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the economics of migration

managing the impacts

economic and social affairs/June 2007

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Section one

introduction

1.1 This paper addresses five key questions which regularly arise in debates about the economic consequences of immigration to the UK. These questions are:

- Has migration led to unemployment?
- Has migration driven down wages?
- Does migration cost the taxpayer?
- Does migration damage developing countries?
- Does migration hurt migrants?

1.2 In this country, the overall economic impact of immigration is limited but positive. Migrant workers contribute more in taxes than they receive in services, and migration probably leads to slightly higher levels of employment and wages for native workers. Migration may possibly be linked to an increase in wage inequality in this country, but the evidence is not conclusive.

1.3 There is anecdotal evidence that jobs may be lost and wages depressed in certain, specific sectors of the economy. Further primary research needs to be done to verify this. But the wider evidence offered here makes it clear that there is no generalised, negative impact across the whole or large parts of the economy from immigration.

1.4 The only adequate response to the small number of specific cases where problems do arise is to demand equal rights for native and migrant workers alike. These problems usually occur because unscrupulous employers take the advantage for exploitation offered by an influx of poorly informed and poorly organised workers allowing them to undercut more principled employers or those employing indigenous labour. As such, we agree with the International Trade Union Confederation that “the human and trade union rights of migrants should be fully respected, including in particular freedom of association, so that migrants could benefit from trade union support to guarantee decent wages and conditions of work and for capacity-building in union organizing, so that they could become veritable agents in their struggle for rights and improved conditions.”¹

¹ *Making the Case for a Rights-Based Approach to Global Migration Policy, and for a Transparent, Inclusive Consultative Forum on International Migration*, ICFTU, WCL and the Global Union Federations, September 2006, para 14.

introduction

1.5 This report is designed to be a reliable resource for policy makers and trade unionists, so we have been careful to ensure that our data is accurate, that other factual claims are correct and that our analysis is fair. But that does not mean that values should be beyond the scope of the debate or this paper; too many reports on migration assume a bogus air of neutrality, as if human rights were an optional extra. The rights and wrongs of migration should not be settled simply by determining its impact on efficiency or output.

1.6 Many now accept that the right to free movement is as much a humanising force in the world as the right to free speech or the principle of free trade. However, the global context of failed development, poverty and precarious jobs cannot be ignored. We believe that migration can deliver economic gains with the potential to improve all our lives, but we take seriously the interests of workers who fear they could lose their jobs or that their wages will be undercut.

1.7 Before dealing with the five questions mentioned above and expanding on these points in detail, the paper outlines some key facts and figures on migration to the UK.

Section two

migration facts and figures

2.1 Surveys define immigration in different ways, and official statistics do not usually include undocumented migrants. It is important to be careful about using the right statistics for different discussions. Trade unions' main concerns are about the world of work, so the figures in this section are for people born outside the UK, who are now living *and* working here, taken from an important recent article in *Labour Market Trends*.² It would be confusing at this point to include statistics that include non-working dependents of migrants – but it is worth noting that the studies we quote for the impact of migration on social security, public services and housing do define migrants in this way.

2.2 In 2005 there were 1.505 million foreign migrants working in the UK, accounting for 5.4% of all employees.³ In the past ten years the number of migrant workers has increased by about 600,000.⁴ This is a phenomenon being seen across Europe. A study for the OECD, looking at migration between 1994 and 2001 found that “the ratio of immigrants (no matter how defined) has grown steadily in all Western European countries considered, except Belgium.”⁵

2.3 Nearly two thirds of migrant workers in this country live in the South East of England – 45.3% live in London and another 18.5% in the rest of the South East.⁶ This preponderance has, however, become a little less noticeable recently: in the 1990s about 45% of new immigrants settled in London, but in 2002-5 this fell to 40%.⁷

2.4 Immigrants are, on average, younger than the native-born population: 38.4 years compared with 39.9 years; 90% are aged between 15 and 44 (figures for all immigrants, not just those in employment).⁸

2.5 Migrant workers tend to be more likely than UK nationals to work at either end of the spectrum – in professional or routine jobs – and less likely to work in intermediate jobs:

2 “Foreign Labour in the United Kingdom: current patterns and trends”, John Salt and Jane Millar, *Labour Market Trends*, ONS, Oct 06, pp 335 – 355.

3 *Ibid*, table 4.

4 *Ibid*, fig 1.

5 *Labour market outcomes of natives and immigrants: Evidence from the European Community Household Panel*, Franco Peracchi and Domenico Depalo, OECD, 2006, p1.

6 Salt and Millar, table 5.

7 “The Economic Characteristics of Immigrants and their Impact on Supply”, J Salaheen and C Shadforth, *Quarterly Bulletin*, Bank of England, 2006 Q4, chart 12.

8 *Ibid*, p 379.

facts and figures

Table 1: People living and working in the UK by socio-economic classification, 2005⁹

	UK nationals (%)	Foreign nationals (%)
Professional, employers and managers	40.1	42.2
Intermediate	32.1	24.5
Routine	23.7	27.1
Other	4.1	6.1

2.6 These differences are real, though less extreme than some reports have suggested. However, this pattern may be changing: the differences from UK nationals are increasing - recently arrived migrant workers are less likely to work in professional occupations and much more likely to work in routine jobs. This is illustrated by the data for people who were living outside the UK a year before the survey:

Table 2: Foreign nationals living and working in the UK now but outside the UK one year previously, by socio-economic classification, 2005¹⁰

Occupation	Proportion (%)
Professional, employers and managers	30.2
Intermediate	15.6
Routine	44.0
Other	10.2

2.7 It is very likely that this change is connected to the entry of the East European states to the European Union in 2004, but it is far too early to tell whether it is a new trend or a shorter-lived phenomenon. This shift towards routine occupations has taken place despite the fact that migrants continue to be better educated than native workers. A study for the Bank of England looked at the age when people left full-time education, producing figures for those who were UK born, immigrants and new immigrants (those who entered the UK during the survey year or the calendar year before the survey was carried out):

Table 3: Age at which immigrants and native-born people left full-time education, 2005¹¹

Age left full-time education	UK-born (%)	All immigrants (%)	New immigrants (%)
Under 16	17	12	6
16 – 20	66	52	49
21+	17	36	45

2.8 These figures are for all immigrants, and so include people who have come to the UK to study, but the Bank of England paper finds a similar occupational

⁹ Salt and Millar, table 4.

