has argued that only immigration can create the necessary increases in mobility and that policies aimed at natives could not realistically have as large an impact. In the long-run, increased labour market efficiency boosts growth and job creation.⁸⁸

Similarly, immigrants increase economic growth by working in cyclical or seasonal sectors such as construction or agriculture. Since immigrants are prepared to work in these less stable industries, boosting labour supply when demand rises unexpectedly (and perhaps returning home when it falls),⁸⁹ they allow employers in such industries to produce more over the course of the business cycle.

Native workers' response to immigration

The preceding paragraphs explain why immigrants do not compete for a fixed number of jobs, but instead are likely to cause (at least some) new jobs to be created. A further factor also reduces the potential negative impact of immigration: natives protect themselves from immigrant competition by moving into jobs in which immigrant competition is weaker.

Task specialisation – moving into jobs that immigrants can't do

If immigrants and natives have different skills (as argued above), we should see them specialising in different kinds of jobs. Just as trade allows countries to produce the goods in which they have a comparative advantage, immigration should allow natives to do jobs in which their skills are relatively more important. Essentially, this means that natives are likely to respond to immigration by moving into jobs that immigrants generally do less well in – for example, ones that require good language skills or cultural knowledge.⁹⁰

A small but convincing body of evidence supports this theory. Giovanni Peri and Chad Sparber find direct evidence for 'task specialisation', suggesting that while natives may be pushed out of immigrant-heavy occupations, they are likely to find jobs of higher or equal quality elsewhere. While this may be disruptive in the very short run, it does not appear to reduce wages or employment rates in the longer term. Patricia Cortes finds that immigration leads to a disproportionate reduction in wages for natives in manual occupations (such as bricklaying, fruit picking and dish washing), leading many of them to move into language-intensive jobs (such as waiting tables, answering phones and selling merchandise).⁹² It concludes that immigrants fill jobs at the bottom of the labour market hierarchy, implicitly pushing natives up into more supervisory roles. Finally, Christopher Smith finds that employment of teenagers fell in response to immigration in jobs that do not require communication ability, but rose slightly in those that do.⁹³

These findings are consistent with previous research showing that less-skilled natives move out of immigrant-intensive industries when immigrant inflows are high.⁹⁴ It is also consistent with the combination of local case studies⁹⁵ that find that immigrants replace natives in certain industries and the econometric studies that suggest that natives do not receive lower wages as a result. In other words, being displaced from an industry or occupation does not have to make workers worse off economically.⁹⁶

Of course, this does not mean that native workers should be indifferent to immigration: in addition to the potential short-term disruption, there may be important impacts on long-term career structure and job stability that are not captured by the standard econometric models, as we discuss later. Understanding these effects will be crucial to policymakers' efforts to address the negative perceptions about immigrants' impacts on the labour market.

Native out-migration

The argument that immigration reduces wages is based on the assumption that immigrants increase the supply of labour. Suppose, however, that for every immigrant that moved into a city, a local worker moved away. In that case, immigration would **not** increase labour supply, at least at the city level. In reality of course, immigrants may not displace natives from local areas on a one-to-one basis. But any tendency for natives to move away from immigrant-dense areas in response to immigration (or to fail to move into them when they otherwise would have done) will serve to dilute the impact of immigration nationally. This means that a) the impact of immigration is less concentrated on immigrant-receiving areas – potentially a good thing from an adjustment perspective; and b) economists' attempts to determine the national impact of immigration by extrapolating from the differences between areas that receive large number of immigrants and areas that do not (a widely used method) will underestimate the true impact.

The empirical evidence is mixed. For example, one study found that for every 100 immigrants who move to a UK region, 44 decide not to live there.⁹⁷ Others have found that natives' decisions on where to live are largely unaffected.⁹⁸ While this debate is still open, low overall mobility rates in Europe⁹⁹ suggest that the native response to immigration is likely to be smaller in the UK than the US, where mobility is higher.

