

Attracting Talent: Stage 2 – Drivers and impacts

Multi client study

July 2006

For and on behalf of Experian	
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Attracting Talent: Drivers and Impacts

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Executive summary

About the report

- This report is the outcome of stage 2 of the Attracting Talent multi client study for a group of public sector clients. In it we analyse some key dimensions of recent migration trends, some of the factors driving these trends and their impact in the UK.
- The purpose of this research is to identify the key impacts migration is having in the UK. There are a variety of views on these impacts. At one end of the spectrum, some groups and commentators view migrant workers as a threat to domestic labour and a potential drain on public spending. However, at the other end, some commentators have extolled the virtues of attracting inward migrants to improve the economic competitiveness of towns, cities and regions.

Migration trends

- There is considerable internal migration within the UK each year, much of it involving very short distances. Longer distance, inter-regional moves in previous decades have generally been characterised by a net flow from the north to the south, a trend which has actually reversed in more recent years.
- International migration trends affecting the UK take place in a context of increasing globalisation, with growing labour movements a key dimension of this globalisation.
- The UK is a net importer of migrants, with this net inflow growing year on year.
- Immigration to the UK is driven by a variety of factors, including previous colonial connections, refugee flows, international students and economically-motivated migration all significant.
- Successive flows have had a significant effect on the UK – in 2004 9.3% of the UK population was born overseas, compared with 4.2% in 1951. However, this is still lower than the level of penetration in many other European countries.

Demographics

- Young, single adults are considerably over represented in the migratory population within the UK.
- Experian's Movers data, analysed using the Mosaic household segmentation system, shows that young, single people and young families are both over represented in the UK's population of internal migrants.
- There is also evidence that some groups of people living in deprived areas have a greater tendency to be mobile within the UK than is the case across all socio-demographic groups – this is evidence of work search.
- London government office region plays a key role in attracting in young family households and exporting young people to other UK regions.

- The South West attracts in career professionals from London, who may continue to work in the city but live in the South West, demonstrating an aspect of the ‘counter urbanisation’ trend.
- The South East appears to play a key role in attracting in lower skilled migrants from London.
- Wales’ in-migration experience is more varied than any other region, with a variety of different social groups being over represented in the inflow compared with the composition of the pre-existing population – this suggests that the social composition of the country is being altered by inward migration.
- In the three northern regions, people from isolated areas are more likely to migrate across regional boundaries than is the case elsewhere in the UK – suggesting closer labour market integration in this part of the UK.
- Students are a huge migratory group in the UK, dominating flows in and out of regions.
- There is strong evidence that the level of education increases the probability of migration for an individual as well as the average distance they are likely to migrate. However, there is also evidence that people with low paid jobs or unemployed people do migrate to where job availability is perceived to be greater.
- Housing plays a key role in facilitated and constraining internal migration – large house price differentials explain some observed dynamics such as the urban-rural shift and the reversal of the north-south population flow.
- A key characteristic of international in-migrants is the duration of their stay in the UK – with the spectrum running from seasonal farm workers from Europe to permanent immigration of nurses from the Philippines.
- The average age of people coming into the UK from abroad is lower than the average age of emigrants, reflecting the significance of the UK as an attractive destination for international students and young workers.
- The ethnicity breakdown of the UK’s foreign-born population reflects a mix of historic international relations (principally colonial links), refugee inflows and periodic efforts to attract international labour into the UK (e.g. post World War Two).
- Ethnicity varies around the regions, with south Asian populations prevalent in the Midlands, North West and Yorkshire and the Humber. London is the multicultural hub of the UK, with one in three people born outside the UK.

Skills

- The issue of skills and migration is highly significant for policy – in particular we looked at whether the UK labour market is flexible in the sense that geographic mobility is a key feature and also whether international in-migrants are filling the key labour shortages that exist.
- In terms of internal migration, analysis of ONS data shows that skill levels and migration behaviour are closely linked – higher skilled people make up the bulk of

labour movement in the UK. The highest skilled people tend to flow to the south of the UK, with the north experiencing net losses of such people as a consequence.

- We corroborated the above evidence using our Movers data and Mosaic profiling – all UK regions attract net inflows of young, educated people but only a few regions are net attractors of the most highly skilled population group, ‘career professionals’.
- International labour migration is nothing new – in terms of history it really began to take off during the early period of the slave trade and imperialism, with the impacts on the UK population and social make-up still evident today.
- Earlier this year, the UK government announced changes to the migration system, adopting a points-based system that is in keeping with the developed world’s trend towards ‘selective attraction’ on international labour.
- Foreign-born workers in the UK are, on average, higher skilled and better paid than UK-born workers.
- However, foreign-born workers in the UK are a highly heterogeneous group, running the gamut between young, mobile labour in food production to internationally competitive workers in the financial services sector.
- The evidence suggests that the supply of in-migrant labour to the UK does indeed meet the labour shortages that exist, with the volume of work permits granted peaking at times of low unemployment in the UK, such as has been the case in recent years.
- However, there is some polarisation in the level of skills employers require from overseas labour – for example, migrant workers registered on the Worker Registration Scheme (WRS) are likely to be employed in low-skilled production work but the 2005 CBI Employment Trends Survey found that nearly half of all recruitment from the EU accession countries is for higher skilled positions.
- There is little evidence that immigrants are ‘crowding out’ indigenous labour – generally, employers that recruit migrant workers have no other choices.
- There is also growing evidence that the term ‘low skilled’ is not an accurate concept in the analysis of labour markets and globalisation – there are clear qualitative differences between different people that could be recruited to carry out ‘low skilled’ work. Moreover, where migrant labour is concerned, the type of work that the workers are doing in the UK often bears little resemblance to the level of skills that they actually have.
- The argument about whether under utilisation of migrant workers in the UK is a net loss to UK plc is inconclusive – such workers are filling labour vacancies. However, there is evidence that refugee labour is under utilised.
- Illegal migrant workers are commonplace in industries where informal labour market practices are common and avoidance of WRS registration in the food production industry suggests that these figures under count the true level of in-migration from A8¹ countries.

¹ The A8 countries are those nations from Eastern Europe that joined the EU in May 2004. They are Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia

Key sectors

- Skills shortages are most evident at the whole UK industry level. They impact on business concerns such as international competitiveness and wage costs as well as consumer concerns such as service delivery and cost.
- Food and drink producers in the UK are huge employers of migrant labour, with A8 nationals recently replacing non-European Economic Area (EEA) workers from countries such as Ukraine as the key source of labour.
- Migrant workers in the construction industry may be 'hidden' in the data as many are likely to be self-employed but survey evidence shows that they are making a significant contribution to meeting labour demand in the UK.
- The demand of overseas health sector workers experienced a huge spike in the early 2000s, particularly reflecting NHS requirements for nurses. Although indigenous sources of nurses have grown to better match demand levels, the stock of foreign-born healthcare workers in the UK is still significant and overseas recruitment will still continue to be a major feature in the private sector, particularly the care home sector.
- Foreign-born workers are common in several types of private service, including catering, transport and financial services.
- With the exception of food and drink production, manufacturing is not a significant employer of foreign-born workers.
- Along with the health sector, engineering professions are the key group of Shortage Occupations listed by the Home Office for the purposes of granting work permits.

Enterprise

- The global growth of the knowledge economy means that human capital is arguably a more significant driver of wealth creation in developed countries than physical capital – this makes the attraction of entrepreneurial skills a key priority for governments and regional agencies.
- Self-employment rates, as a proportion of all employed people, vary considerably across ethnic groups, from 23% for Pakistanis and 18% for Chinese to less than 13% for white British.
- Key industries that ethnic minority self-employed people are active in include catering and transport.
- In common with other EU countries the self-employment rate amongst people from ethnic minority groups is growing.
- Ethnic minority groups form a larger proportion of all self-employed people in the UK compared with the proportion of all people in employment that they account for. Reasons for this include historical accidents and their cumulative impacts, cultural differences and opportunities such as providing goods and services to ethnic minority markets.
- Analysis of the Labour Force Survey shows that people from ethnic minorities are more likely to be self-employed the longer they have been in the UK. This reflects

common sense explanations such as building support networks, language skills, familiarity with regulations and institutions.

- There is some evidence that refugees are fairly significant amongst business start ups.

Spending and public services

- In this section we are concerned with the gross and net monetary flows associated with immigrants and migrant workers and whether, taken as a whole, these groups represent a net economic benefit to the UK or not.
- The balance of evidence suggests that immigrants make a net fiscal contribution to the UK treasury, although this result is sensitive to underlying assumptions about issues such as how to treat migrants' non-working dependents.
- Immigrants do not appear to be the 'drain' on public welfare spending that they are sometimes claimed to be. Moreover, migrant labour registering on the WRS or for NI numbers are a very insignificant recipient group for welfare benefits.
- In terms of overall economic contribution, immigrants are estimated to contribute 10% to UK GDP despite only accounting for 8% of employment. Their numbers also boost domestic markets for goods and services.
- Remittances, although a significant leakage of resource from the UK, provide an enormous inflow of value to migrants' origin countries, greater than international aid in magnitude.
- Immigrants to the UK also create markets for ethnically diverse goods and services, which in time become part of mainstream UK consumption habits.

Introduction

PROJECT OUTLINE

'Today's global economy demands a more liberal attitude towards immigration'

CBI²

This is stage 2 of a three-stage project to analyse migration issues affecting the UK. Stage 1 looked at key sources of data on migration issues in the UK, including official national statistics such as the 2001 census and international migration data, as well as Experian's own demographic data.

Stage 2 is intended to uncover the drivers of these migration trends and articulate the key impacts that they are having, across a number of dimensions of policy interest.

In stage 3 of the research, we will forecast future migration trends at regional level in the UK and discuss implications for economic performance. We will also highlight the key policy implications of our research for the clients of this study and the options available for positive interventions.

STAGE 2 OUTLINE

We begin this report with a recap of the main migration trends affecting the UK, going in to more detail about the reasons behind migration flows than was the case for the stage 1 report.

Following this, we analyse the trends in migration, their drivers and their impacts across a range of themes agreed with the client group:

- Demographics
- Skills
- Key sectors
- Enterprise
- Spending and public services

² Immigration: A business view. CBI

1 Migration trends

1.1 SUMMARY

This section provides an overview of recent internal and international migration trends affecting the UK. Although the analysis covers some of the issues uncovered in the Stage 1 report, we also cover consideration of the motivations for migration.

1.2 TRENDS IN INTERNAL MIGRATION

Data from the Census 2001 indicates that around one in nine of the UK population (6.7 million) moved within the UK in the year before the 2001 Census. Almost two thirds of these migrants moved less than 10km (mainly housing related moves) and just 1 in 15 moved 200km or more (mainly job related moves). Migration rates are highest for young adults, particularly single people, childless couples and students. It should be remembered that migration rates vary through economic cycles and the census data provides a snapshot in that specific year.

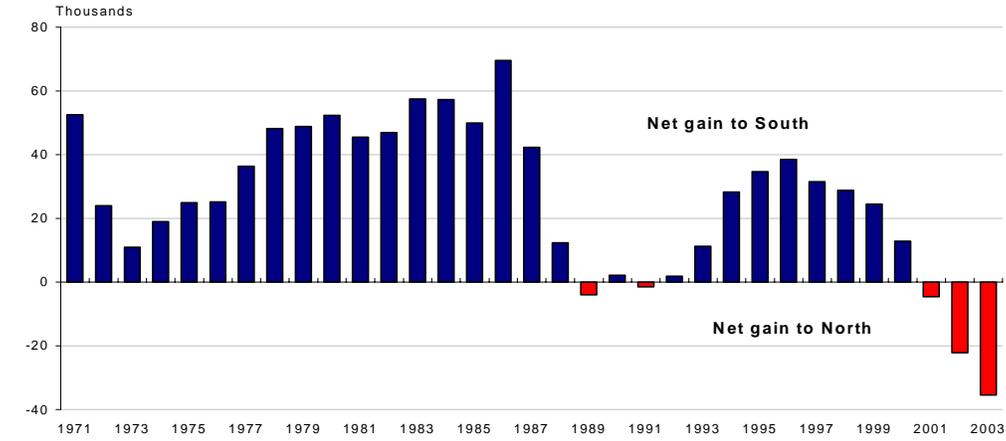
Clearly from a policy perspective migration that has an effect on population redistribution within the UK is particularly interesting, and interregional migration in the UK has exhibited some clear patterns. Two distinct processes appear to be driving interregional migration: the 'north-south drift' and the 'urban-rural shift'.

North-South Drift

There has been a persistent north-south drift of migrants from less prosperous to more prosperous regions. The historically disadvantaged regions of Britain such as the North East and North West have suffered net migration losses and this pattern dates back to at least the Great Depression era of the 1930's and has been continuing in recent decades. Income and employment differentials have driven this process and the north-south drift has fluctuated significantly in volume in response to economic cycles and other factors.

Since the end of the 1980's the north-south drift has been running at a lower average rate and the first four years of the new century have seen an unprecedented reversal of the north-south drift to a south-north drift. Since 2001, more people have migrated from the more southern regions of London, South East, South West, East and East Midlands to the rest of the UK than migrated in the other direction. This is a significant reversal of the almost unbroken southward net migration flow since at least 1971.