¹⁰ Ibid, table 6.

¹¹ Salaheen and Shadforth, table B.

breakdown to the *Labour Market Trends* article used elsewhere in this section. In addition, the Bank finds that “average hourly pay of ‘new’ immigrants was not very different to existing immigrants through the 1990s, but since 2002, the real wages of ‘new’ immigrants have fallen relative to the real wages of those born in the United Kingdom.”¹² This is partly because, as noted above, more new immigrants are settling outside London, and partly because they are more likely to enter low paid jobs:

Table 4: Proportion of workers earning below £5 an hour, 2005¹³

UK born	All immigrants	New immigrants
10%	9%	16%

2.9 The migrant workers in the statistics in this section are mainly documented workers; it is very difficult for official statistics to catch up with undocumented migrant workers. The Home Office has estimated that there were 430,000 ‘unauthorised’ migrants in the UK in 2001,¹⁴ and the Institute for Public Policy Research has concluded that “while regular migrants to the UK come to fill vacancies across the skills spectrum, most irregular migrants are likely to be doing jobs that could be characterised as dirty, difficult and dangerous.”¹⁵ The IPPR has calculated that regularising the position of these workers would not only make it much more difficult for them to be exploited, it could produce as much as £1 billion extra a year in National Insurance contributions and income tax.¹⁶

¹² Ibid, p 382.

¹³ Ibid, table D.

¹⁴ This is the central estimate of a range from 310,000 to 570,000. *Sizing the Unauthorised (Illegal) Migrant Population in the United Kingdom in 2001*, Jo Woodbridge, Home Office Online Report 29/05, p 5, downloaded from <http://www.homeoffice.gov.uk/rds/pdfs05/rdsolr2905.pdf> on 13/12/2006 18:23.

¹⁵ *Irregular Migration in the UK*, IPPR, 2006, p 11.

¹⁶ Ibid, p 12.

Section three

has migration led to unemployment?

“East Europe migrants help take jobless to six-year high”
(Headline in the *Daily Mail*, 17 August 2006)

3.1 Linking immigration to unemployment is an old story; is it justified? Sometimes this link reflects what is known as the ‘lump of labour fallacy’. This is the notion that there is a fixed amount of work that can be done in the economy and that if one group gets more of that work then existing workers will get less. However, the idea produces a rare example of agreement among economists, who nearly all believe that a key influence on the amount of work available is the level of demand in the economy – how much people are able to buy.

3.2 A thought-experiment can illustrate this: when the baby-boom generation reached working age the number of people entering the labour market far exceeded the number leaving it. This effect was a bit like a new wave of migrants arriving every year for over a decade. If immigration is a threat to jobs, then the baby boomers should also have been taking jobs away from existing workers and threatening higher unemployment. Not only did this not happen, we saw a great expansion of employment, because the new young generation increased the level of demand.

3.3 As Richard Layard has pointed out, across Western Europe, the USA and Japan in the last 40 years of the 20th century there was a very close relationship between the growth of the labour force (the number of people available to fill jobs) and the growth of employment (the number actually in jobs).¹⁷ This relationship has to be seen in the long-term, as it is obscured by changes caused by the economic cycle, but, as Layard has also pointed out, those countries that responded to unemployment in the 1980s and 1990s by encouraging people to retire early or leave the labour market in some other way did *not* necessarily see their unemployment fall – there is no clear relationship between a country’s change in labour force participation and its change in unemployment.¹⁸

¹⁷ *Policies for Full Employment*, J de Koning, R Layard and N Westgard-Nielsen, CEP for DWP, 2003, fig 1, downloaded from http://cep.lse.ac.uk/layard/policies_for_full_employment.pdf on 14/12/2006 11:09.

¹⁸ *Ibid*, fig 3.

3.4 The empirical evidence backs up this theory. In 2003 a Home Office-sponsored study summarised US and European research: “the common conclusion of this work, apart from a small number of exceptions, is that immigration has only very small or no effect on employment ... of workers already resident.”¹⁹

3.5 2006 research for the Department for Work and Pensions found “no discernible statistical evidence to suggest that A8 migration²⁰ has been a contributor to the rise in claimant unemployment in the UK.”²¹ Treating the arrival of the A8 workers after 2004 as a ‘natural experiment’, the authors argued that, if these migrants were responsible for the increase in unemployment in 2005-6, then those districts where Worker Registration Scheme registrations had been concentrated should have seen the largest increases in unemployment. They found that there was a very slight correlation, but it was not statistically significant.²² In America similar studies have been criticised because immigrants might be expected to go to those parts of the country where they know there is a plentiful supply of jobs. The authors controlled for this by checking whether A8 registrations were more likely to be in districts that had had the highest employment rates in April 2004. In fact, A8 migrants were somewhat more likely to register in districts that had had a higher *un*employment rate just before accession.²³

3.6 In a similar vein Rebecca Riley and Martin Weale have noted that “a broad view of the data does not suggest a clear general link between immigration and unemployment.”²⁴ Net immigration has been rising since 1997,²⁵ but the unemployment rate fell between January 1998 and August 2005, from 6.4 percent to 4.7 percent.²⁶

3.7 They also find that “immigration since 1998 has raised GDP by 3.1 per cent. The immigration in 2004-5 has on its own contributed 1 per cent to GDP and, of this, the inflow from the new member states accounts for 0.2 per cent of GDP. Since the actual growth rates in 2004 and 2005 were 3.3 per cent and 1.9 per cent, it is obvious that the effect of immigration economic growth has

19 *The local labour market effects of immigration in the UK*, C Dustmann et al, Home Office Online Report 06/03, 2003, p 9.

20 In 2004 eight Eastern European countries were admitted to the EU and the UK decided to allow citizens of these countries immediate access to the UK labour market.