Both occupational and geographical mobility help natives to work in the jobs for which they have a comparative advantage. As discussed earlier, however, the corollary is that workers who cannot move (either geographically or across occupations or sectors) may be particularly vulnerable. For example, research on UK labour mobility shows that high-skilled workers are most willing and able to move for employment.¹⁰⁰ This suggests that the high-skilled are better able than the low-skilled to protect themselves from immigrant competition by moving into a different area.

Summary: why are the estimates of the impact of immigration so low?

The bottom line is that the impact of immigration on natives is probably muted because immigrants cause the number of jobs to expand, rather than substituting directly for native workers; and because natives respond to immigration by moving into jobs for which immigrants are less likely to compete. In other words, immigration is expected to increase the number of low-skilled manual jobs in the economy, at the same time as increasing the proportion of natives employed in more 'interactive' roles.

At the same time, it is likely that the very lowest-skilled workers will struggle to adapt to immigrant competition, especially when their communication skills are poor. These workers may be missed in econometric analyses of the effect of immigration on wages and employment that do not consider language proficiency. Nonetheless, we should put the effect of immigration into perspective. These low-skilled native workers may lose out as a result of immigration, but they also face much more significant barriers to labour market advancement: trade, outsourcing, computerisation and other technical changes, discussed above, are likely to put these workers at a particular disadvantage, since many will not have the skills to transfer to new types of work in a changing economy. Policymakers must act to help these workers, but should be under no illusion that immigration is the primary barrier they face.

The wider labour market effects of immigration

Immigration research has focused on wages and employment rates because they are economically and politically important, and because they are relatively easy to measure. However, the true impacts of immigration are likely to be more nuanced.

The research discussed in this paper suggests that native workers have, for the most part, been able to respond to immigration by moving into new kinds of jobs. The consequences of this shift are less well researched. For example, it may have affected low-wage workers' longer term career prospects if the new jobs they take have different 'career ladders' to the old ones. Intuitively, we might expect that jobs requiring communicational ability might have more scope for promotion to supervisory roles, for example. On the other hand, some manual trades provide greater opportunities for self-employment.¹⁰¹ Second, the shifting nature of the jobs that UK-born workers perform may affect job stability and turnover.

Migration may also affect working conditions in the host-country labour market: a common criticism of low-skilled immigration is that it lowers labour standards.¹⁰² Recent research from the US suggests that immigrants are over-represented in risky jobs¹⁰³ – although it is not clear how this should affect natives. On the one hand, native workers who compete with immigrants for jobs may also be forced to accept these conditions. On the other hand, if natives and immigrants are not perfect substitutes, as described earlier, the arrival of immigrants who work in so-called ‘dirty’ jobs may lead to natives specialising in ‘clean’ ones. The limited existing research suggests that immigrants do not jeopardise natives’ working conditions. One study, for example, shows that the presence of guest workers in German firms was associated with a lower incidence of severe accidents among natives – suggesting that natives may be promoted into more secure jobs when foreign labour is available; a further US study finds that immigration does not reduce American workers’ job quality (according to various measures of working conditions).¹⁰⁴

Finally, immigration may affect employers’ incentives to provide training to workers, or individuals’ incentives to invest in their own human capital. If employers hire migrant workers because local workers do not have sufficient skills, does this mean that without immigration employers would have invested in training natives instead? The answer is likely to vary according to the nature of the work (how much formal or informal training is required, and how expensive the training is), as well as the employers’ circumstances (what return they can expect on training workers, and whether their profit margins allow them to invest in it). Unfortunately this phenomenon remains almost completely unresearched.¹⁰⁵

Immigrants and innovation

Immigration is believed to have an impact on domestic innovation. For this reason, innovation is often cited as a counterargument to perceived and actual negative effects of immigration.