Figure 1: Net migration between the North and South of the UK: 1971-2003



Note: South = Government Office Regions of London, South East, South West, East and East Midlands; North = the remainder of the UK

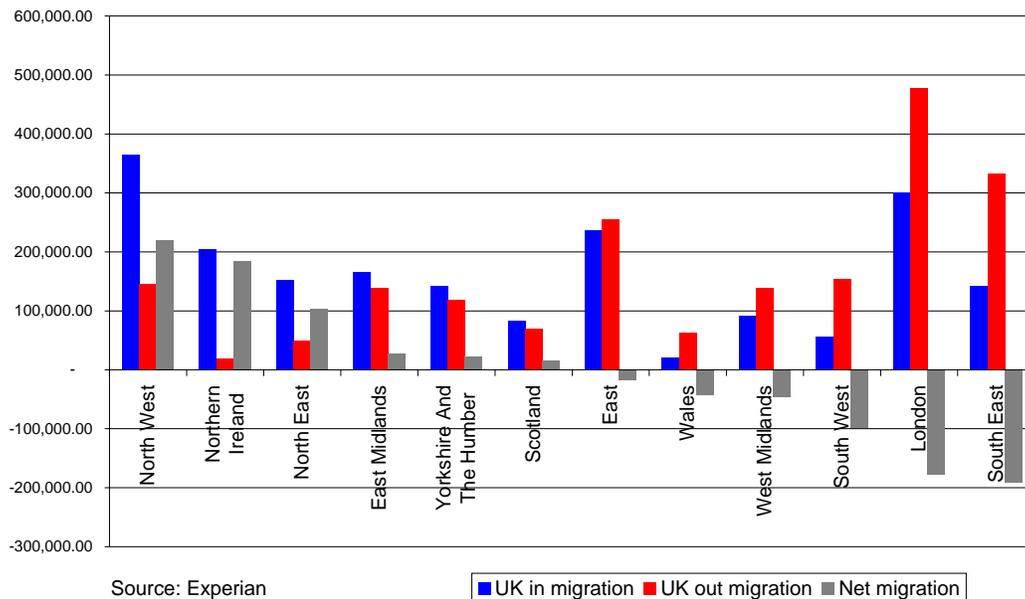
Source: NHS Central Register, General Register Office for Scotland, Northern Ireland Statistics & Research Agency

Several factors may have caused this reversal in trend. The economic cycle undoubtedly plays an important role. As the UK emerged from a recession in the mid 1990's, London and the south drove the recovery, drawing in migrants from other parts of the UK. However, as the recovery changed into a national economic boom, inflationary pressures in London caused residents to take advantage of higher property prices and move out to other regions in the UK. In 2001 the house price gradient between North and South was at its steepest. Potential migrants from other regions were probably deterred by the high house prices in the South and the increased job opportunities in their own region as the recovery spread across the UK.

A second potential factor is the population pressures experienced in the south. Substantial net migration flows into the UK from overseas since the early 1990's and London's principal role in accommodating this and natural population increases have both played a role. It seems these influences have led to a more permanent reduction in north-to-south migration. This view is backed up by research which looked at inter-regional mobility in the UK between 1982 and 2000³.

³ Immigration and inter-regional mobility in the UK, 1982-2000, CEPR Working Paper, DP4061

Figure 2: In 2005 the North gained and the south lost from internal migration



The north-south reversal, evidenced by the NHS data analysed above, is backed up Experian's 'Movers' data for 2005⁴. As can be clearly seen in figure 2, regions which experienced internal net migration gains in 2005 were exclusively in the north, whilst the south of the country experienced net losses as a result of migration patterns that year.

Urban-rural shift

The second of the distinct regional migration processes is an urban-rural shift, a drift of people away from large cities and towards smaller towns and rural areas. This process is also accompanied by an intra-urban phenomenon: the large long-term flows of migrants from central city areas to the suburbs.

The urban exodus has been a very persistent trend over time, since 1981 metropolitan England has lost 2.25 million people as a result of net migration exchanges with the rest of the UK⁵. However, there is also strong evidence that city centres have been gaining population again after years of population loss. Generally this has occurred across UK cities since 2001⁶.

Housing affordability is likely to play an important part in driving this process of urban-suburban-rural shift. Whilst counter-urbanisation is often seen as being led by a demand for a change in lifestyle, it will often be made more attractive by the increase in housing 'purchase power' that people selling property in the south east experience. For instance, house price differentials between London and other parts of the UK mean that a household could sell a two-bedroom flat in the capital and realise sufficient equity to purchase a much larger property elsewhere in the UK.

⁴ Experian's Movers data is based on household change of address information captured by financial institutions in the UK.

⁵ ONS

⁶ City People: City Centre Living in the UK. Nathan, M. and Urwin, C. (with Tony Champion, Experian Business Strategies and James Morris). IPPR, 2005

Research undertaken by Newcastle University uncovers some finer grain within these migration issues⁷. One of their findings is that rural population growth has been almost exclusively driven by internal migration trends. They also find evidence of a ‘counter-urbanisation cascade’ between 1998 and 2001, whereby the majority of moves are from an urban area to a less urban area. However, it interesting to note that this finding covers the period prior to the recovery in population growth in UK city centres and therefore it is not clear whether this trend has been reversed in recent years.

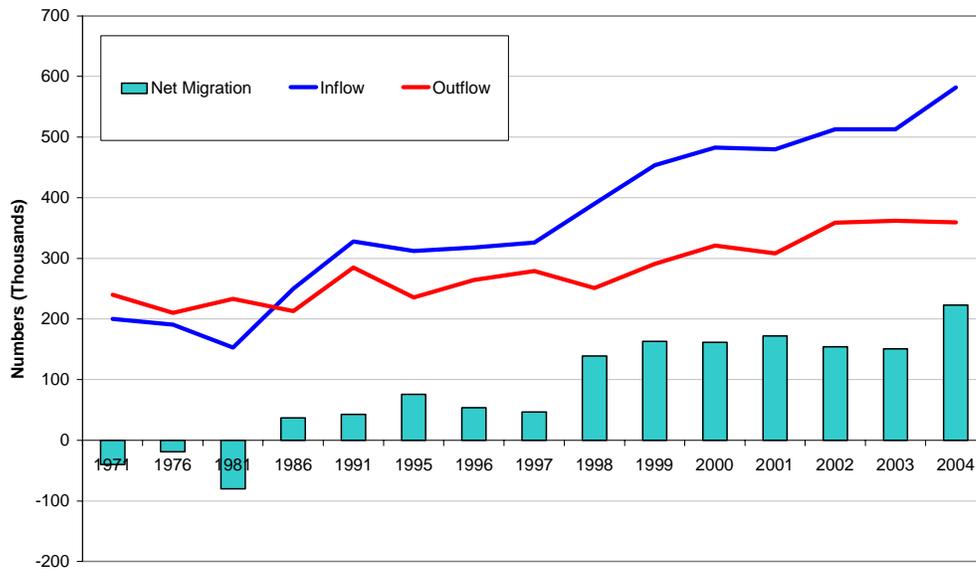
1.3 TRENDS IN INTERNATIONAL MIGRATION

The UK has always been relatively open, and the population is now, as it always has been, the result of successive influxes of migrants and the racial and cultural intermixture of those migrants with those who were already there. The 1950-70’s saw substantial net emigration from the UK, however since the 1980’s this trend has reversed and there is now substantial net immigration into the UK.

Both migration into and out of the UK has increased substantially in the past thirty years (figure 3) and particularly quickly since 1998. This is a trend that is mirrored in most countries in the European Union. Between 1998 and 2003 there was a net inflow of 941,000 migrants into the UK (Office for National Statistics, 2006).

In 2004, an estimated 223,000 more people migrated to the UK than migrated abroad. This net inflow is much higher than for 2003 when 151,000 more people migrated to the UK than left to live abroad. Migration from the new member states of the EU was a key reason for this increase.

Figure 3: International Migration Flows, 1971-2003



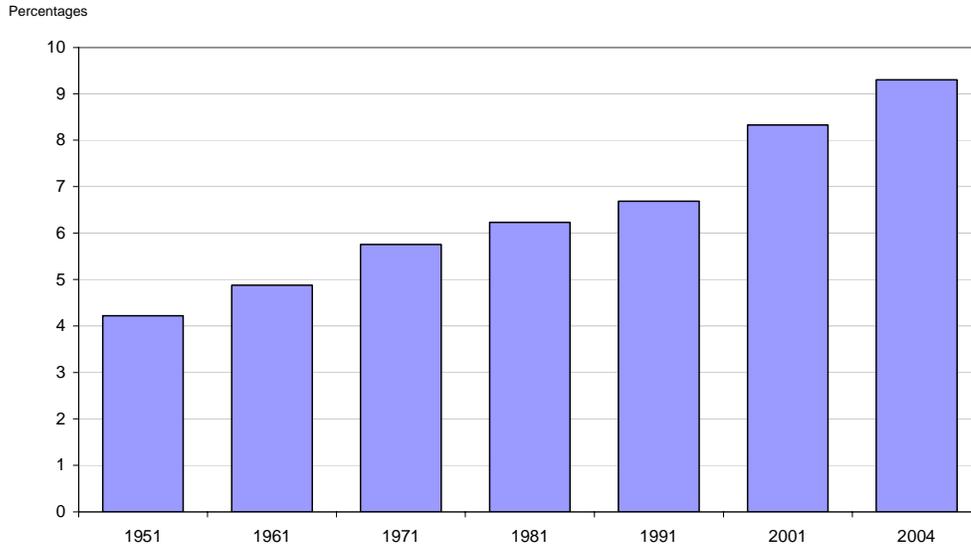
Source: International Migration, Office for National Statistics

The proportion of the population born overseas has increased steadily over the past fifty years, increasing from 4.2 % in 1951 to 9.3 % in 2004. It increased more quickly between 1991 and 2004 than in the past. Compared with other major European and large economies the UK’s

⁷ Migration and Social Change in Rural England, Champion, T., Newcastle University (ESRC Seminar Series, 4th Seminar: Migration and Social Change, at University of Newcastle upon Tyne, 22 March 2006)

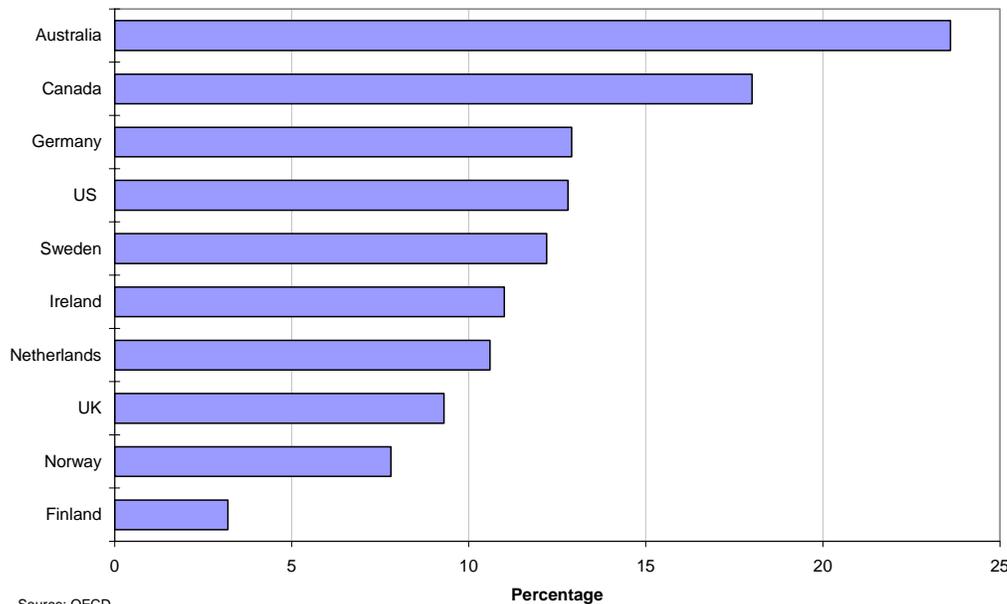
foreign-born population is not particularly large. Other European countries such as Ireland, Sweden and Germany have larger foreign born populations, while countries such as Canada and Australia have particularly large foreign born populations (figure 5).

Figure 4: Overseas-born population as a percentage of total UK population, 1951-2004



Source: Office for National Statistics, OECD

Figure 5: Foreign-born population as a percentage of total population in selected countries, 2004



Source: OECD

There are several developments that have driven recent growth in international migration. The process of globalisation saw increased levels of migration associated with increased commercial activity and economic opportunities. The fall of the Iron Curtain in 1989 opened up possibilities for the movement of large populations whose mobility had been restricted for many years. The end of communist regimes across the world and the introduction of market and semi-

market economies in many countries enhanced the process of globalisation. As noted above, the entry of the new accession countries into the European Union in May 2004 has seen substantial movement of labour migrants from these countries into the UK.

Humanitarian migration has become more prevalent over the past fifteen years as a result of increased civil and ethnic conflict, resulting in people fleeing war, persecution and economic hardship. With limited possibilities for legitimate migration to western countries in the early nineties, a large increase in the number of asylum seekers was witnessed. A relatively small proportion of asylum seekers had their claims recognised by host countries. At the same time, illegal migration, stimulated in part by demand for low-skilled and low-paid labour, increased significantly in most western economies although by definition it is impossible to know exactly how many illegal immigrants entered the UK, but it is likely to mirror the trend seen in the increased levels of asylum seekers in the past decade.