21 *The Impact of Free Movement of Workers from Central and Eastern Europe on the UK Labour Market*, N Gilpin, M Henty, S Lemos, J Portes and C Bullen, Working Paper 29, DWP, 2006, p 1. Downloaded from <http://www.dwp.gov.uk/asd/asd5/WP18.pdf> on 14/12/2006 11:57.

22 *Ibid*, fig 5.2.

23 *Ibid*, fig 5.3.

24 “Commentary: immigration and its effects”, R Riley and M Weale, *National Institute Economic Review*, October 2006, p 7.

25 *Ibid*, fig 1.

26 *Ibid*, p 7.

unemployment

been substantial.”²⁷ The Treasury sees inward migration as accounting for 10 – 15 percent of forecast trend economic growth.²⁸

3.8 None of this is to say that any *individual’s* job is going to be unaffected by migration. Overall the impact of migration will be to increase employment for native workers, but as we see below, some employers are clearly recruiting migrant workers in preference to British workers. As the Treasury has noted in a discussion about changes in the structure of employment more generally,

“The process of redeployment inevitably brings transitional costs, which may fall particularly heavily on those least well equipped to cope with change – for example those with non-transferable skills. But the outcome for the economy on a whole is clearly positive; and there is a great deal governments can do to minimise transitional disruption to individuals’ lives.”²⁹

3.9 Riley and Weale believe that A8 immigration has affected employment rates for less skilled workers,³⁰ and we know that migrant workers are definitely on employers’ minds. The Bank of England’s business contacts have been telling the Bank that “the availability of immigrant labour has been rising in the United Kingdom.”³¹ The Chartered Institute for Personnel and Development has been reporting for some time that migrant labour is popular with employers; in their 2006 recruitment survey they noted that 15% of organisations had targeted East European migrants, and another 12% intended filling vacancies from foreign countries more generally. The survey showed just under half of employers believing that this approach was a successful in dealing with recruitment difficulties.³²

3.10 In 2005, CIPD controversially reported that employers are rejecting the ‘core jobless’ and would prefer to recruit migrant workers. Sizable minorities excluded hard to help groups such as people with a history of mental illness, even when it was against the law. A majority of employers had no policy of targeting ‘core unemployed’ people for recruitment; among those who did, migrant workers were more likely to be targeted than long-term unemployed and people with mental health problems.³³

3.11 It seems clear that immigration does not threaten the jobs of British-born workers overall, but there can be transitional problems, and the most

27 *Ibid*, p 8.

28 *Long-term global economic challenges and opportunities for the UK*, HMT, 2004, para 4.59. Downloaded from http://www.hm-treasury.gov.uk/media/8F5/77/pbr04global_421.pdf on 14/12/2006 12:53.

29 *Trade and the Global Economy: the role of international trade in productivity, economic reform and growth*, HMT, May 2004, para 2.16. Downloaded from <http://www.hm-treasury.gov.uk/media/17B/42/17B42758-BCDC-D4B3-1B5E14759174F25A.pdf> on 14/12/2006 11:40.

30 Riley and Weale, p 8.

31 Salaheen and Shadforth, p 375.

32 *Recruitment Retention and Turnover*, CIPD, 2006, p 34.

33 *Labour Market Outlook*, CIPD, Summer/Autumn 2005, table 12.

disadvantaged workers may be the most likely to be disadvantaged in this process. We also know from anecdotal accounts that in certain, specific sectors migration may be causing job losses. For example, there is growing evidence that this may be happening in the construction sector although we know of no survey work which has been conducted to verify this.

3.12 This suggests three policy responses for unions. Firstly, unions should press for effective enforcement of current minimum employment standards, and make sure that migrant workers actually benefit from their rights to the minimum wage, sick pay, paid holidays and social security contributions. Secondly, unions should make an extra effort to organise migrant workers, extending union rates and conditions of employment to a vulnerable group of workers and thus ensuring that native workers are not undercut. Thirdly, British society generally gains from migrants' impact on output and their net fiscal contribution; it is only fair that the bulk of any gains should be used to enhance social security and services for those workers who may lose out, especially through extra rights to training and higher social benefit rates. The Treasury has recognised the case for “appropriate social protection instruments” to “prevent the most severe effects” of “short-term adjustment costs”. Unfortunately the Treasury confines its discussion of the social purpose of social protection to the prevention of absolute destitution – this is not a fair bargain, and the trade union movement will insist that an open economy can only be operated fairly if the gains are applied to enhancing the social wage.³⁴

³⁴ *Trade and the Global Economy: the role of international trade in productivity, economic reform and growth*, HMT, May 2004, paras 4.21 – 4.23.

Section four

has migration driven down wages?

“By keeping labor supply down, immigration policy tends to keep wages high. Let us underline this basic principle: Limitation of the supply of any grade of labor relative to all other productive factors can be expected to raise its wage rate; an increase in supply will, other things being equal, tend to depress wage rates.” (*Economics*, Paul Samuelson, 1964)

4.1 Samuelson’s widely-read economics textbook clearly sets out the classical theoretical position on migration and wages: if the production of a good or service requires that a number of factors be brought together – equipment and different types of labour, for instance – an increase in supply of one factor will cut the price of that factor and raise the price of the others. Increased immigration by low skilled workers (or by skilled workers who are willing to work in low skilled jobs) should therefore cut the wages of low-skilled native workers, but raise the wages of skilled workers and increase profits.

4.2 A large part of the academic debate about the economic impact of migration concentrates on whether Samuelson was right. One response is that he was, in the short-term, but that, in an open economy, the supply of capital and skilled work will increase in response to the higher price they now command, but as the supply of these factors increases so their price will fall and the wages of the low-skilled workers will rise. If the starting point was all wages and profits at world levels, the finishing point for this process will be a return to world levels – but this can be a long drawn-out process.

4.3 Like many economic theories this is an idealised picture of the world and it depends on the assumption that markets ‘clear’. Trades unionists will be more impressed by discussions about the empirical evidence.