Studies from the US show that immigrants are over-represented among populations of highly skilled workers such as scientists and individuals with master’s or doctorate degrees.¹ To the extent that these individuals drive innovation, analysts conclude that immigrants must have a significant impact. This intuition is confirmed by a number of econometric studies on patenting activity. One recent study finds that increasing the immigrant share of college graduates in the US from 2.2 per cent to 3.5 per cent increased patenting by 20 per cent – because immigrants

patent more, but also because native workers appear, on a local level, to patent more when surrounded by immigrants.² Another study shows that inflows of immigrants through the US's highly-skilled H1-B visa programme, increased patenting within firms that hire skilled immigrants.³

Other evidence suggests that immigrants have an important role in innovation, since they can look at problems from new perspectives. For example, Charles Leadbeater refers to studies on 'cognitive diversity' to argue that immigration should lead to faster problem-solving.⁴ It is far from clear, however, what the knock-on effects of such phenomena are likely to be – or to what extent benefits are likely to be felt throughout the economy, rather than just among highly-educated workers and firm-owners.

Perhaps more importantly, innovation is strongly associated with just one category of immigrant – the highly-skilled. Importing scientists and CEOs is a very different affair to importing agricultural labourers with no secondary education. The first patenting study described above explicitly points out that higher patenting activity by immigrants is entirely explained by the fact that they are disproportionately likely to come from science and engineering backgrounds – an objective qualification that policymakers can look for when they select immigrants. In other words, it seems that highly-skilled immigration, as opposed to immigration in general, drives faster innovation. This means that in the absence of systematic evidence on the contribution of low-skilled immigrants to innovation, high-skilled immigrant innovation is not a good 'counterargument' to the costs that low-skilled immigration may impose on those at the bottom of the earnings distribution, since these two types of immigration can be, and often are, explicitly separated.

- 1 Neeraj Kaushal and Michael Fix, *The Contributions of High-Skilled Immigrants* (Washington DC: Migration Policy Institute Taskforce Insight No. 16, July 2006).
- 2 Jennifer Hunt and Marjolaine Gauthier-Loiselle, *How Much Does Immigration Boost Innovation?* (NBER Working Paper 14312, 2008).
- 3 William Kerr and William Lincoln, *The Supply Side of Innovation: H-1B Visa Reforms and US Ethnic Invention* (Draft working paper, forthcoming).
- 4 Charles Leadbeater, *The Difference Dividend: Why Immigration is Vital to Innovation* (London: National Endowment for Science, Technology and the Arts, 2008).

4. Conclusion: what are the implications for public policy?

Although no systematic evidence exists to suggest that immigration has a significant negative impact on native workers, its labour market impact remains an important policy concern. First, the evidence does suggest that some disadvantaged groups may experience wage stagnation as a result of low-skilled immigration. This has equality implications for a range of actors, including the Equality and Human Rights Commission. Second, the public remains concerned about the impact on low-skilled natives, potentially indicating a more general fear about the ability of the low-skilled to compete in a globalising world, exclusive or social or cultural concerns. Immigration may have beneficial effects on host economies, but until policymakers address both the actual and perceived social consequences of migration, the public is unlikely to listen to arguments about the economic benefits. In other words, the lack of strong evidence for a strong negative impact of low-skilled immigration does not mean policymakers should ignore the issue.

The current economic downturn has prompted many to note the cyclical nature of migration to the UK, particularly from Eastern Europe.¹⁰⁶ This is thought to have a beneficial, counter-cyclical effect on the labour market, since immigrants arrive in greater numbers during upswings and go home during recessions. Does this mean that policymakers no longer need to think about the impact of immigration on the labour market? We argue that this is not the case. First, it is by no means clear how many immigrants will go home – the answer depends on unknowns such as the depth and duration of the recession, and economic conditions in Eastern European source countries like Poland, which will affect the continued attractiveness of returning home. More importantly, however, the downturn will not last forever and recent experience suggests that migrants will return to the UK when the economy recovers. Policymakers therefore need to look beyond the current economic downturn and put in place measures that will support workers, firms and communities in the long-run.

Finally, note that while immigration may cause both real and perceived difficulties in host countries, policy responses should not be limited to the field of immigration policy. In many cases, interventions in education, employment and welfare policies are likely to be much more effective than changes to the immigration system itself.

Policies aimed at workers

Policy needs to address the problems that the lowest-skilled workers face in trying to compete in the labour market – regardless of whether these problems arise because of immigration or other factors.