1.4 WHY DO PEOPLE MIGRATE?

People migrate for a variety of reasons. For many the motivation is primarily economic, with the prospect of better wages or working conditions or more simply of employment. Some come with their families with the aim of permanent settlement, others bring their families into the country when they are settled. Other reasons include study, marriage, adoption or retirement. As noted above, humanitarian immigration has also become a more common reason for migration over the past fifteen years.

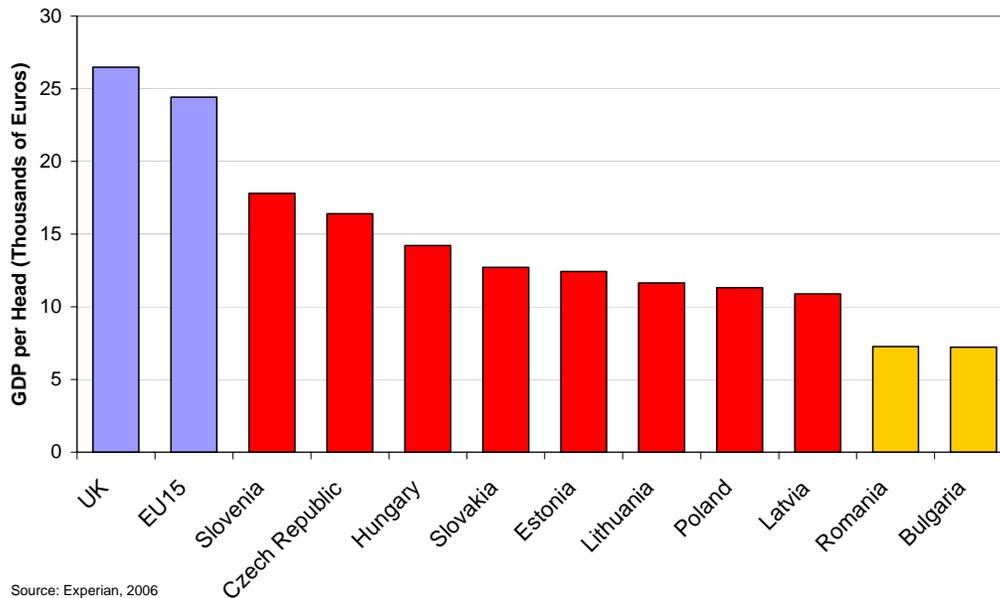
Two general influences on the incentive to emigrate are usually distinguished:

- “Push”, or supply side factors affecting the interest and willingness to emigrate
- “Pull”, or demand side factors that affect the demand for immigrants in the destination region or country.

On the supply side, relative expected incomes between host and source countries are generally thought to be an important factor influencing the incentive to migrate. Relative expected income discrepancies can be approximated by the proportion of per capita income in the source countries relative to the host country, in other words how much a person can be paid in the destination country compared to their country of origin.

This is clearly the major driving factor between the large flows of migration into the UK since the latest EU enlargement on the 1st of May 2004. Ireland, Sweden the UK were the only EU members to allow open access to their labour markets for workers from the new member states, all have experienced large inflows of migrants. Between May 2004 and March 2006 392,000 workers from the A8 have registered to work in the UK.

Figure 6: GDP per head, select countries



Large income disparities exist between the UK and the central and eastern European accession countries; in 2005 GDP per head in the UK was €26,500, while Slovenia, the richest of the A8, had a GDP per head of €17,800 and Latvia, the poorest, €10,900. The higher wages on offer in the UK clearly act as a strong incentive for individuals to migrate to the UK. Interestingly the vast majority of migrants have been from Poland where unemployment is around 18 % which may act as an additional “push” factor.

The accession of Romania and Bulgaria to the EU in January 2007 (accession may be delayed till 2008) will also see fairly large migration flows since income disparities are even larger. Migration from Romania and Bulgaria to the UK is predicted to be around 70,000 in the first year (IPPR, 2006).

Such “push” factors driving migration can similarly be applied to migration patterns within the UK. The persistent north-south drift of migrants from the less prosperous regions with higher unemployment to the more prosperous regions with greater opportunity has been driven by push factors.

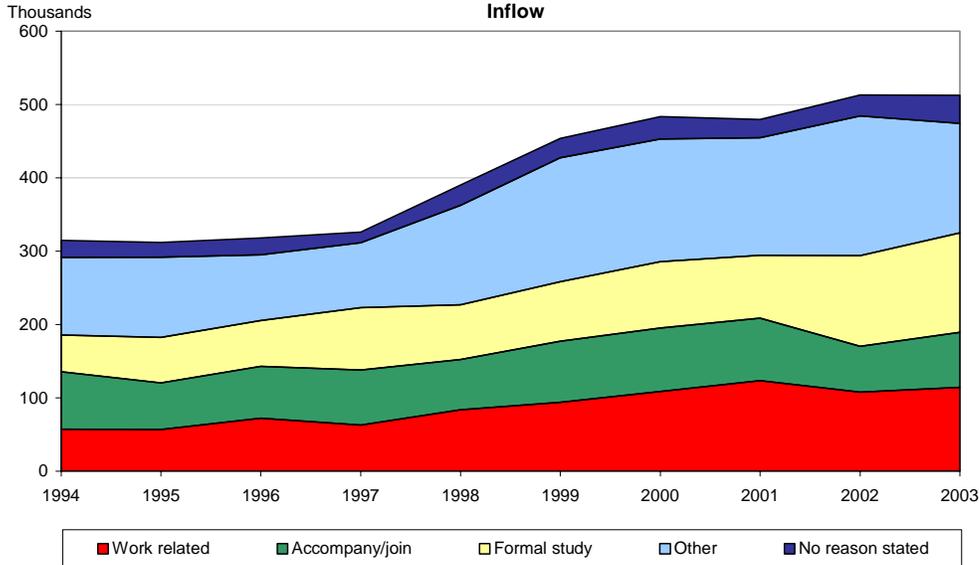
Relative income discrepancies are clearly not the only determinant of migration flows. These also depend on the immigration policy of the destination country as well as other factors that influence the expected costs and benefits of moving:

- information and information flows (which may be accurate or otherwise)
- chain migration effects (at the ethnic group, local/village or family level)
- transport and transaction costs
- capital constraints (which may influence potential migrants’ ability to pay transport costs)
- almost anything else that affects the desirability of living/working in the destination as opposed to source country, from ethnic or political violence to climate.

On the demand side, the need for migrant workers to fill gaps in the labour market in many host countries is an important factor. A number of large European countries have traditionally filled positions in the service sector and in import-competing industries by recruiting foreign migrant labour. A number of countries including the United Kingdom also allow immigrants to enter temporarily as seasonal workers mainly concentrated in the agricultural sector.

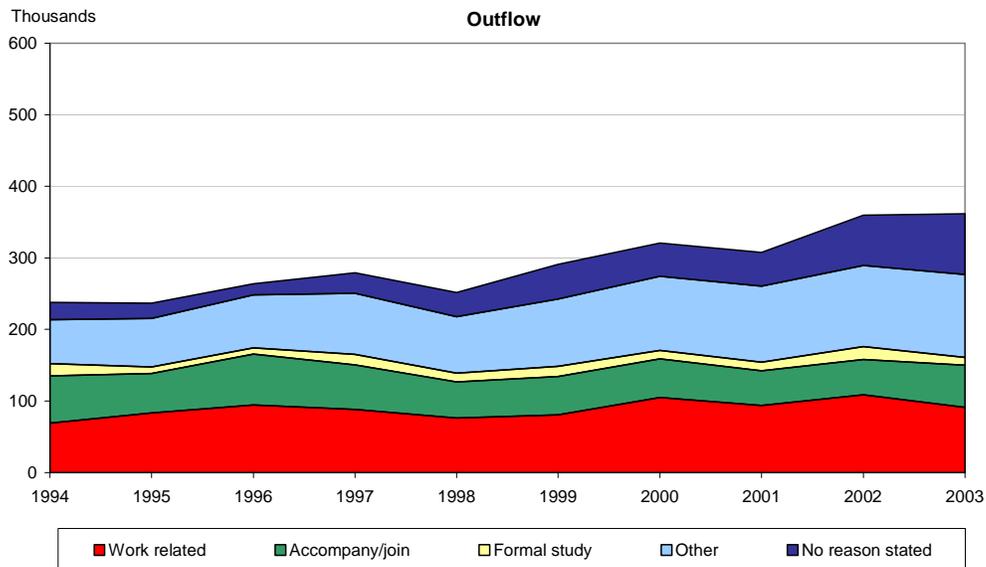
While the reasons supplied by immigrants to the authorities may not always coincide with the real reason for migration it gives a good indication of the relative significance of work, study and other motives.

Figure 7: Reasons for International Migration 1994-2003



Source: Office for National Statistics, International Migration

Figure 8: Reasons for international migration 1994-2003



Source: Office for National Statistics, International Migration

Notes:

- **Work related** refers to those with a definite job to go to.
- **Accompany/join** refers to those migrating to accompany or join a partner/immediate family.
- **Formal study** includes those migrating to attend a formal study course.
- **Other** includes those looking for work, working holidaymakers, asylum seekers, visiting friends and family and anyone taking a long holiday.
- The figures include all categories of migrants and therefore represent Total International Migration.

Following on from the reason for people migrating, it is possible to categorise migrants into five broad categories:

- Labour Migrants
- Family Migrants
- Student
- Asylum
- Illegal or Unauthorised migrants

We discuss the demand for migrant and immigrant labour in more detail in chapter 3, where we also analyse the relative significance of state versus employer migrant attraction strategies.

2 Demographics

2.1 SUMMARY

Clearly from a policy point of view it is important to understand the demographic profile of migrants in order to understand the impact they have on local economies and population structures. Migration affects the demographic profile of the UK and its constituent regions and localities. This in turn determines the economic characteristics of these areas in terms of; productive potential, economic performance and the need for public interventions.

2.2 CHARACTERISTICS OF INTERNAL MIGRANTS

2.2.1 Socio-economic profiling of internal migrants

Previous research has indicated that some types of people migrate more frequently than others⁸. In this section we review census evidence as well as findings from mapping Experian's Movers data to Experian's Household Mosaic segmentation system.

Data from the 2001 Census provides one source of detailed information on the demographic profile of migrants and some quite clear patterns are evident. Migration patterns reflect a common life course: leaving the parental home, settling down with a family and retiring and growing old. However this pattern, although still common, is not universal. Ageing is inevitable whereas leaving the parental home, forming a household with a partner and having children are all choices. The interest to sociologists and demographers is how and why these choices vary over time and space. Here, we concern ourselves with the socio-economic profile of recent internal migrants in the UK.

Age is a key discriminator of migration behaviour; the majority of migrants are young adults, with the single and childless and students tending to migrate more frequently than others. Figure 9 shows that those in their late teens and early twenties exhibit the highest levels of residential mobility. This is due to individuals in this age group starting and leaving university, as well as those leaving school and entering the labour market. In addition, it captures those leaving the parental home to live elsewhere.

The higher percentage of women movers in the late teens and early twenties age group partly reflects the age difference in partnerships with females being more likely to move into a home with their partner at a younger age. In addition, females are also more likely to move into a dwelling already occupied by their male partner than vice-versa.

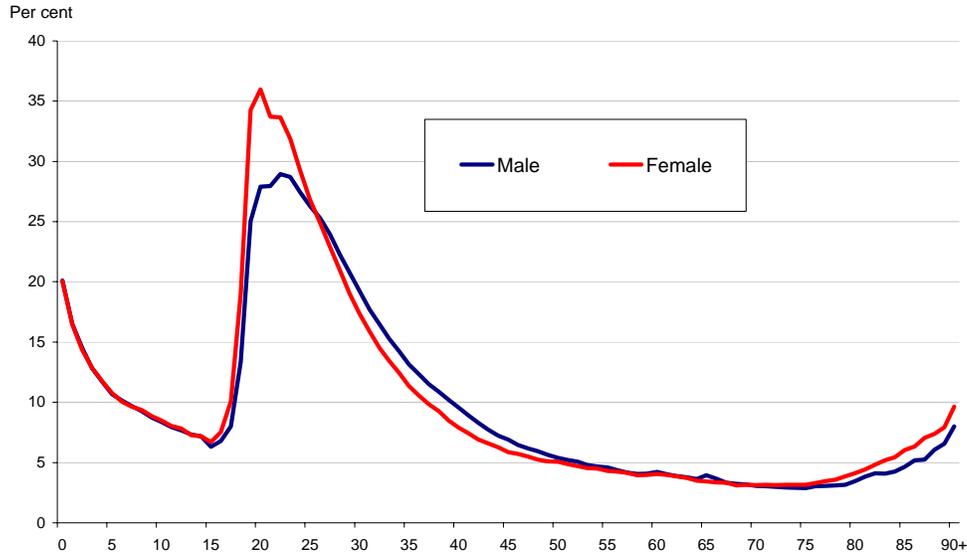
Migration levels fall significantly as people get older, reflecting individuals settling and starting families. The higher rate for males in their 30's and early 40's can most probably be attributed to separation or divorce often involving the departure of the father from the family home.