4.4 In America George Borjas has argued that immigration is particularly likely to undercut the wages of unskilled native workers, and that it therefore increases inequality. In 2003 he used US census data in a complex study³⁵ and found that a ten percent increase in labour supply reduced wages for all groups. In a later study, Borjas and Katz took into account the second round effects described above, with capital adjusting to the larger workforce. They now found that overall wages were unaffected by immigration, but this average was the product of gains for better-educated US-born workers and

35 “The Labor Demand Curve is Downward Sloping: re-examining the impact of immigration on the labor market”, George Borjas, *Quarterly Journal of Economics*, November 2003, pp 1335 – 1374.

losses for high school dropouts, whose wages fell 4.8% during the 80s and 90s as a result of immigration.³⁶

4.5 Card, however, found quite different results when he looked at the impact of the 1980 ‘Mariel’ exodus, when Cuba briefly allowed unchecked emigration and Miami’s population grew by 7 percent in one year. Despite the fact that these immigrants definitely earned less than other workers and had higher unemployment rates, the unemployment rates and wages of unskilled whites and blacks were not affected, and even the decline in wages and employment rates observed for Cubans seem to have been a compositional effect, with the Mariel immigrants bringing down the overall Cuban average, rather than causing any adverse changes to the labour market for Cubans already in Miami.³⁷

4.6 British studies are less divided, and find little evidence of a negative impact. The US debate has taken place against the backdrop of a low minimum wage that has been declining in value;³⁸ this is very likely to have exacerbated any adverse impact of migration on low paid workers. British economic studies of migration are a more recent phenomenon than in America - the first UK report to consider this issue in detail was published by the Home Office as recently as 2003 – and have all taken place after the minimum wage was well-established; this may well explain why it is so much harder to find evidence of a negative impact. Using data from the census, the Labour Force Survey and the New Earnings Survey, the authors of the first large study found that:

“The main result of the empirical analysis is that there is no strong evidence of large adverse effects of immigration on employment or wages of existing workers. ... Insofar as there is evidence of any effect on wages, it suggests that immigration enhances wage growth.”³⁹

4.7 A more recent independent study, using General Household Survey and New Earnings Survey data,⁴⁰ found that “an increase in the number of unskilled migrants reduces the wages of unskilled domestic workers. However the quantitative impact of this increase is small. No discernible impact of migration is found for skilled native workers.”

36 *The Evolution of the Mexican-Born Workforce in the United States*, George Borjas and Lawrence Katz, Working Paper 11281, [US] National Bureau of Economic Research, April 2005, p. 64.

37 “The Impact of the Mariel Boatlift on the Miami Labor Market”, David Card, *Industrial and Labor Relations Review*, Jan 1990, quoted in “The impact of Immigrants on Host Country Wages, Employment and Growth”, R., M. Friedberg, and J Hunt, *Journal of Economic Perspectives*, Vol.9, No.2, (1995) pp. 23-44, downloaded from <http://www.uh.edu/~adkugler/Friedberg&Hunt.pdf> on 14/12/2006 15:49.

38 The last increase was in 1996-7 and the US minimum wage is now worth 30% less than it was in 1979. (*Minimum Wage Facts at a Glance*, Employment Policy Institute, April 2007.)

39 Dustmann et al, p 48.

40 *Migration, Trade and Wages*, Alexander Hijzen and Peter Wright, University of Nottingham research paper series, research paper 2005/11.

wages

4.8 A study which considered the impact of the accession of the eight East European countries to the EU noted that the data for wages did not show any evidence of a decline in wage growth either across the whole economy or for major industries.⁴¹

4.9 Another DWP study of the impact of the new EU member states, published at the end of 2005, also found that there was no evidence of wage growth slowing in most industries.⁴² The one exception was agriculture, where the data from the Average Earnings Index shows wages growing at much the same rate as other industries and with no decline after 2004. The Labour Force Survey, on the other hand, shows wages in the agriculture and fishing industries growing more slowly than the rest of the economy. The authors admit that the evidence is mixed, but point to the fact that, compared to other sectors, employment in agriculture has grown very rapidly since 2004. This makes it more difficult to claim that migrant workers are displacing British-born workers, and one interpretation is that farmers are now able to recruit workers to jobs that do not pay enough to attract British-born workers, or where the terms and conditions are not sufficiently attractive.

4.10 It is, by definition, difficult to estimate the impact of undocumented migration on wages, but it is likely that workers who are unable to enforce their employment rights and constantly at risk of being reported to the authorities by their employers are more vulnerable than any other group. It seems extremely unlikely that this would not have some impact on wage levels, at least at the bottom end of the labour market.

4.11 As with the matter of employment, any claim of a general negative impact of migration on wages cannot be sustained in the face of the evidence. However, like the employment issue again, there is anecdotal evidence of depressed wages in specific sectors such as the construction industry although there is no more scientific research to verify the claim. However, it is clear that the answer to this is not to ‘crack down’ on migrant workers: past experience suggests that this will not stop the UK being an attractive destination and it risks penalising large swathes of the economy to protect very limited sectors that may be suffering problems. In addition, tougher penalties for undocumented migrant workers will simply leave them in a weaker, more vulnerable position, more likely to be exploited. Instead a union response will be to call for more effective policing of employers who deny basic employment rights to any group of employees, combined with a clear route to regularisation for undocumented migrant workers.

41 Gilpin et al, fig 5.7.

42 *The Impact of Free Movement of Workers from Central and Eastern Europe on the UK Labour Market: early evidence*, J Portes and S French, Working Paper 18, DWP, 2005, figs. 5.1, 5.2 and 5.3.

4.12 The most important of these basic rights is the national minimum wage. As we have seen, the low level and non-uprating of the US minimum wage may be one reason why migration may have held down pay at the bottom end of the distribution. Effective enforcement of the UK minimum wage must be a greater priority than it is at present – migrant workers who are paid less than the minimum wage are being exploited and the emergence of a large group of employers habitually breaking the law could undermine the minimum wage’s effectiveness for all workers. The Low Pay Commission and the government must make special efforts to make sure that the value of the minimum wage does not fall relative to pay generally.