In the UK, active labour market policies to help low-wage and out-of-work individuals are already quite developed. Further initiatives to enable low-skilled workers to access training are also being introduced.¹⁰⁷ That said, there is an argument for refocusing some aspects of these policies to meet the needs of immigrant-competing workers, for example by considering how training can prepare natives for jobs such as those requiring strong language and communication skills, in which immigrants compete less effectively.

Finally, concerns about the impact of immigration at the bottom of the earnings spectrum can be addressed by further efforts to enforce employment standards, including the minimum wage. The Trades Union Congress, for example, underlines the importance of ensuring that immigrants are not exploited and forced to undercut native workers while being denied basic employment rights.¹⁰⁸

Policies aimed at firms

Ultimately private firms are responsible for the majority of job opportunities for both natives and immigrants. Research suggests that firms do in fact respond to increased supply of lower-skilled workers by increasing their demand for labour. To facilitate efficient adjustment to increased labour supply in this manner, policymakers (at both the national and local levels) could provide better data and forecasting of immigrant flows.

However in the long-run, policy must address the wider question about the quality of jobs in local labour markets, and how this is determined by the skill level of available workers. Of particular concern is the prospect of the ‘low-skill equilibrium’, in which a high supply of low-skilled workers encourages employers only to create low-skilled jobs, in turn reducing the incentive for higher-skilled workers to remain in the area, and for local residents to invest in their own human capital. Policy interventions to incentivise on-the-job training provision or to take on newly-qualified trainees may be productive in this context.¹⁰⁹

Policies aimed at communities

The short- and long-term impacts of immigration are likely to depend largely upon the characteristics of the local labour market as well as the profile of immigrants an area receives. For this reason, policy responses need local flexibility – some localities, for example, may benefit most from additional adult training

programmes, while others may find that the dilution of resources in schools is the greater problem.

Local areas with high levels of immigration may lack sufficient resources to provide services to both immigrant and native workers. Particularly in cases of unexpected immigrant influxes, as have been experienced since EU enlargement, local authorities may struggle to meet short-term service provision. Potential solutions include a flexible formula for targeting funds to local authorities experiencing an increase in immigrant flows, in order to avoid the dilution of resources.¹¹⁰

The UK Government is currently working on a programme to improve statistics on immigrant flows, including population estimates and projections at the local level.¹¹¹ This will be essential to the successful targeting of funding. At the same time, co-ordination between different agencies at the local government level has been successful in many areas, allowing local councils to improve the quality of advice and services provided to migrants, and to identify emerging immigration-related problems.¹¹²

Finally, regulatory efforts to ensure good race relations and community cohesion will be crucial in this effort (and overlap with the policies on immigrant integration, below). Such efforts apply directly to the role of the Equality and Human Rights Commission in its work with public agencies to ensure good race relations. Among the many initiatives is a serious national effort to monitor tensions in local areas through the development of a 'good relations barometer'. More generally, there are important community-building and diversity awareness strategies and projects that can deliver real outcomes on the ground. Among the numerous examples is the Croeso project in Wales.¹¹³

Policies aimed at immigrants

Given that, in the immediate future, almost all low-skilled immigration is expected to come from within the European Union, selection and admission policies will not be the main avenue to influence the impact of immigration on low-skilled UK workers. Instead, a host of policies that come under the category of 'immigrant integration' can be used to protect existing immigrants from poverty (particularly in the light of research showing that previous immigrants are hurt most by new immigration), while reducing the extent to which new immigrants are likely to displace existing UK workers in the labour market.

Migration should be most benign for native workers if immigrants work in areas with low unemployment and high growth. Tier two of the points-based system, which admits skilled immigrants for work in ‘labour shortage’ areas in the UK, aims to accomplish this for skilled jobs. For unskilled immigration from Eastern Europe, policies can encourage migrant workers to take up jobs in areas where they are less likely to compete with natives. Potential policies to be explored include: examining the role of labour market intermediaries in deploying migrant workers across the country; providing better information to immigrants (and potential immigrants) about areas of labour shortage; and policies to encourage mobility among both native and immigrant workers.