Above 75 years of age, the proportion of individuals moving rises, reflecting migration prompted by loss of partner or increasing frailty. Older people in such circumstances will move

⁸ Are our cities still losing human capital? The evidence of the moving group data from the 2001 census. Champion, T., Coombes, M. 2005

closer to family or often into smaller or special accommodation. The higher proportion of women above 75 migrating is due to women having a longer life expectancy.

Figure 9: Percentage of residents known to have changed address within the UK: by age and sex, 2001 (12 months prior to 2001 Census)



Source: Office for National Statistics, Census 2001

Experian’s Mosaic household segmentation system also illustrates the point that the UK’s population of internal migrants contains disproportionate numbers of young, well educated people. The data used in this report only relates to migrants whose move was to a different Local Authority District (LAD). Therefore, internal LAD moves, which account for most internal migration, are omitted from the analysis.

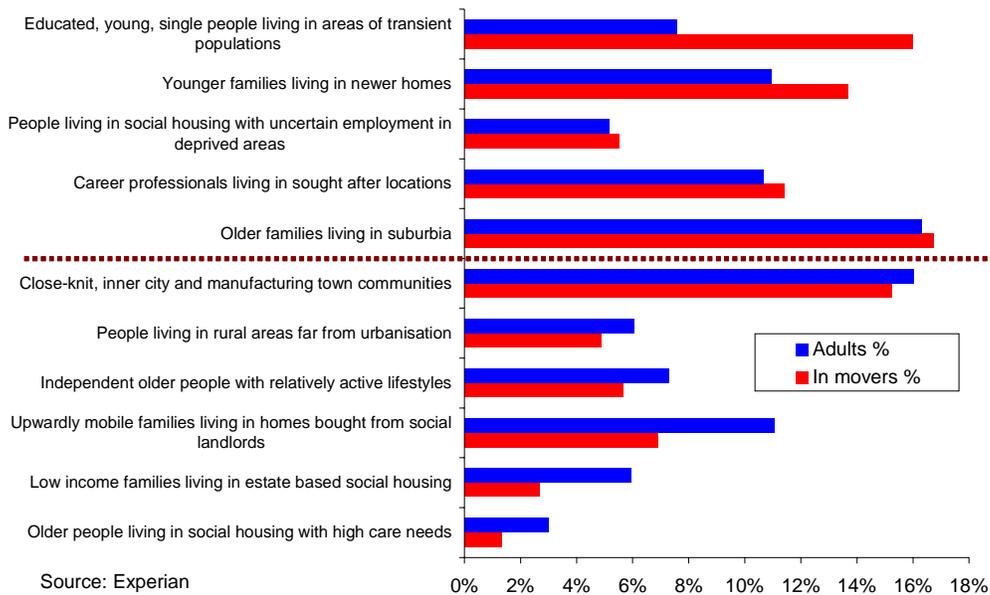
Figure 10: Household Mosaic

Mosaic UK classifies all UK consumers into **61 distinct lifestyle types** and **11 groups** which comprehensively describe their socio-economic and socio-cultural behaviour. The system is built from over **400 variables**, based on quantitative data, such as 2001 Census and qualitative research. A key part of the concept behind Mosaic is that similar types of people tend to **cluster** together in localised areas.

As illustrated in figure 11, young, well-educated single people are the most over represented group in the internal migrant mix, relative to their share of total, adult population. They are followed by young families. Young families are more likely than average to move for the following reasons. Firstly, they are young and still mobile in the labour market and may be yet to set down roots in a particular area. Secondly, as they are more likely to be having children, their housing and income requirements are still changing, with implications for where they want to live and the jobs they require.

Interestingly, the next group with a higher than average probability of moving is people living in social housing areas characterised by higher unemployment. This could lend some weight to the argument that, in an efficient labour market, labour moves from areas of low economic opportunity to areas of higher economic opportunity. This issue is discussed further in chapter 3.

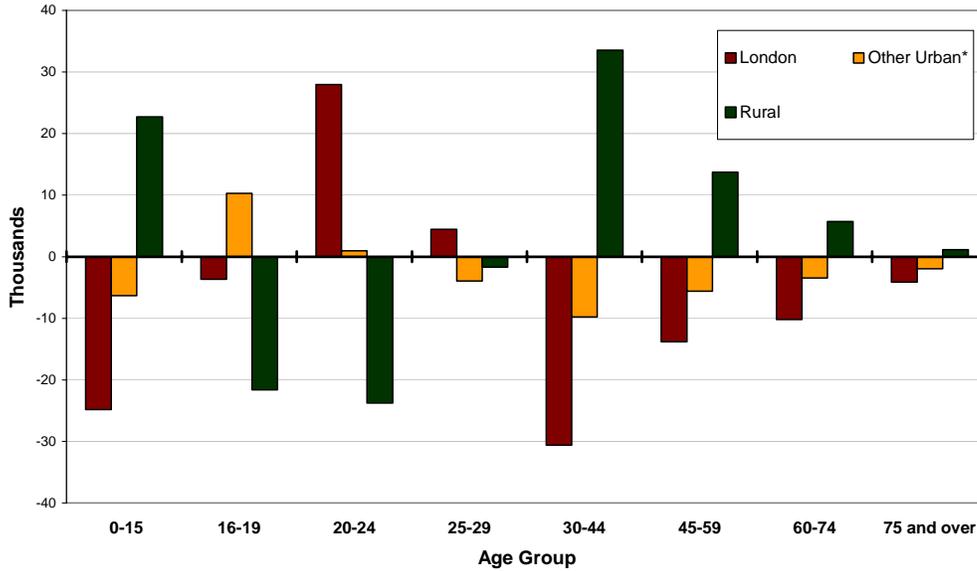
Figure 11: Profile of the UK's internal migrants in 2005



The socio-economic groups less likely to move include people living in rural areas, low income families in social housing estates and older people. It is also interesting that people living in towns traditionally associated with manufacturing industry are a less significant group in the migratory population than their share of UK population would suggest. This may perhaps mean that, as their typology summary suggests, they are more connected to their local areas than many other socio-economic groups and therefore the ‘costs’ of moving away are greater.

Age characteristics of migrants also play an important role in determining the destination of migrants within the UK. The 2001 Census data lends support to the theory that the young are attracted to the inner cities while families with children are more likely to move out of central urban areas than move to them. London and the other urban areas recorded significant net losses of age groups 0-15 and age groups aged over 30 in the year before the 2001 Census. Rural areas saw a significant loss of young adults aged between 16 and 24. London’s gain of 20 to 24 year olds is probably caused by the city’s attractiveness to university graduates from all over the UK.

Figure 12: Net migration in selected urban and rural areas by age group in year prior to 2001 Census.



Source: Office for National Statistics, Census 2001

*Other Urban includes West Midlands, Greater Manchester, West Yorkshire, Tyneside and Merseyside. Rural constitutes areas with population less than 10,000.

Using the Mosaic profiling of the UK’s migratory population in 2005 we identified some significant differences between UK regions, both in terms of the type of people they gain and the type of people they lose. This analysis supports the 2001 Census findings regarding inter-regional migration and age.

Some key patterns across the UK are evident:

- Young, well educated people are highly prevalent amongst both the incoming and outgoing migrants in each region
- People with lower skills from deprived neighbourhoods are frequently over represented in the migratory population
- Low income households, people who bought their homes from social landlords and older people with care needs are least likely to move
- As a generalisation, internal migration appears to be predominantly urban-focused and employment-related

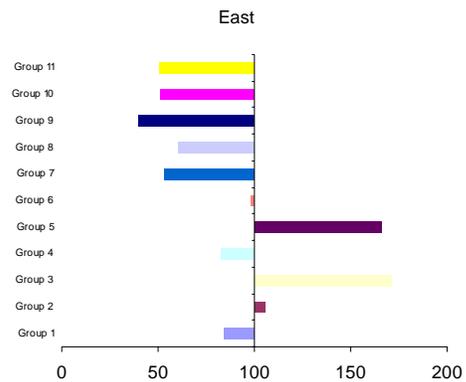
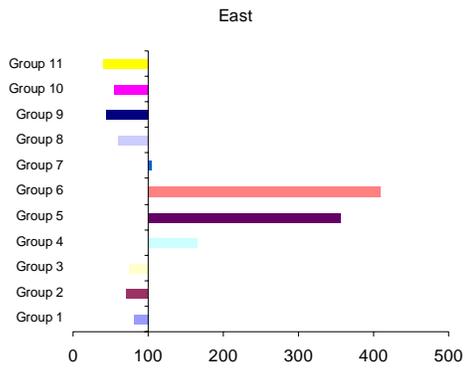
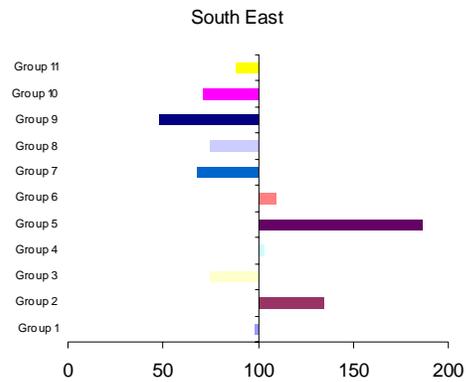
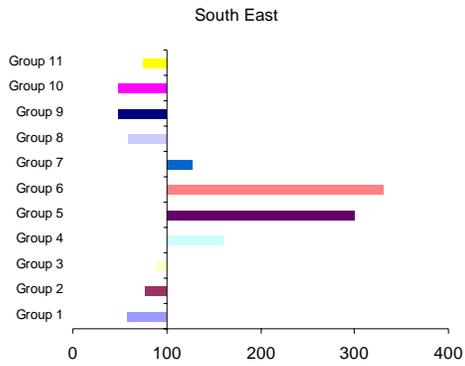
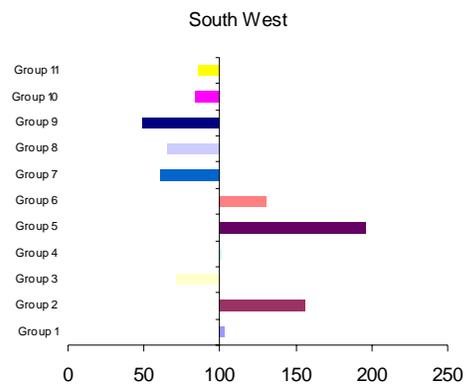
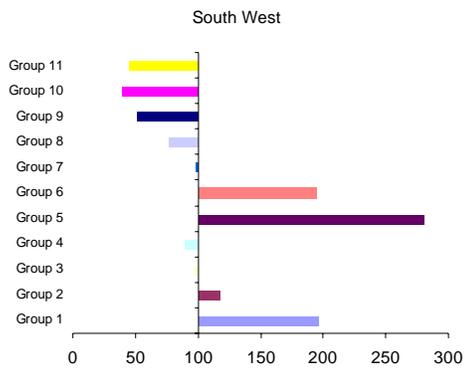
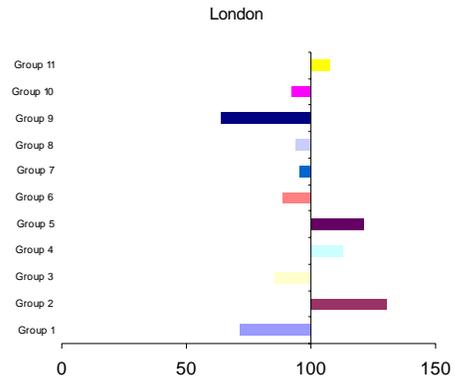
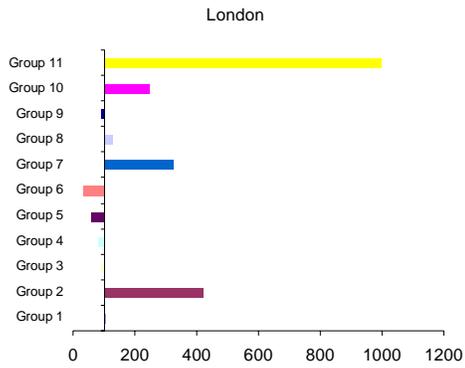
Figure 13: Legend for analysis of movers

Label	Name	Colour
Group 1	Career professionals living in sought after locations	Yellow
Group 2	Younger families living in newer homes	Magenta
Group 3	Older families living in suburbia	Dark Blue
Group 4	Close-knit, inner city and manufacturing town communities	Light Blue
Group 5	Educated, young, single people living in areas of transient populations	Blue
Group 6	People living in social housing with uncertain employment in deprived areas	Pink
Group 7	Low income families living in estate based social housing	Maroon
Group 8	Upwardly mobile families living in homes bought from social landlords	Cyan
Group 9	Older people living in social housing with high care needs	Light Yellow
Group 10	Independent older people with relatively active lifestyles	Light Purple
Group 11	People living in rural areas far from urbanisation	Light Blue

Figure 14: Profile of in and out movers in the south of the UK

In movers

Out movers



In figures 14 to 16 we look at the profile of internal migrants by region, starting with the southern regions of the UK.

London government office region was the most significant region in the south in terms of the attraction of young families. Further analysis of Mosaic types shows that very young couples and professionals in expensive housing were the most prominent in moving types.