Section five

does migration cost the taxpayer?

“But not everyone benefits from high levels of low-skill immigration – it means extra pressure on low-cost housing and public services ...”

(*Progressive Nationalism*, David Goodhart, Demos, 2006, p 39.)

5.1 The quote above reflects one of the common arguments of modern critics of immigration - that immigrants are a burden on services. The fiscal impact of migration is complicated, but a Home Office study using 1999 – 2000 data found that migrants to the UK:⁴³

- Paid £31.2 billion in taxes,
- Received £28.8 billion in public goods and services,
- Making a net contribution of around £2.5 billion – worth about 1p on the basic rate of income tax.

5.2 In 2005 the IPPR updated this work to cover the five-year period from 1999/00 to 2003/4.⁴⁴ The study presented similar findings in a different way: immigrants consistently made a higher net annual fiscal contribution than British born people. During periods when the budget was in surplus, immigrants made a higher net contribution; when the budget was in deficit immigrants’ net negative contribution was lower:

- In 1999/00, immigrants net annual fiscal contribution index (NAFI = the ratio of contributions to consumption of public services) was 1.06, five points higher than the 1.01 NAFI for those born in the UK.
- In 2003/4, the gap had grown to 11 points as immigrants’ NAFI stood at 0.99, while that for the UK-born was 0.88.

5.3 These results are affected by the economic cycle and the age of the workers coming to this country; the economy has been growing for several years, and migrant workers tend to contribute more through their taxes in periods of expansion, and receive more services during recessions.⁴⁵ The fact that migration to the UK tends to be by young adults also has a positive impact, as

43 *The Migrant Population in the UK: fiscal effects*, Ceri Gott and Karl Johnston, RDS Occasional Paper No 77, Home Office, 2002, p 11.

44 *Paying Their Way: the fiscal contribution of immigrants in the UK*, D Sriskandarajah, L Cooley and H Reed, IPPR, 2005, downloaded from www.ippr.org.uk/members/download.asp?f=/ecomm/files/Paying%20Their%20Way.pdf&a=skip on 14/12/2006 03:54.

45 Gott and Johnston, p 4 and figs. 1 & 2.

an important article in the National Institute Economic Review has pointed out:

“Since, during childhood, people tend to be net recipients of public transfers, young adults tend to face, over their remaining lifetime, a net payment of tax. It follows that immigration of young adults is likely to result in resources being transferred to the rest of the economy through the tax system. For this reason there is likely to be a general benefit of immigration.”⁴⁶

5.4 Although migrant workers seem to have a broadly positive fiscal impact, there can be acute problems at grass roots level. Local councils’ expenditure varies in line with the number of people who need their services, but their revenue grants from central government are in part determined by estimates of how many migrant workers and their families live there now and projections of how many there are going to be.⁴⁷ If the estimates are wrong there can be severe pressures on housing, schools and other services. There are similar issues for other public authorities.

5.5 The calculation of the central government grant is a more important issue in the UK than in other countries because it accounts for such a high proportion of local authorities’ funding. While most of the positive fiscal impacts of immigration accrue to central Government (through a higher tax yield), a high proportion of the negative fiscal impacts are borne by local authorities, so the accurate calculation of the revenue grants is very important. Accurate calculation of the number of migrant workers and their families in each area is obviously important, though that is not the only issue: the formula used for calculating the revenue grant to each authority does not take account of extra expenses resulting from having a large population that is transient or only resident for short periods, including language needs and the extra expenses resulting from the ‘learning curve’ of meeting the unexpected needs of new groups.⁴⁸

5.6 In a letter to the Government in August 2006 the Local Government Association claimed that inaccurate migration statistics had left as many as 25 local authorities paying for services to migrants who had not been included when the central government grant to authorities was being calculated. Up to 25 councils, including Birmingham, Sheffield and Manchester were affected.⁴⁹

5.7 In May 2007 four local authorities - Westminster, Slough, Hammersmith & Fulham and Kensington & Chelsea - wrote to the Treasury to complain that

46 Riley and Weale, p 6.

47 Each year, the Office for National Statistics estimates the number of people usually resident in each local authority area on 30 June – the ‘mid year estimates’.

48 “Local Government Finance and Statistics”, presentation by Tony Travers, Director, Greater London group, London School of Economics, to Slough BC seminar on ‘Migration Works’, 2 November 2006.

49 “Inaccurate migrant numbers may lead to rise in council tax”, Patrick Wintour, *Guardian*, August 8, 2006.

fiscal effects

the Office for National Statistics was miscounting the number of migrants in London and the South East. The ONS 'mid year estimates' of the population resident in local authority areas appeared to be very volatile, showing large sudden declines in London's migrant population, which seemed unlikely.⁵⁰ The ONS data rely on the International Passenger Survey, which has large gaps in coverage and relies on migrants stating where in the UK they intend to travel to, and the figures for registrations for National Insurance numbers are often markedly different. Slough Council has pointed to the fact that there are 700 more children receiving Child Benefit than the estimated number of children in Slough.⁵¹ The Council has claimed that it stands to lose £15 million in funding, which will not be assisted in meeting needs such as providing education for 900 school children new to the UK who arrived in Slough in 2005 and 2006.⁵²

5.8 The important point to note here is that these problems are not a necessary negative impact of migration; rather, they are a consequence of poor planning, the system of local government finance and technical problems relating to the ONS mid-year estimates. The TUC will support efforts to address these problems, not least because they increase the risk that migrant workers will be blamed for problems not of their making.

50 "Local councils slam migration lottery", Hammersmith and Fulham Press Office, 14 May 2007, downloaded from

http://www.lbhf.gov.uk/Directory/News_and_Media/Press_office/Press_releases/80585_Local_councils_slam_migration_lottery.asp on 15/05/2007 16:47; "Councils slam migration 'lottery'", Slough Borough Council, 14 May 2007, downloaded from <http://www.slough.gov.uk/news/articles/13339.asp> on 15/05/2007 16:53.