Integration policies

Investment in immigrant integration does not just protect immigrants from poverty. It also contributes to social cohesion and hence public confidence in decisions on immigrant selection. In doing so, it can give policymakers greater room for manoeuvre on immigration policy more generally: the public is unlikely to be convinced by the economic benefits of immigration unless people see immigration working well at the local level.

Potential immigrant labour market integration policies¹¹⁴ that might be explored include programmes to increase the relevance of migrants’ existing qualifications,¹¹⁵ work-focused language training programmes, greater investment in minimum wage enforcement and equality legislation, increased information provision to new and existing immigrants, or adjustments to the tax system.

The policies explored above – aimed at workers, firms, communities and at immigrants themselves – may offer policymakers some tangible ideas to help manage the consequences of immigration. Such measures also underlie a larger debate – how societies should, and are, adjusting to a global world in which mobility is an ever-present factor. Policymakers largely agree that not only is this inevitable, but it is largely desirable – successful market economies rely on experimentation and innovation. Yet it also requires societies to accept change, negotiating and building the necessary capacity to respond and adapt, while ensuring integrated communities are resilient to the disruption that globalisation can cause. It is important not to lose sight of this larger narrative in thinking through how best to calibrate our responses.

5. What next? The UK research agenda

There is now a significant research agenda in the UK on the impacts of immigration, both in and out of Government, much of which can be traced back to Government activism in this field in the late 1990s. The following research questions – some of which will likely be pursued by the Commission in the coming months – are aimed at elucidating key gaps in our knowledge base.

How are vulnerable groups affected by immigration?

UK research could go further in exploring the impact of immigration on wages and employment by replicating some of the more recent studies from the US which look specifically at language ability and the impact of immigration on workers in ‘non-language-intensive’ occupations.¹¹⁶

Studies that look specifically at second generation immigrants, ethnic minorities or teenagers would also help to clarify the picture – although many will be contingent on improved data sources.

How does immigration affect wider labour market opportunities, including education and training?

Research could address the likely impact of immigration on natives’ career ladders, their job stability and working conditions. In particular, research should address the significant knowledge gap on the impact of immigration on employers’ incentives to provide training, and individuals’ incentives to invest in education.

These impacts are likely to vary according to the nature of the work, the type of training it requires, and a host of other circumstances on both the supply and demand sides of the labour market. An understanding of the more nuanced labour market impact of immigration would allow for appropriate policy responses to be developed. This is particularly crucial to our understanding of how to build education and training systems that take account of immigration.

What are the long-term effects of immigration on economic growth and competitiveness?

Many of the studies cited in this paper specifically seek to determine the **costs** of immigration, particularly to existing members of the labour force. We know much less about some of the long-term, macroeconomic effects of immigration, many of which are much more likely to be substantially positive, such as the impact on long-term economic growth or on trade competitiveness (for example, to what extent have immigrants boosted the UK’s ability to compete in certain global markets from agriculture to financial services?).

Immigrant innovation and entrepreneurship is another topic on which only limited research exists.

What complementarities exist between natives and immigrants?

Most research on this topic is focused on the US. UK immigrants have different backgrounds and different skills, as a result of which they are likely to specialise in different kinds of work to US immigrants.

Research should address the extent to which immigrants to the UK induce specialisation among natives (for example, into language-intensive jobs), and which groups are 'left behind' as this shift occurs. The latter is of particular concern to policymakers tasked with understanding vulnerable groups in the context of the labour market.

How does the impact of immigration differ by local area?

The local impacts of immigration are rising up the policy agenda with a number of recent studies¹¹⁷ and a current research agenda from the Department for Communities and Local Government, which includes work on the sub-national economic impacts of migration. There are at least two relevant strands of future research work.

First, the impact of immigration is likely to be quite different in large cities compared to rural areas, warranting different policy responses. Even between urban areas, substantial differences will exist in terms of the industries that have attracted immigrant labour, the skill level of immigrant workers, and their longer term career prospects. For example, skilled immigrants downgrading to lower-skilled occupations in sparsely populated areas, or low-growth local economies with pockets of high demand for certain low-skilled jobs such as agriculture,¹¹⁸ may be less likely eventually to upgrade to jobs appropriate to their skill level, since they do not have local access to the informational networks and resources that would help them to do this. Second, new immigrant-receiving areas may lack the existing immigrant infrastructure (including social networks) to welcome new arrivals. Further research could address both these issues.