The South West stood out in terms of attraction of career professionals. This is the most affluent UK socio-economic group and they are mainly found in London, where they have a tendency to stay. Their appearance in the South West may suggest that to some extent these in-migrants continue to commute to London for top flight jobs.

A distinguishing feature of the South East is its apparent attraction to the lower skilled cohorts of the working population, including lower income people from deprived neighbourhoods and migrants from manufacturing towns. This may be a reflection of the nature of out-migration from London to the South East. A similar pattern was evident in the East region in 2005.

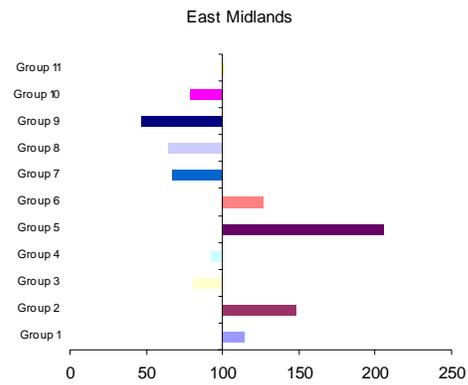
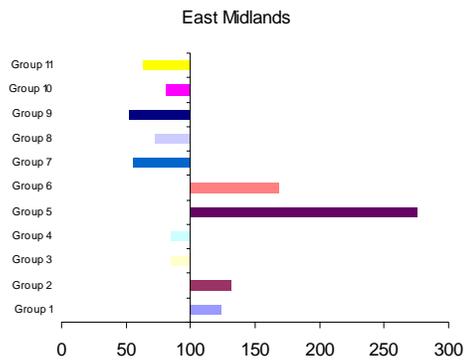
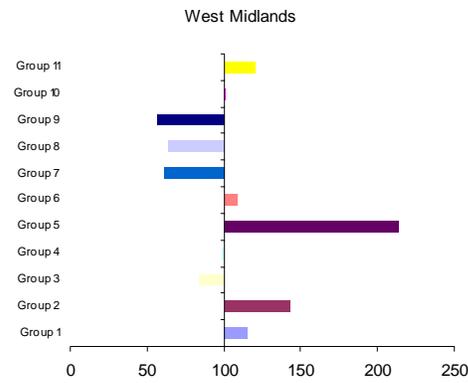
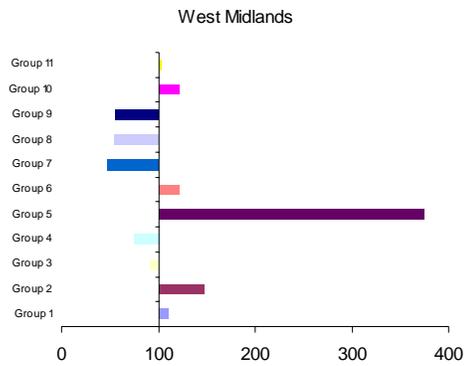
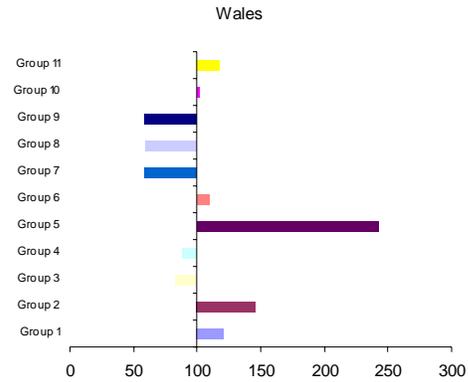
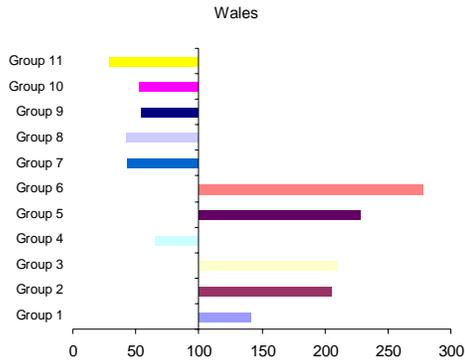
Moving north we begin to see some different population dynamics in the Midlands and Wales (figure 15). The analysis suggests that in 2005, Wales had the most dynamic population changes amongst all the UK regions. Several groups were over represented in the in-migrant population, including career professionals, low income workers, educated young people, families and (a little unusually) older suburban families. This suggests that the social mix of Wales is being altered by in-migrants.

The two Midlands regions displayed migration patterns that were similar to each other, with the most prevalent migratory group being young educated people, as is the case at national level.

Figure 15: Profile of in and out movers in the Midlands and Wales

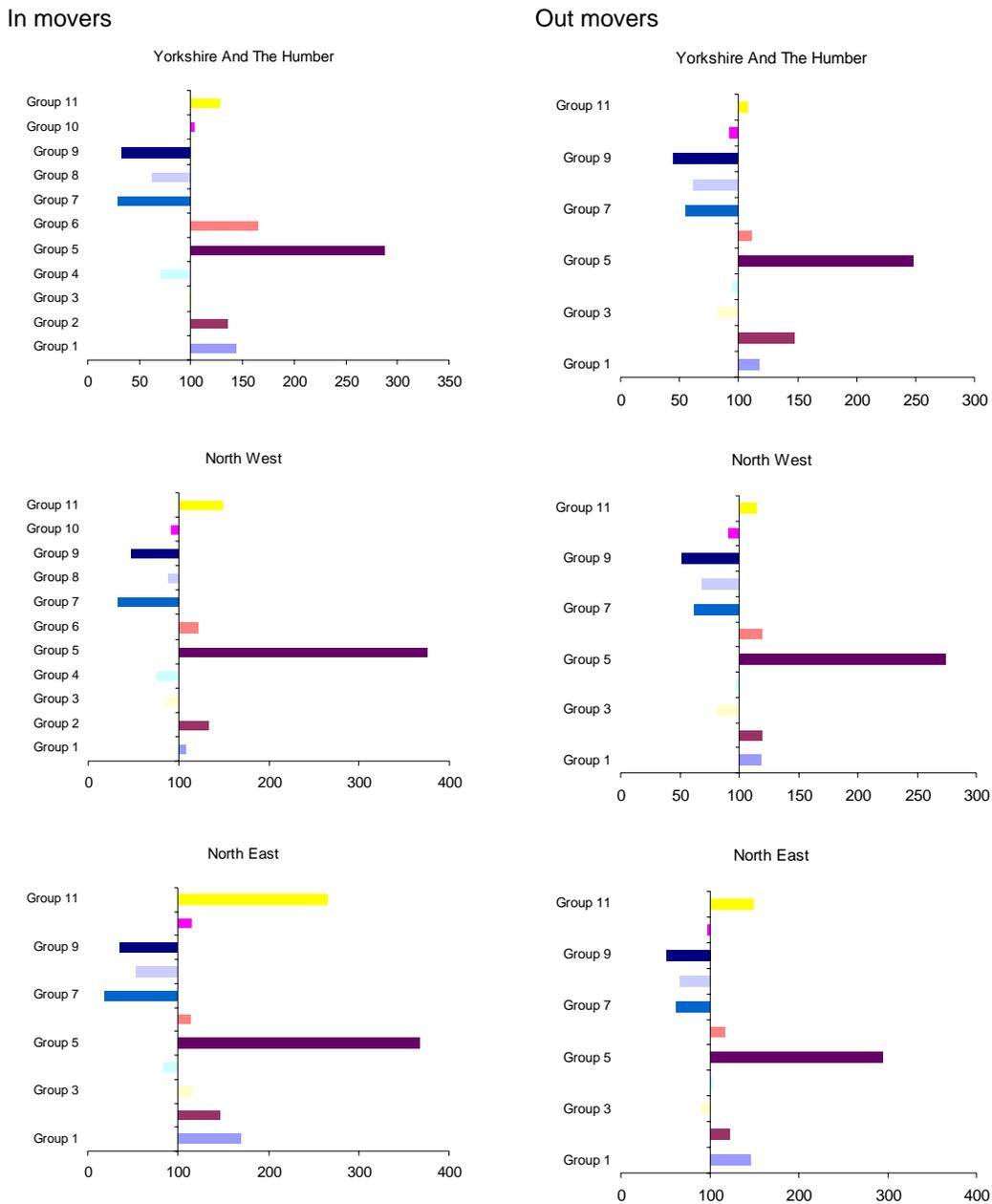
In movers

Out movers



Turning to the Northern regions, some new dynamics appear (figure 16). One of the most significant novel features about migration in the North is the higher prevalence of people from isolated rural areas in the migratory population. This is particularly apparent in the migration inflow to the North East.

Figure 16: Profile of in and out movers in 2005 in the North



The Census shows other distinguishing characteristics of internal migrants to include:

- Single never-married people had the highest propensity to change address.
- In terms of housing tenure, private renting was the sector with the highest turnover of population.
- Students made up the largest migratory economic group followed by those unemployed and seeking work.
- The retired were the least migratory group.

Taken together, the 2001 Census and Mosaic-Movers data suggest that:

- There is evidence of efficiency in the labour market – people needing jobs migrate to where they are.
- Skills and mobility go together – higher skills levels increase the probability that someone will migrate as well as the average distance they will migrate.
- Most areas are not changing much – they are losing and gaining young, skilled people.
- Urban areas are, almost by definition, a transient settlement phenomenon.

2.2.2 Housing

A key issue that has not yet been addressed in this report is housing. Internal migration is facilitated, or hindered, to the extent that the housing system enables people to change location.

There are a few key issues here:

- Affordability as constraint – the housing system constrains movement if house prices and rents in a potential ‘destination’ area are much higher than in the ‘origin’ area.
- Profit as a motive – where large property value differentials do exist (e.g. London compared with Yorkshire and the Humber) there is an incentive to realise equity gain by moving from the high to lower property market.
- Lifestyle choices – property value differentials also mean that households have the opportunity to sell up on high value, urban markets (e.g. London) to purchase a much larger or more desirable property elsewhere, such as a rural area
- Second home ownership – second and holiday home ownership is a big factor in some areas, such as Cumbria and Cornwall. Generally, such purchases are not associated with migration but can have huge property value, housing affordability, social and economic impacts on the settlements most affected.
- Private rented sector – the UK’s relatively small private rented sector is associated with young, transient populations, such as students and young professionals starting out. However, it is generally small and expensive, a factor that may mean current migration volumes for young, skilled people are actually below their potential level.

2.3 CHARACTERISTICS OF INTERNATIONAL MIGRANTS

2.3.1 Duration of stay

The term migrants has been variously used to describe anything from eastern European farm workers living in the UK for four months at a time, to ethnic minority families who have been living in the UK for several generations. French people fleeing to south England during the persecution of the Huguenots in the sixteenth century were legitimately labelled migrants for a while but there comes a point where, from a policy perspective, they are as much British as anyone else. Legally, they will also be accepted as such, with full UK citizenship status. For these groups, there are unlikely to be many relevant public policy issues.

However, recently some concerns have been raised about the inherent difficulties with helping workers from the A8 countries settle and integrate in the UK. To a large extent, these workers can share social relationships, workplaces and, increasingly, retail and leisure resources with people from a similar national background. In a sense, their only interaction with the UK is that it is the physical location of their workplace. Arguably, in this example interdependence between the migrant worker and their country of (temporary) residence is narrowly confined to the provision of labour in exchange for wages. For this group, policy issues revolve around the (net) fiscal contribution of migrants and the extent to which migrants are helping to enable an efficient UK labour market. It is not clear if integration issues are relevant to policy makers.

Figure 17: Duration of migrant workers' stay – case study

Case study

Evidence from one organisation which deals with organisations who provide migrant labour to UK food and drink industry (the Association of Labour Providers) suggests that workers are often 'back and forth' between their home country and the UK. Often, this is just due to the seasonal or short-term nature of the work that they do, for example harvest time in agriculture.

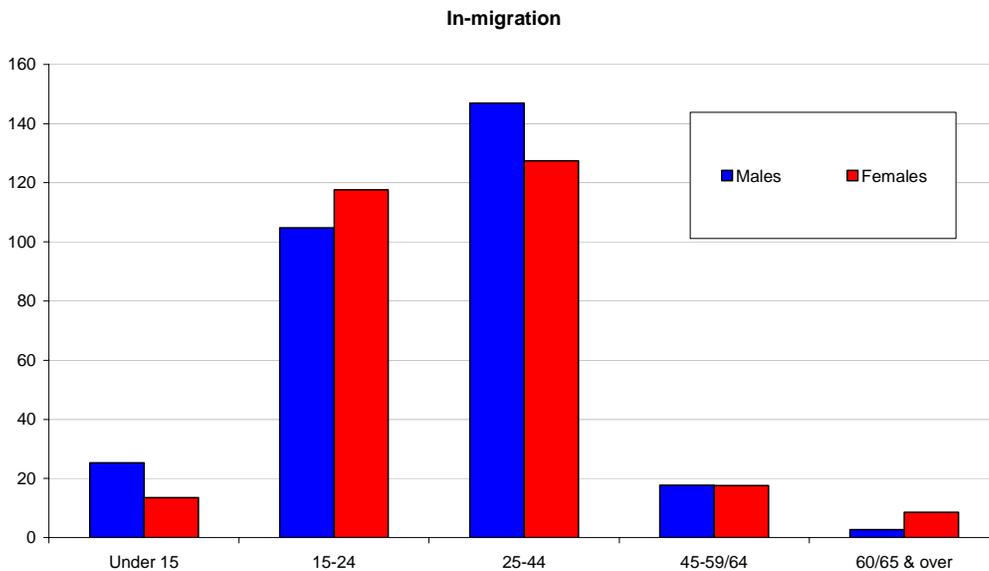
In between these two extremes are the migrant groups of most policy concern. Further along the 'sliding scale' from seasonal migrant workers are people who may intend to stay in the UK for a number of years, or permanently settle in the UK. For these people, seeking UK citizenship may be an issue and being granted official permission to remain and work in the UK certainly will be a relevant concern.