51 "Slough and the Mid-Year Population Estimates", Andrew Blake-Herbert, Strategic Director of Finance & Property, Slough Borough Council, presentation to Slough BC seminar on 'Migration Works', 2 November 2006.

52 *Migration Works: harnessing the benefits of migration*, Slough Borough Council, 2006, downloaded from <http://www.slough.gov.uk/mycouncil/articles/11958.asp> on 15/05/2007 17:11.

Section six

does migration damage developing countries?

6.1 In this section we concentrate on the impact of migration on developing countries; the issues around migration from other developed countries are rather different and less pressing. Two issues tend to dominate the debate about whether migration is a good thing for developing countries: the ‘brain drain’ and remittances.⁵³ We have already seen that many migrants have high levels of education, and those who come from developing countries may have benefited from their societies’ decision to invest in education at the expense of other public goods, such as welfare services. An ILO study found that a “truly astonishing” proportion of highly educated people had emigrated by looking at figures for emigration to the United States alone. Some of the higher figures included:

Table 5: Rate of emigration to the USA of people aged 25+ with 13 years or more education, 1990⁵⁴

Country	Rate of emigration to the USA for highly educated people
Guyana	80.62%
Jamaica	69.34%
Gambia	58.51%
El Salvador	46.63%
Trinidad	43.70%
Mauritius	33.02%
Panama	25.19%
Sierra Leone	24.62%
Nicaragua	23.79%
Honduras	21.33%
Fiji	20.15%

6.2 The study noted that these figures actually *under-estimate* the impact of the problem, as these migrants are likely to be the ‘best and brightest’ of those with higher education and is highest of all for those with an education in science or engineering. The author adds that trade theory suggests that it is

53 For readers interested in researching this issue further a good place to start is the recent DFID report *Moving out of poverty – making migration work better for poor people*, available at <http://www.dfid.gov.uk/pubs/files/migration-policy.pdf>

54 *Trade and International Labour Mobility*, A Ghose, ILO, 2002, ILO Employment Paper 2002/33, table 6, downloaded from <http://www.ilo.org/public/english/employment/strat/download/ep33.pdf> on 13/12/2006 20:53.

home countries

likely that the skills levels of migrants will have been rising as globalisation has gathered speed.⁵⁵ The brain drain may also harm developing countries that hope to attract foreign investment, as one of the characteristics investors typically look for in a developing country is an extensive supply of well-educated potential recruits.⁵⁶

6.3 In response it has been suggested that there is a possible compensating advantage if the opportunity of emigration encourages individual workers to invest in their own human capital (or encourages parents to invest in their children's education) and thus raises the home country's supply of skills. However it is worth noting that those academics that have argued that the emigration of highly qualified workers could be of some benefit to home countries have *not* said that the problems are unimportant.⁵⁷ Furthermore, a 'beneficial brain drain' is only likely if the host country's screening is not too strict, or the incentives to invest in training will be undermined by the risk that skilled people will not actually be able to migrate: "perfect screening is implausible, but even with imperfect screening the beneficial effect would be reduced and might disappear completely. Thus, a necessary criterion for a beneficial brain drain to have any chance of applying is that person just on the margin of taking education has a positive probability of emigrating."⁵⁸

6.4 A study of overseas doctors in the UK found that the link between the possibility of migration and decisions about training was "only relatively weak" and that, in practice, screening was significant;⁵⁹ Faini's brief review of the literature found that the empirical evidence for the effect of an incentive to train is no better than mixed.⁶⁰

6.5 It is still possible that home countries may benefit from the return of migrants who have spent some time in an industrialised country, making useful contacts, learning new ways of applying their skills or receiving continuing professional education. But the most talented migrants are the most likely not to return - four years after graduating, 88% of Chinese scientists and engineers (and 79% of Indians) who have studied in the USA are still working there.⁶¹ This is a rather thin argument on which to base a claim that migration is

55 Ghose, p 23.

56 *Migration and Remittances; the impact on the countries of origin*, R Faini, paper for the EUDN-AFD conference on Migration and Development, Paris, November 8, 2006, p 10.

57 See, for instance, *Inducing Human Capital Formation: migration as a substitute for subsidies*, O Stark and Yong Wang, Austrian Institute for Advanced Studies Economics Series number 100, 2001, p 14, downloaded from <http://www.ihs.ac.at/publications/eco/es-100.pdf> on 13/12/2006 21:48.

58 *Is the Medical Brain Drain Beneficial? evidence from overseas doctors in the UK*, M Kangasniemi, L Winters and S Commander, 2003, p 1, downloaded from http://www.london.edu/assets/documents/PDF/commander_4.pdf on 12/13/2006 10:12 PM.

59 *Ibid*, p 15.

60 Faini, p 9.

61 *Ibid*, p 11.

beneficial to home countries, and the most important consideration is the wages migrant workers remit to their families back at home.

6.6 Workers' remittances to developing countries are growing very quickly – the World Bank estimates the 2005 figure at \$167 billion, up from \$160 billion in 2004.⁶² Remittances are not only growing quickly, they are now worth twice as much as Overseas Development Assistance to developing countries, and almost as much as foreign investment:

Table 6: Remittances, private capital flows and aid (\$ billions)⁶³

	1995	2004
Remittances	58	160
Foreign direct investment	107	166
Private debt/portfolio equity	170	136
Official development assistance	59	79

6.7 There is some debate about the impact of remittances on the level of inequality in home countries. Where the home country is close to the host country and emigration is relatively easy one would expect migrant workers to be more likely to come from poorer families, and for their remittances to reduce inequality; conversely, where it is expensive to migrate or migration is difficult, one would expect those who start with greater resources to have an advantage, and their remittances would tend to be received by families that were already better-off. Generally speaking this theoretical model is true in practice,⁶⁴ though there are plenty of counter-examples and country studies produce contradictory results. It seems clear that the more widely diffused migration is in a home country, the more likely it is that the impact will be to reduce inequality and that greater migration opportunities for poor people will be the most effective policy for reducing home country inequality.⁶⁵

6.8 An important study by two World Bank economists, using data for 71 developing countries found that remittances can be a very powerful anti-poverty tool, predicting that, on average, a 10% increase in remittances would produce a decline in the share of people living in poverty of between 1.8 and

62 *Global Economic Prospects 2006: economic implications of remittances and migration*, World Bank, 2006, p 85.