What policies can aid local adjustment?

Several factors that allow local areas and workers to adjust to a larger labour supply have been discussed in this paper, including technological change, trade, and occupational or geographical mobility. Further research should address the impact of public policies on this adjustment process, and how it can be made more efficient. For example, do minimum wages have a significant impact on

the expansion of labour demand due to immigration? If so, are some areas or industries more affected than others?

How does the impact of immigration change over time?

On the one hand, any reductions in wages due to immigration are expected to dissipate over the long term as the economy adjusts. For example, a study from Israel found that the negative wage impacts of immigration from the former Soviet Union were felt quickly and took between four and seven years to dissipate.¹¹⁹ On the other hand, immigrants are likely to compete more with natives as time passes since their arrival, as they integrate and become better substitutes with natives.¹²⁰ In Europe, where unemployment rates are often high among immigrants for some time after arrival, this delayed impact may be particularly important. A better understanding of these dynamic processes would allow governments to design policies that ease the adjustment of natives to immigrant inflows.

How does the impact of immigration vary by admissions category?

As the new points system is introduced, policymakers will require analyses of how the changing admissions criteria have affected immigrants' outcomes and their likely impact on the labour market. This research will be contingent on the collection of adequate data on incoming immigrants.

Furthermore, the positive case for the macroeconomic value of economic migration would presumably be enormously strengthened if research analysis was focused mainly on the stream of immigrants admitted directly for work. In our view, this is the logical frame of reference, given that we do not admit other streams of immigrants (for instance, refugees) on the basis of their potential economic contributions (in the case of refugees, we have obligations under international law, for example).

How does immigration affect public service delivery?

A deeper understanding of the impact of immigration on public service delivery is needed. As consumers (as well as producers) of public services, migrants affect their availability and quality. However, it is not enough simply to calculate immigrants' fiscal impact in abstract terms,¹²¹ since the actual impact is more nuanced. For example, the Department for Communities and Local Government's recent paper on migration points out that immigrants may increase the workload at Accident and Emergency departments because many are not registered with general practitioners.¹²² Understanding trends such as these allows policymakers to tailor policy responses accordingly.

How do immigrants use welfare benefits?

Research on how immigrants are affected by welfare provision in the UK, including how and when different types of immigrant use benefits (and whether patterns of welfare use differ from UK-born individuals), would provide useful information with implications for the design of the welfare system and the design of the immigration system.

The pathways from welfare into the labour market, for instance, may differ for immigrants, and certain policies may be more effective than others due to factors such as differences in linguistic ability, extent of social networks, cultural understanding, housing tenure or eligibility for benefits.

What affects immigrants' career paths in the United Kingdom?

We have a good understanding of the composition of UK immigrants, the sectors they work in and the areas in which they live. Less is known about how individual immigrants' careers develop over time, including which immigrant workers move up job ladders and which do not.

A greater understanding of the factors affecting immigrants' labour market success would allow policymakers to craft more effective integration policies, or to select immigrants who are most likely to do well in the UK.

How do immigrants' children fare?

Little is known about how immigrants' children (often known as the second generation) fare in the labour market. Existing evidence suggests that ethnic minorities are less likely to be employed than their White, British-born peers, despite higher levels of educational achievement.¹²³ However, the specific experience of the children of immigrants is less well documented. Most second generation groups appear to do better than their parents on a range of indicators, suggesting upward mobility, but the picture is incomplete when we compare the children of immigrants to the children of non-immigrants.

However, the experience of immigrants' children has important implications for integration policy as well as our assessment of the long-term consequences of immigration. The subject should be separated from ethnicity as certain key factors are likely to be different. (For example, second generation children of immigrants may not be fluent in English, while this is unlikely to be the case for the third or higher generations.) Again, however, a substantial amount of the potential research is contingent on improved data collection, including the collection of

information on parents' nativity in government surveys. Moreover, research may generate more insights for policymakers if it is focused on major conurbations as there is a critical mass of the second generation. For example, 45 per cent of children under 15 in London are the children of immigrants.