Other research has found that the average length of a Work Permit in the UK is 40 months⁹. There is also a distinction to be made between the intended duration of stay, which may be captured in data, and the actual duration of stay, which may not be captured. For example, EU enlargement has led to a large increase in migrant workers from the accession countries to the UK. This increase is viewed as being transient and temporary, perhaps by policy makers and migrant workers alike. However, it is likely that some of these workers will decide to settle permanently in the UK, contrary to their initial intentions.

2.3.2 Age

A further significant characteristic of internal migration is the age of the migrant. As was the case with migration within the UK, international migration is most common among younger adults. In 2004 the 15-24 and 25-44 age groups combined accounted for the majority of both in-migrants (85 %) and out-migrants (73 %).

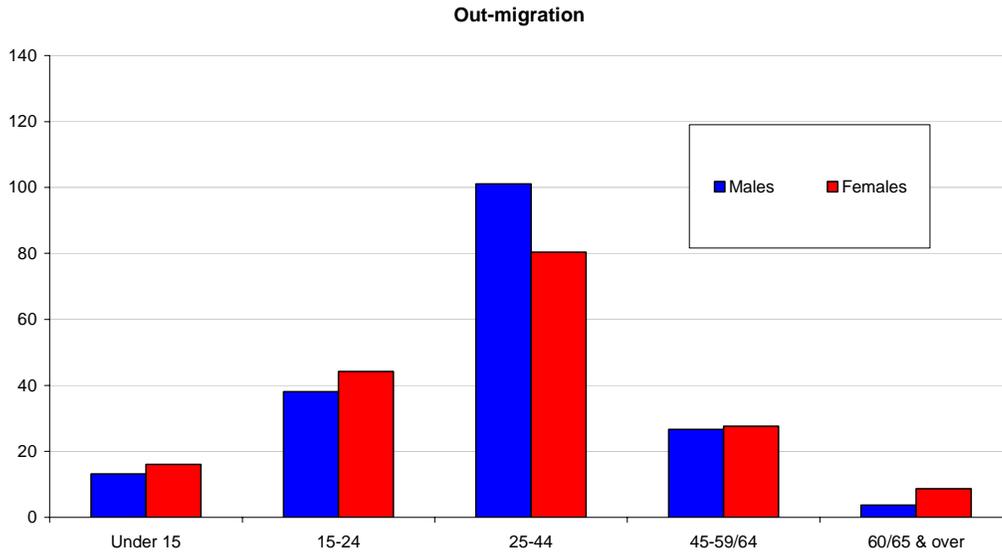
Figure 18: International Migration by age and sex 2004 (thousands)



Source: Office for National Statistics, International Migration

⁹ Selecting Wisely – Making Managed Migration work for Britain. IPPR, November 2005

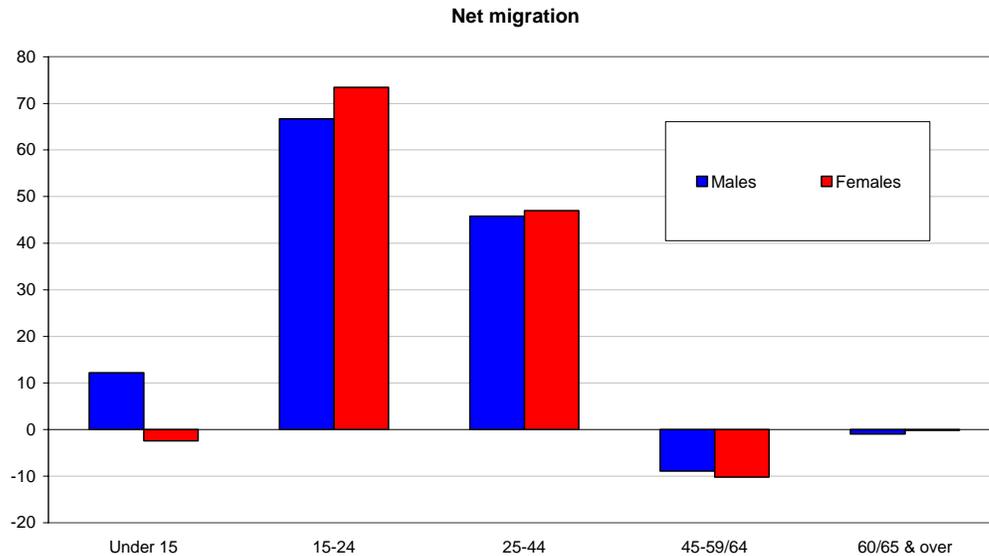
Figure 19: International Migration by age and sex 2004 (thousands)



Source: Office for National Statistics, International Migration

Data from the Labour Force survey corroborates the findings from the International Passenger Survey that international in-migration has the net impact of reducing the average age of the labour force. The age profile of ‘foreign-born’ people in the labour force is predominantly in the 24-44 bracket, more so than UK-born people.

Figure 20: Net migration, age and gender (thousands)



Source: Office for National Statistics, International Migration

In-migrants tend to have a younger age profile than out-migrants. In 2004, 38 % of in-migrants were aged 15-24, compared with 23 % of out-migrants, while 47 % of in-migrants were aged 25-44, compared with 50 % of out-migrants.

As shown by the net migration figures there were significantly more in-migrants than out-migrants. The UK gained 140,000 migrants aged between 15-24 and 92,800 migrants aged between 25 and 44. Given the main reasons for migration, work and study (discussed above) one would expect a prominence of younger adults in the migration numbers.

For the age groups aged 45 and over the net flows were in the opposite direction with a net outflow of 20,200. The net outflows of this age group are a recent phenomenon, which has witnessed increased outflows of this age group in the last five years. This most likely reflects the increased popularity in recent years of buying property and retiring abroad.

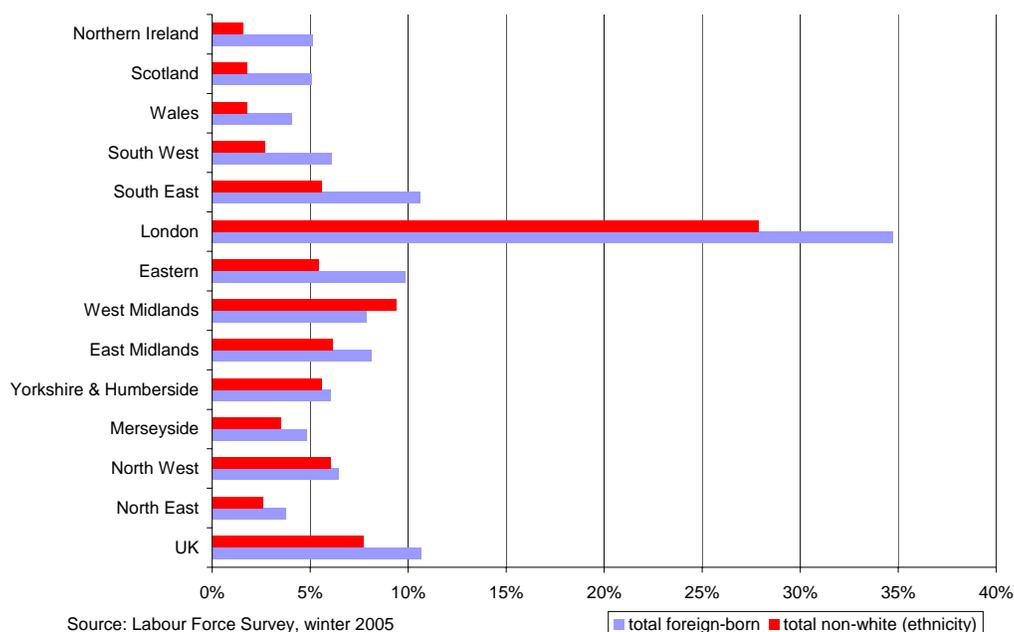
Data from the Home Office on workers registering on the Workers Registration Scheme (WRS) for the eight new member states from Eastern and Central Europe (A8) confirm the younger age profile of migrants into the UK. The vast majority of workers from the A8 are young and single, 82% of workers were aged between 18 and 34. In addition, 94% of registered workers had no dependants living with them in the UK, and only 4% had dependants under the age of 17 with them. Similarly, the average age of Work Permit holders in the UK is very low¹⁰.

2.3.3 Ethnicity

Any discussion of the ethnicity of international migrants needs to take heed of the relevance of duration of stay as a key discriminating feature between migrants.

The foreign-born workforce is a broad definition, including the most recent in migrants along with residents and British nationals who happened arrived in the UK in their infancy. However, even this definition of migrants shows distinct patterns across the UK. London stands out as the multicultural, immigration hub of the UK, with over one in three people in employment in 2005 born outside the UK. Other notable multicultural hotspots are East, South East and the West Midlands.

Figure 21: Foreign-born and non-white in employment, winter 2005 (% of all in employment)

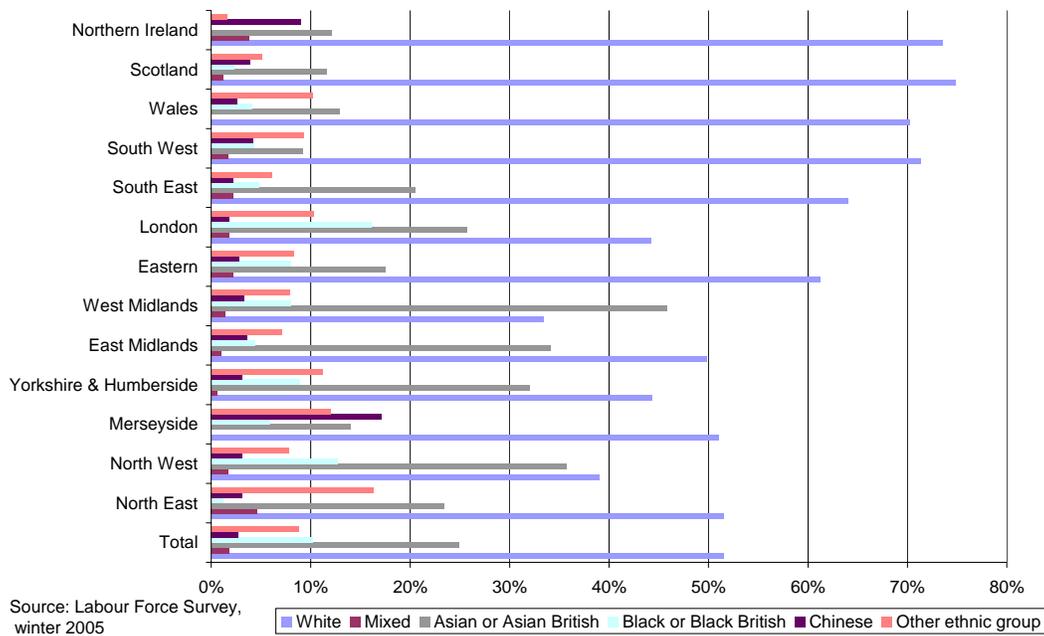


¹⁰ Selecting Wisely – Making Managed Migration work for Britain. IPPR, November 2005

It is also useful to look at the ethnic balance of the foreign-born workforce in the UK by region (figure 21). In the analysis below we look only at all those in employment, including recent migrants and pre-existing populations, so we are not accounting for differences in economic activity rates between ethnic groups.

At UK level, the proportion of people of ‘white’ ethnicity across all those in employment is 52%, with Asian or Asian British accounting for 25% and Black or Black British accounting for 10%¹¹. The greatest proportions of Asian or Asian British workers are in West Midlands (46%) and the North West (36%), with the lowest rate in the South West (9%). Black or Black British workers varied from 4% of all foreign born workers in Wales to 16% in London and 13% in the North West. Chinese workers were relatively most prevalent in Merseyside at 17%. White non-UK born workers were relatively more prevalent, as a proportion of all non-UK born workers, in Wales and the South West, at around 70%, compared with 33% in the West Midlands and 39% in the North West.

Figure 22: Ethnicity of foreign-born population by Government Office Region



The foregoing analysis of ethnicity and country of birth provides a backdrop for the more detailed consideration of recent migration flows into the UK, which we consider in more detail in the next chapter. Firstly, we highlight some ethnicity patterns amongst the key migrant groups to the UK admitted under various Home Office schemes.

The Sector Based Scheme is a UK scheme, now being phased out, to attract non-UK workers into industrial sectors suffering from labour shortages. A key characteristic of the ethnic profile of workers migrating to the UK under this scheme is the prevalence of nationalities with historic linkages with the UK, such as Pakistan and Bangladesh. However, other significant nationalities are Ukrainian and Bulgarian people, located just outside the EEA boundary.