63 *Ibid*, table 4.2.

64 This is the likely explanation for the fact that migrant workers in the USA from Mexico and Central America tend to have lower level qualifications while those from the Caribbean and South America, where the cost of migration is higher tend to have higher levels of education. See the discussion in *Close to Home*, Pablo Fajnzylber and J. Humberto López, IBRD/World Bank, 2007, downloaded from <http://siteresources.worldbank.org/INTLACOFFICEOFCEINSPA/Resources/ClosetoHome.pdf> on 05/01/2007 16:34.

65 See the discussion in "Migration and Inequality", Richard Black, Claudia Natali and Jessica Skinner, background paper for the *World Development Report 2006*, World Bank, 2005, downloaded from http://siteresources.worldbank.org/INTWDR2006/Resources/477383-1118673432908/Migration_and_Inequality.pdf on 05/01/2007 16:50.

home countries

3.5 per cent, and that “dollar for dollar the income remitted by migrants from abroad reduces poverty much more than income generated by domestic economic activity.”⁶⁶ The UN Population Fund has noted studies of individual countries also showing remittances having a significant impact on poverty:

“In Nicaragua, more than 60 per cent of the 22,000 households who escaped poverty between 1998 and 2001 had a family member living abroad. Remittances sent by migrants to El Salvador, Eritrea, Jamaica, Jordan, Nicaragua and Yemen in 2000 increased the GNP of these countries by more than 10 per cent. That same year, 1.2 million Moroccans managed to escape poverty purely on the strength of remittance income alone. According to ECLAC, in 2002, remittances from abroad helped to boost 2.5 million people living in Latin American and the Caribbean above the poverty line.”⁶⁷

6.9 The World Bank believes that remittances are likely to reduce inequality as well as poverty, noting that they “are typically distributed more widely in the receiving economy than other financial inflows such as bank loans or foreign direct investment; thus, they, too, contribute directly to reducing inequality.”⁶⁸ Remittances are, furthermore, an important resource for poor countries, accounting for over 10% of GDP in Albania, Bosnia, Dominican Republic, El Salvador, Haiti, Honduras, Jamaica, Jordan, Kiribati, Lebanon, Lesotho, Moldova, Nepal, Nicaragua, Philippines, Samoa, Serbia, Tajikistan, Tonga and Yemen.⁶⁹ Given this evidence, the World Bank argues that, despite the problems that migration can cause for origin countries, “the opportunity to send low-skilled workers abroad provides substantial benefits to origin countries because of the impact on labor markets and remittances.”⁷⁰

6.10 This may well be true, but the proportion of migrant workers’ earnings that return to home countries this way is quite small: the International Trade Union Confederation estimates that migrant workers spend 87% of their

66 “Do International Migration and Remittances Reduce Poverty in Developing Countries?”, Richard H Adams Jr & John Page, *World Development*, vol 33 no 10, 2005, pp 1655 & 1660, downloaded from http://siteresources.worldbank.org/INTAFROFFCHIECO/Resources/Migration_and_Remittances.pdf on 05/01/2007 16:25.

67 *A Passage to Hope: women and international migration*, UNFPA, 2006, p 12, downloaded from http://www.unfpa.org/swp/2006/pdf/en_sowp06.pdf on 05/01/2007 15:41, quoting “A Globalização Inacabada: migrações internas e pobreza no século 21” G Martine, *São Paulo em Perspectiva* 9(3): 3-22, Fundação Seade, 2005; *Population and Poverty: achieving equity, equality and sustainability*, UNFPA, 2003, p. 115; *Remittances Fact Sheet*, United Nations International Research and Training Institute for the Advancement of Women, 2004; *Flux Migratoires au Maroc Impact Économique, Social et Culturel de la Migration: Sur le Développement du Pays*, A Belarbi, 2005, p. 192; “The Number of Poor People in Latin America has Fallen by 13 Million Since 2003,” *Notes*, November 2005, UN Economic Commission for Latin America and the Caribbean, p. 3.

68 *Annual Report*, World Bank, 2006, p 22.

69 *Global Economic Prospects 2006: economic implications of remittances and migration*, World Bank, 2006, fig 4.1.

70 *Ibid*, p 66.

income in the host country.⁷¹ The argument that remittances compensate developing countries for the negative effects of migration would be stronger if this figure could be reduced. Although, admittedly, this may weaken the benefits that migrants bring to economic growth in the host country.

⁷¹ ITUC, para 21.

Section seven

does migration hurt migrants?

7.1 The World Bank recently modelled the potential economic gains by 2025 from increased migration. The baseline was a world in which the proportion of migrants in each region stays the same over time, and in the alternative scenario migration increases enough to produce a 3% growth in the size of the workforce in high-income countries. Across the world as a whole, the alternative scenario raises total income by \$356 billion - a 0.63% increase. The biggest gainers are the migrant workers themselves, who are \$162 billion better off: increased migration raises their income by 199%. Natives in the high income countries and those who stay behind in the developing countries are slightly better off, but old migrants in the high-income countries are significantly worse off:⁷²

Table 7: Real incomes in 2025, difference between the baseline scenario and the alternative

	Difference in total real income (\$ billions)	Difference in total real income (%)
Natives in high income countries	+ 139	+ 0.36
Old migrants in high income countries	- 88	- 6.02
Natives in developing countries	+ 143	+ 0.86
New migrants	+ 162	199
World total	+ 356	0.63

7.2 Although migrant workers are the clearest gainers from migration in terms of income there are severe costs as well. Migrant workers are often exploited, and can face severe deprivation – on average, their incomes are higher than they would be in their home countries, but they often earn much less than native workers would for the same work, and they have to face British living costs. We know that the health of the most disadvantaged migrant workers is precarious, and that they face reduced psychological well being in the event of unemployment, poverty and poor health or being a victim of crime/racial harassment.⁷³

7.3 An important study, based on interviews with 200 migrant workers, found that migrant workers are more likely to work in jobs with higher health and safety risks and to be even more at risk than other workers. More than a third

⁷² *Global Economic Prospects 2006: economic implications of remittances and migration*, World Bank, 2006, table 2.3.