How does the business cycle affect immigration and immigrants?

The current economic downturn has revealed how little we know about the extent to which the costs and benefits of migration depend on the business cycle, and how immigrants fare during downturns. (Strong economic growth during the past decade of high immigration flows has also reduced the motivation and empirical basis to study this topic.)¹²⁴

In order to prepare for future business cycle fluctuations, research should ascertain how the downturn has affected different types of immigrants (for example by tracking recent cohorts), and how immigration has affected the experience of different local areas in the context of recession.

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Endnotes

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- 5 Specific findings from the US literature usually cannot be transferred wholesale to the European context: differences in labour market institutions and policies and, most importantly, different immigration patterns, mean that we should expect the impact to differ by country. That said, European policymakers can still gain valuable insights on the economics of immigration from the American debate and research.
- 6 In economic language, two things are happening. First the labour supply curve is shifting right, which means that wages fall but employment rises (although not by as much as the increased supply of workers). Second (and with a time lag), the labour **demand** curve shifts right, further increasing employment, but also raising wages again. The magnitude of this shift in the demand curve is uncertain (for reasons discussed at length in this paper), and hence must be resolved empirically.
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- 9 When immigrants are significantly different from natives, average wages are expected to rise, since greater specialisation is possible (in the same way that trade between very different economies is, in theory at least, expected to bring about the greatest gains).
- 10 This type of control is necessary because immigrants should be attracted to areas with high wage growth. This would mean that wages would be seen to grow in cities that have large numbers of immigrants, even though immigrants did not **cause** this growth. Researchers often attempt to remove the statistical bias arising from this phenomenon by considering the relationship between wages and previous immigration flows (for example, from 10 years earlier). Since immigrants tend to settle in areas where their fellow nationals live, previous immigration is thought to predict current flows without being associated with differences in wage growth.
- 11 The reports of the anti-immigration group MigrationWatch UK are an exception to the consensus. The most recent report in December 2008 made the claim that 'it seems an inescapable conclusion that the sudden arrival of a very large number of very capable workers willing to work for low pay has had a negative impact on the employment of British-born workers at the bottom of the pay scale'. Few serious international or UK economists would agree with this conclusion.
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- 14 David Card, *How Immigration Affects U.S. Cities* (CReAM Discussion Paper 11/07, 2007).
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- 16 The ongoing debate between labour economists George Borjas and David Card, demonstrates the importance of the choices that analysts make when measuring immigration. While Borjas consistently finds negative impacts due to immigration, Card typically finds insignificant or positive ones, even when studying the same periods and using the same data. The different results arise from disagreement over the appropriate analytical model.
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- 22 See Joshua Angrist and Adriana Kugler, 'Protective or Counter-Productive? Labor Market Institutions and the Effects of Immigration on EU Natives', *The Economic Journal* 113, No. 488 (2003): F302-F331.
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- 60 Sam Scott, *Staff Shortages and Immigration in Agriculture* (paper prepared for the Migration Advisory Committee, September 2008, <http://www.ukba.homeoffice.gov.uk/sitecontent/documents/aboutus/workingwithus/mac/scott2008>).
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Helpline – England

Telephone: 0845 604 6610
Textphone: 0845 604 6620
Fax: 0845 604 6630

Helpline – Scotland

Telephone: 0845 604 5510
Textphone: 0845 604 5520
Fax: 0845 604 5530

Helpline – Wales

Telephone: 0845 604 8810
Textphone: 0845 604 8820
Fax: 0845 604 8830

9am–5pm Monday to Friday except Wednesday 9am–8pm.

Calls from BT landlines are charged at local rates, but calls from mobiles and other providers may vary.

Calls may be monitored for training and quality purposes.

Interpreting service available through Language Line, when you call our helplines.

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Published March 2009
ISBN 978 1 84206 100 8