It is interesting that the Seasonal Agricultural Workers Scheme (SAWS¹²) also attracts significant numbers from the non-EEA periphery, including Belarussians as well as the

¹¹ The ethnic groupings used

¹² The target group for this scheme is students from outside the European Economic Area

nationalities mentioned above. Prior to EU entry in 2004, Poland was also a significant donor of students to work under the SAWS.

Turning our attention to key sectors with officially recognised skill shortages, we again see a mix of nationalities in those granted Work Permits in the UK. In addition to countries with a history of interaction with the UK, such as India and Pakistan, China and the Philippines figure as significant exporters of skilled labour to Britain¹³.

Lastly, scrutiny of the origins of people coming to the UK Working Holiday Makers Scheme reveals the significance of English-speaking new world countries, such as Canada and Australia. This reflects the targeting of this scheme to Commonwealth countries.

¹³ Selecting Wisely – Making Managed Migration work for Britain. IPPR, November 2005

3 Skills and key sectors

3.1 SUMMARY

The attraction and retention of skilled migrants is viewed as essential to national and regional growth. A number of countries, including the UK, have recently moved to favour the immigration of more skilled labour. The evidence is not conclusive but seems to suggest that the entry of skilled migrants is beneficial to the economy while the entry of lower skilled migrants is more ambiguous. These ‘net benefit’ arguments are discussed in more detail in chapter 5.

Structural shifts in most developed economies towards more knowledge intensive sectors have raised the demand for skilled labour. In some sectors, Information and Communication Technology for example, the increase has been fairly rapid and has made it difficult for employers to find suitably qualified staff. This has increased the need for immigration of skilled workers and signalled a re-orientation of migration policies to favour attracting high skilled individuals on a temporary basis.

This chapter of the report provides analysis relating to a number of significant policy themes:

- Flexibility of the UK labour market – do people go where the jobs are and where the greatest (net) returns are?
- Flexibility of local labour markets – do vacancies persist and does skills investment match employers’ requirements?
- What role do overseas-born workers play – assisting with UK labour market efficiency, creating competition for UK job-less or helping to drive company profits?

The high levels of labour immigration evident in the UK in recent years have occurred in the context of a tight labour market. Employment is at a record high level and unemployment is at its lowest point for thirty years. Therefore, nearly everyone who wants to work, and is able to work, is already in employment.

However, recently unemployment has begun to creep up again and employment participation rates seem to have hit an upper limit. Therefore it is also sensible to ask if labour immigration is playing any role in driving the slight slackness beginning to appear in the UK labour market.

3.2 SKILLS AND INTERNAL MIGRATION

The link between skills and internal migration takes two main forms. Firstly, people with higher skill levels are more likely to move for career reasons, to seek challenges that match their skills and to achieve their earnings potential. Secondly, people with higher skills levels are more likely to be *able* to move, even if the primary reason for migrating is not economic (e.g. family, lifestyle), as a result of having marketable skills.

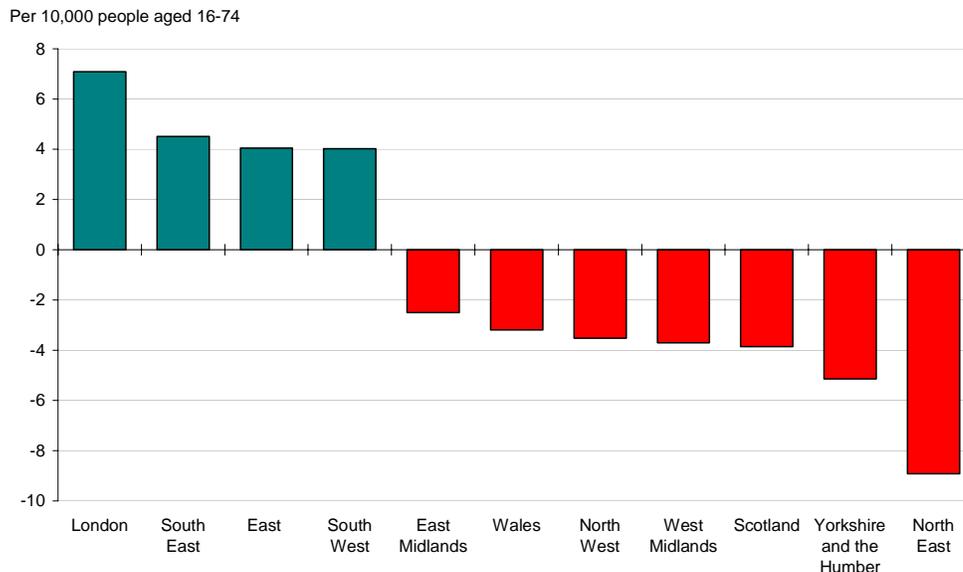
2001 Census data confirms that it is the more highly skilled and qualified that tend to migrate:

- Higher professionals had a high propensity to migrate (1 in 5) and over a quarter moved 50km or more.
- Migration rates were lowest for manual workers.
- Those with no qualifications changed address the least.

- The higher the qualification level, the higher the propensity to migrate long distances.

As shown in figure 22, 2001 Census data reveals a very distinct regional picture in the attraction of skilled migrants. Only the four most southerly regions of the UK made net gains through internal migration of people who classified in higher managerial and professional occupations in the 2001 Census. The diagram shows gains of these highly skilled managerial and professional occupations relative to population aged 16-74 in the Government Office Regions. The North East stands out as having a particularly high net loss of this group relative to its population size.

Figure 23: Net within-UK migration of people in higher managerial and professional occupations by government office region and country of Great Britain, 2001



Source: Office for National Statistics, 2001 Census

It is also worth asking whether the UK is unusual in its internal labour mobility and what factors cause this.

In their consultation for this research, the CBI outlined their belief that the UK labour market is regarded as being quite flexible compared with EU competitor labour markets. One aspect of this is geographic mobility within the UK. A facilitating factor, cited by the CBI, is the greater tendency for UK students to study outside their home town or city compared with their peers in other EU countries. This may help to create a culture of migration amongst the young, educated population of the UK.

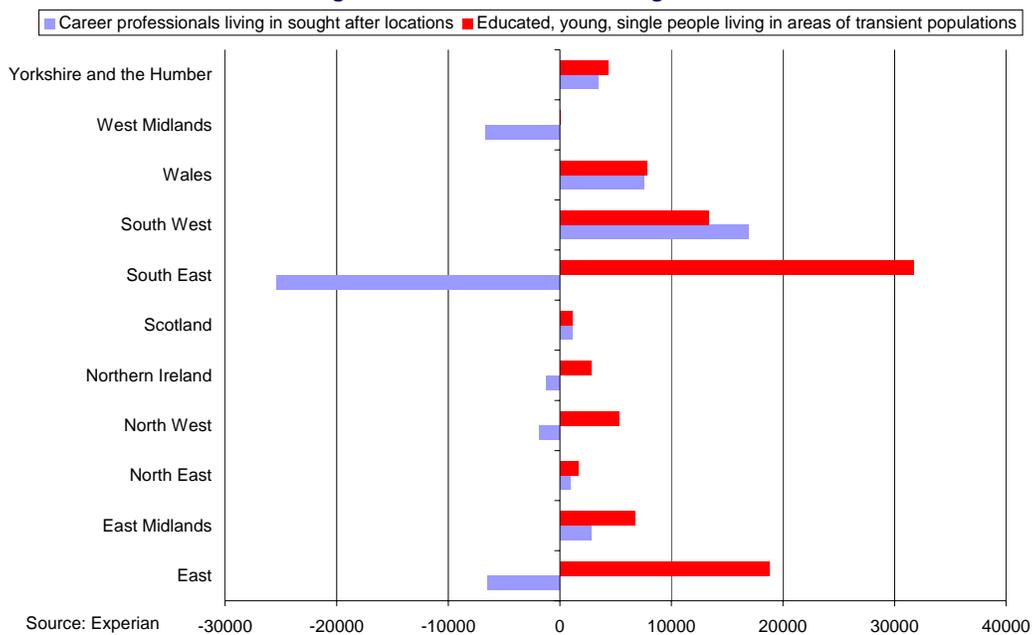
Experian's Movers data confirms some of these patterns of internal movement in the UK and also brings additional insights. Looking at the net migration of two key skilled Mosaic Groups across regions we see some marked differences (figure 23). In this figure, London has been omitted but its effects are still apparent. Every other region had a net inflow of educated young people in 2005, thanks to a massive net out flow from London that year. Clearly, London plays a key role in populating provincial universities around the UK as well as providing young skilled people to the regions.

The South East and East were a magnet for young, well educated people last year but they experienced marked net losses of career professionals, the group which is top of the skills pile in the UK population. This pattern defies a simple explanation although the relationship between these two regions and London is likely to be relevant. One explanation is that career professionals are increasingly seeking opportunities elsewhere in the UK, an argument granted some credibility by the net gains of career professionals elsewhere in the UK.

A handful of regions were successful in attracting both the top flight career professionals and the young, well educated. The South West is notable for attracting the largest net inflows of these groups, although there remains a question mark over whether the careerists are still travelling to work in London after they have moved. If this is the case, it suggests that the South West is a competitive place to live (e.g. lifestyle, environment or housing) but is not necessarily as competitive for its job offering. Wales and the Midlands are also net recipients of both groups of skilled labour migrants. In the north and elsewhere, most regions, with the exception of Yorkshire and the Humber, successfully attract the young and skilled but not the career professionals.

The above discussion also illustrates a more generally point about migration and commuting. It is quite difficult to interpret inter-regional migration flows in the south east of the UK as many movers may continue to work in London after migrating from the city to the South East, East or South West. Consequently, it is difficult to interpret such inter-regional migration as demand for jobs in the destination regions, as it may just be the residential location of the households that is changing.

Figure 24: Skills and internal migration



3.3 SKILLS AND INTERNATIONAL MIGRATION

3.3.1 History of international labour migration

The traversing of national boundaries in the pursuit of employment and a better standard of living is not a new phenomenon. Ever since agriculture enabled settled existence people have moved from where they are ‘settled’ to new lands, populated or otherwise. Although the precise drivers of movement and the patterns of population flows that they give rise to have changed, the long history of population movement is evident in the ethnic variety of populations in towns and cities across the globe.

The UK has experienced at least the same level of population disturbance as other countries. Key historical migration milestones in the UK include immigration of 100,000 Huguenots from France in the 17th century and Jewish immigration, from Russia, in the 19th century. More

recently, one of the most significant events was immigration from New Commonwealth countries from the 1950s onwards.

Distinguishing labour migration from other forms, where the primary driver is not economic (e.g. forced migration), key historical movements include:

- One of the least savoury trends in international labour migration was the ‘slave trade’, initiated by Portuguese and Spanish owners of plantations in the Americas in the 16th century
- The slave trade connected with the British Empire resulted in immigration of a range of different groups of people between the 17th and mid 19th centuries
- The Industrial Revolution in the 19th century – in addition to rural-migration within the UK, many British people emigrated to other countries that Britain had colonised in search of a better life.
- Following severe famine, about 0.5 million Irish people emigrated to the UK (funded by their landowners) and supplied UK industry with a valued labour input
- Following the second world war, Britain had labour shortages and 157,000 Poles emigrated to fill to the vacancies.
- Health sector demand in the last four decades.
- EU enlargement and the consequent growth in migrant labour in low skilled industries in the UK since 2004, particularly from Poland.

These examples vary in a number of ways. One of the key features of such population movements to be aware of is the balance between the state as the driver and the market as the driver. At times, influenced by the prevailing political climate and economic circumstances, the UK has discouraged immigration, at least that by particular types of migrant. This could be said of the 1960s and 1970s. At this point, governments of the time began to realise the sheer scale of economic and post-colonial immigration that had occurred in post-war Britain and the public policy challenges that it presented. However, in other periods of time the state has actively encouraged immigration, usually working to reinforce pre-existing market factors, such as excess labour demand, rather than working against the grain of the market. Such a state positioning is exemplified by the UK government’s current positive migration policy position as well as the immediate period following the second world war.

Looking beyond the UK’s boundaries, it is important to emphasise the significance of EU membership for labour market operation and policy in the UK. A key objective of EU labour policy is to actively encourage labour migration between countries. This is expected to be one of the enabling factors whereby the EU maintains its position as a competitive and flexible economic area, as well as being a key mechanism to reduce income inequalities between member states and regions. In fact, the EU parliament believes that the amount of labour migration within the EU is sub-optimal at present. Barriers to labour movement that they have identified include:

- Uncoordinated social security systems
- Differences in pension arrangements
- Portability of qualifications
- Language
- Housing systems

3.3.2 UK migration system and skills

Migration is one of the most challenging and sensitive areas in which the UK government has to make and manage policy. The granting of Work Permits by Work Permits (UK) in Sheffield allows a range of people to enter the UK to fill vacancies or otherwise deploy their skills in the UK. Within this there are a range of programmes, detailed below (figure 25).