⁷³ *The Labour Market Outcomes and Psychological Well-Being of Ethnic Minority Migrants in Britain*, Home Office Online Report 07/03, Michael Shields and Stephen Wheatley Price, Home Office, 2003.

of those surveyed had had no health and safety training, and a quarter had either had an accident or had witnessed a migrant co-worker having an accident.⁷⁴

7.4 The World Bank reports that, “in general, emigration does impose hardships on family members left behind”, though it also “improves families’ ability to make compensating adjustments that mitigate those hardships.”⁷⁵ Being a member of a group that is a net gainer from migration is, however, no guarantee that an individual will actually feel well off - a recent study of East European migrants in Scotland reported increasing levels of homelessness.⁷⁶ A large-scale research project, involving interviews with 600 migrant workers and 500 employers found that:⁷⁷

- Migrant employees earned less than the average for all employees, and their average hours were longer.
- Migrants working as au pairs and in hospitality commonly worked unpaid overtime; those working in construction and agriculture were paid overtime, but not necessarily at a higher rate.
- Only a minority received benefits like paid holidays, sick leave and free accommodation.
- “Workers who were ‘illegally’ resident often experienced vulnerability, fear and anxiety.”⁷⁸

7.5 Another study, based on interviews with 124 employers, found that most of those interviewed said they employed migrants on the same terms and for the same pay as domestic workers, but there were “many anecdotal reports of migrant workers receiving lower pay than domestic workers, experiencing long hours, poor conditions and few employee rights. Many of these reports related to the practices of labour providers and were concentrated in low-skill jobs.”⁷⁹

74 *Migrant workers in England and Wales: an assessment of migrant worker health and safety risks*, Sonia McKay, Marc Craw and Deepta Chopra, Working Lives Research Institute for HSE, 2006, downloaded from <http://www.hse.gov.uk/research/rrpdf/rr502.pdf> on 22/11/2006 18:15.

75 *Global Economic Prospects 2006: economic implications of remittances and migration*, World Bank, 2006, p 63.

76 *Homeless A8 Migrants – the Scottish experience*, Scottish Council for the Single Homeless, 2006.

77 *Fair enough? Central and East European migrants in low-wage employment in the UK*, B Anderson, M Ruhs, B Rogaly and S Spencer, 2006, first report from the “Changing Status, Changing Lives?” research project, Centre on Migration, Policy and Society, University of Oxford, p 63, downloaded from

<http://www.compas.ox.ac.uk/changingstatus/Downloads/Fair%20enough%20paper%20-%201%20May%202006.pdf> on 12/14/2006 1:11 AM.

78 *Ibid*, p 64.

79 *Employers’ use of Migrant Labour: summary report*, Sally Dench, Jennifer Hurstfield, Darcy Hill and Karen Akroyd, Home Office Online Report 03/06, 2006, p 10.

Section eight

conclusion

8.1 A number of clear messages emerge from this study. Firstly, host countries gain from migration. It is possible to debate the size of these gains, but the important point for British debates is that immigration does not have a negative impact: overall levels of employment and wages are slightly higher as a result of immigration, and migrant workers pay more in taxes than the value of the public services they receive. When studied at the level of the country as a whole, the old accusations of the extreme right, that immigrants take native workers' jobs or are a drain on the welfare state, are as false as they have ever been.

8.2 Secondly, the impact of migration on home countries is probably positive, but it could be even more so if a higher proportion of migrant workers sent money to their families.

8.3 Thirdly, the impact on migrant workers themselves is generally positive, but individuals can face significant risks of exploitation and social exclusion, even though they may have higher incomes than they would have had if they had not migrated.

8.4 This does not mean that it is impossible for immigration to be associated with problems, and a positive policy on immigration will only win support if these problems are addressed too. Firstly, we have good reason to believe that local problems in delivering public services can arise when authorities fails to anticipate the arrival of significant numbers of migrant workers and their families. This problem is caused by poor planning, not immigration, but failure here is very likely to lead to a reaction against immigration, rather than calls for better public services. Unions would encourage the Government to work towards more accurate local-level predictions of the numbers of migrant workers and dependents and the capacity to respond rapidly to changes.

8.5 Secondly, although there is very little evidence that migration has had a negative effect on the distribution of jobs and wages this is a risk in specific sectors of the economy. The Treasury, generally very positive about migration, recognises that there may be “costs which may fall particularly heavily on those least well equipped to cope.”⁸⁰ The answer to this problem is not to oppose immigration: in a globalised world this would not be effective and would undermine the real benefits migration brings as well as being an unacceptable challenge to the principle of free movement. Instead we need to

⁸⁰ *Trade and the Global Economy: the role of international trade in productivity, economic reform and growth*, HMT, May 2004, para 2.16. See para 3.12 above.

increase the supply of jobs available to all workers, and campaign for services that will make it possible for displaced workers and unemployed people to get even better jobs. The country as a whole is benefiting from migration, as we noted above, the Treasury expects it to account for at least a tenth of future economic growth. The country as a whole has a duty to set aside most of this growth for an improved social wage.

8.6 Overall, freer migration offers significant benefits to home countries, host countries and migrants themselves, but realising these benefits is not an automatic process.

8.7 On balance, home countries can benefit more from the remittances of migrants than they lose through the brain drain but this may require measures to enable and encourage migrant workers to increase the proportion of their earnings they remit to their families.

8.8 Migrants should be the clearest winners, but need to be guaranteed rights to social services and benefits to protect themselves against poverty and social exclusion. To avoid exploitation they need equal rights with native workers and the enforcement of employment standards, especially the minimum wage.

8.9 Native workers and their families can gain a great deal from the increased output and net fiscal contribution migrants bring to the table. But there are potential losers as well as winners, and the first beneficiary of Britain's migration dividend should be an improved social wage.



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