Figure 25: Current UK Work Permits system

- The Highly Skilled Migrant Workers Programme (HSMP), which enables migrants with desirable skills to come to the UK even if they do not currently have a job offer (including entrepreneurs with no detailed business plan)
- Business and commercial Work Permits – under this route, UK employers are required to apply for Work Permits to recruit workers from outside the European Economic Area. This is the most common route for overseas nationals entering employment in the UK.
- The Sectors Based Scheme – this scheme, which will be discontinued after 31st December 2006, was designed to meet quotas for labour from overseas to fill sectors with current skill shortages for up to 12 months. Although valued by employers, frequently quota levels were not hit. Currently it operates in the food manufacturing and hospitality sectors and applies only to vacancies that are recognised by the government as 'hard-to-fill'.
- The Seasonal Agriculture Workers Scheme – set up in ___ to bring in students from non-EEA countries to meet seasonal peak demand for labour in the industry
- The Workers Registration Scheme – introduced in 2004 to monitor in-migration of labour from the new EU accession countries from Eastern and Central Europe (the 'A8' countries)
- Asylum seekers have no automatic right to work but in practice permission is usually given after 6 months. Generally, only the principle asylum seeker is granted permission. Refugees are permitted to work.
- Working Holidaymakers Scheme – aimed at Commonwealth nationals aged 17-30, allowing them to work but only if this is incidental to their holiday (that is, not for more than 12 months of the holiday)

Work Permits (UK) publish a list of shortage occupations which are a key reference point for decisions to permit non-EEA workers into the UK. The list published in April 2006 is comprised mainly of a wide range of engineering and healthcare occupations. In addition to these sectors, the list also includes actuaries, teachers and veterinary surgeons.

The Home Office published the government's medium term migration strategy in February 2005¹⁴. Following consultation, the government announced a new 5-tier, points-based system in March 2006. This type of systematic approach is similar to the approach adopted in countries like Australia and Canada, both of whom have a strong track record in attracting high skilled migrants.

¹⁴ 'Controlling our Borders: Making Migration work for Britain, Five Year Strategy for Asylum and Immigration'

Figure 26: The UK points based migration system

UK points based migration system (March 2006)

Key elements of this new system are:

- Collapsing 80 different work and study routes into 5 tiers
- Points to reflect aptitude, experience, age and whether skills are in short supply in the UK labour market
- A Skills Advisory Board to act as an information service to government
- Tier 1 – highly skilled, including entrepreneurs
- Tier 2 – skilled workers with a job offer
- Tier 3 – low skilled but filling vacancy in sector with temporary skill shortage
- Tier 4 – students
- Tier 5 – youth mobility and temporary workers

Reaction to the government's new system has been mixed. The IPPR¹⁵, whilst praising the government for sustaining a flexible, employer-led system, have argued that tiers 1 and 2 should be merged. They also suggest a unified points system and flexible channels for low-skilled migration.

In its response to this research, the CBI reiterated their view that the employment of overseas workers in the UK is generally a positive feature of the UK economy. They went on to argue that the government's priority should be to continue to ensure that the UK is seen as a attractive destination for mobile workers, when compared with alternative destinations.

3.3.3 Skills of migrants

In any study of migration, widely held opinions are always going to be easy to come by, particularly in the absence of hard fact. However, in this section we review recent evidence in order to reflect some of the more commonly held views about migration and skills.

'migrant workers frequently take jobs which British workers cannot or will not take on'
CBI¹⁶

Clearly, government policy is designed to ensure that the people who enter the UK to work have skills that will be of benefit to the UK economy. On the one hand this includes the 'tier 1' type migrants who are deemed to have skills that are of such potential value that the government is willing to admit them even if they have not received a job offer. At the other extreme are the 'tier 3' migrants, 'unskilled' workers who are filling vacancies that UK employers are otherwise unable to fill from indigenous labour supplies.

Research based on the Labour Force Survey found that foreign-born workers are generally higher skilled than UK born (LFS). Moreover, one researcher found that recent foreign inflow of labour is *now* relatively more concentrated in the lower skill end of labour market¹⁷. This is turnaround to some extent as previous research has indicated that migrant workers were concentrated at the lower end of the skill range. The reason for this turnaround is that migration has been driven by labour demand which has become increasingly focused on higher skills and this is facilitated by UK migration regulation that permits such inflows.

¹⁵ Selecting Wisely – Making Managed Migration work for Britain. IPPR, November 2005

¹⁶ Immigration: A business view

¹⁷ Salt J (2004) International migration and the United Kingdom: report of the United Kingdom SOPEMI correspondent to the OECD, 2004, London: UCL Migration Research Unit,

An important point to bear in mind is that there are several barriers to overseas workers fully utilising their skills in the UK. Indeed, sometimes the true level of an overseas worker's skills is not known to their employer or host country. One such example of this issue, which economists term an 'information asymmetry', is that often qualifications earned overseas are not well recognised or understood by UK employers. We revisit this issue later.

Another barrier in some instances is English language skills. However, one organisation representing labour providers said that this was seldom an issue as migrant workers come to the UK to learn English. Where there are difficulties, fellow workers help out and translate.

It is worth comparing the skills profile of foreign-born people in the UK with similar populations in other European countries:

- Foreign born people are predominantly employed towards low end of the skills spectrum in Spain, France and Netherlands.
- Foreign born are predominantly employed towards the high end of the skills spectrum in Australia and Canada.
- Both the UK and Australia are notable for polarisation – overseas workers are significant at both the upper and lower ends of the skills spectrum.

Across the OECD countries, most countries have foreign born employment rates below domestic born. Some exceptions to this general rule are the US, Spain, Italy and Greece. There are a number of possible reasons why these variations exist¹⁸:

- Some immigrants may not be allowed to work, such as partners of people with refugee status in the UK.
- There is wide variation in the significance of international students between these different countries, with the UK having a particularly tendency to attract overseas students.
- Asylum seekers more important in N Europe than low skilled migrant workers are in S Europe.

This is a complex area that resists a simple summary. However, clearly foreign born workers in the UK are a heterogeneous group, reflecting variations in:

- Ethnic grouping and attendant cultural behaviours
- When the migrant arrived the UK
- The circumstances of their arrival – for example, contrast a refugee with a company sponsored migrant with a work permit under an approved shortage occupation

Another significant finding is that foreign born workers earn higher on average in the UK compared with UK-born workers in the UK(LFS)¹⁹. Again, however, such a finding should not detract from the sheer diversity of overseas workers in the UK and the relevance this has for policy making. In other words, there are foreign-born and migrant workers at all skill levels in UK industries.

¹⁸ Selecting Wisely – Making Managed Migration Work for Britain. IPPR, November 2005

¹⁹ Clarke J and Salt J (2003) 'Work permits and foreign labour in the UK: a statistical review' Labour Market Trends 111(11):563-74, London: The Stationery Office,

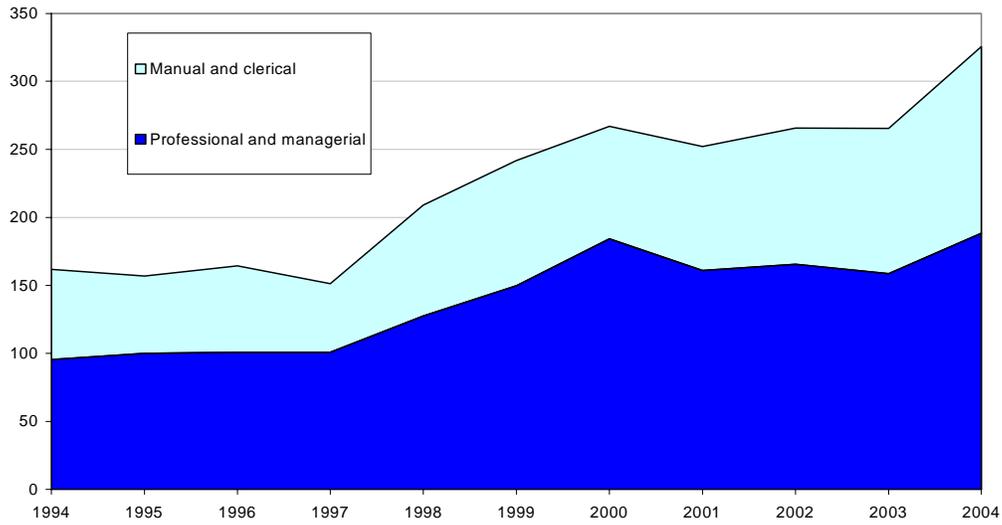
Occupations

The various sources of government data on managed migration also exemplify this diversity. There are some patterns of occupation by nationality. For example, in a random sample of Work Permit holders, two-thirds of Zimbabweans were nurses.

Data on the Highly Skilled Migrant Programme shows that main occupations were business managers, ICT occupations and medical occupations.

A good approximation of the skills levels of international in-migrants can be given by the Office for National Statistics international migration data on usual occupation before migration. Just over half of migrants entering the UK in 2004 had a job before migrating (the others were made up of students, housewives, children and other adults). Of those that had a job, 58 % were in professional or managerial occupations and 42 % were in manual or clerical occupations. The proportion of those with manual or clerical jobs before migration increased slightly, by 2 %, between 2003 and 2004. This may reflect the migration of many lower skilled workers from the A8.

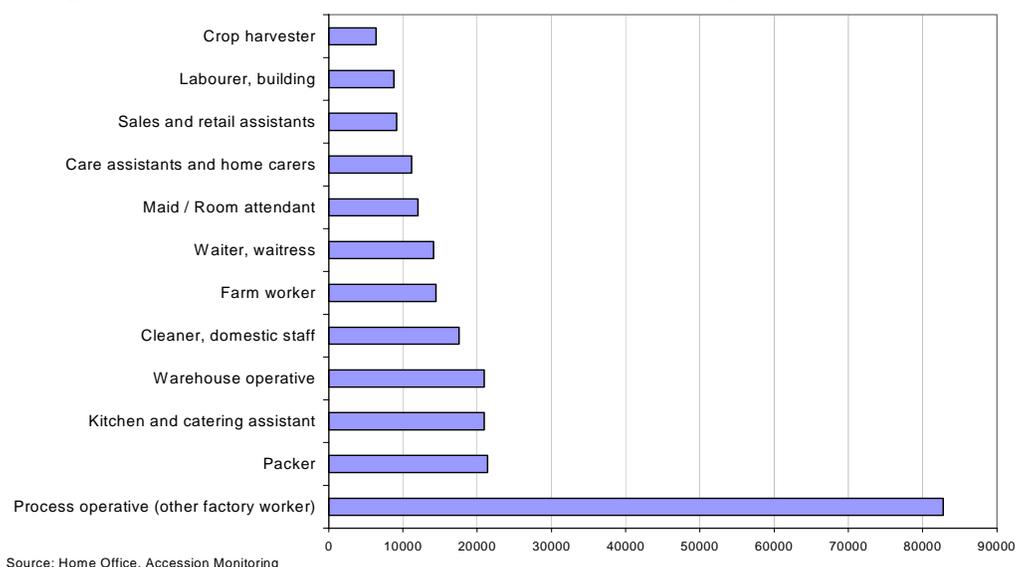
Figure 27: International in-migration: usual occupation before migration 1994-2004 (thousands)



Source: Office for National Statistics, International Migration

It is uncertain whether in-migrants to the UK will find an equivalent level job to the one they left at home, although it may be paid more highly. Indeed evidence suggests that the jobs taken by A8 migrants in destination countries are frequently of a lower qualification level than those they left at home, with migrants going into construction, manufacturing and low skill service jobs. Figure 28 below demonstrates the low skilled occupations that workers from the A8 are being employed in.

In terms of key occupations, 37 % of all workers registered on the WRS work as Process operatives (other factory workers). However, when you add together crop harvesters, farm workers and packers (18%) it is easy to see why food / agriculture is regarded as such a significant employer of migrant labour. Indeed, many 'process operatives' will actually be employed in food production.

Figure 28: Top 12 occupations in which WRS workers are employed, July 2004-March 2006

A higher proportion of EU-10²⁰ migrants than the EU-15²¹ national averages have medium-level qualifications and there are similar proportions of highly qualified people (European Commission, 2006). This suggests that the UK is not fully utilising the skills levels of A8 labour migrants. Clearly it would be more beneficial for the UK economy if immigrants were employed at a higher skill level where they could contribute more to the economy. This ‘brain waste’ may also prove to be costly for those countries receiving migrants as they may miss out on the additional skills they bring. Problems with recognising qualifications of immigrants may lead to difficulties in their finding appropriate employment.

Some local research confirms the argument that UK employers are missing out the full skills potential of migrant workers. EMDA commissioned research in 2005 and their survey responses found that migrant workers had unused skills in areas that employers had skills shortages²².

However, a counter argument is that overseas workers are employed in the sectors where they are most needed so the under utilisation argument is irrelevant. Through schemes such as SAWS, seasonal demand for migrants workers to work on farms is met. Additionally, employers are directly recruiting from central and eastern Europe to meet relatively low skilled labour needs. Should labour shortages arise further up the skills ladder in future years then arguably the UK employers will be recruiting higher skilled migrants in future or make fuller use of the skills they do have.

The Labour Force Survey (LFS) confirms the picture that there is polarisation, or at the very least variety, in the skills of migrants. Taking foreign-born people in employment as a proxy for migrants, the LFS shows that 35% of foreign-born people in employment have NVQ Level 4 or above compared with 31% of UK-born people (figure 28). However, it is also noticeable that 32% of foreign-born people in employment had ‘other qualifications’, suggesting that it is difficult to calibrate the variety of non-UK qualifications with UK qualification levels. This also

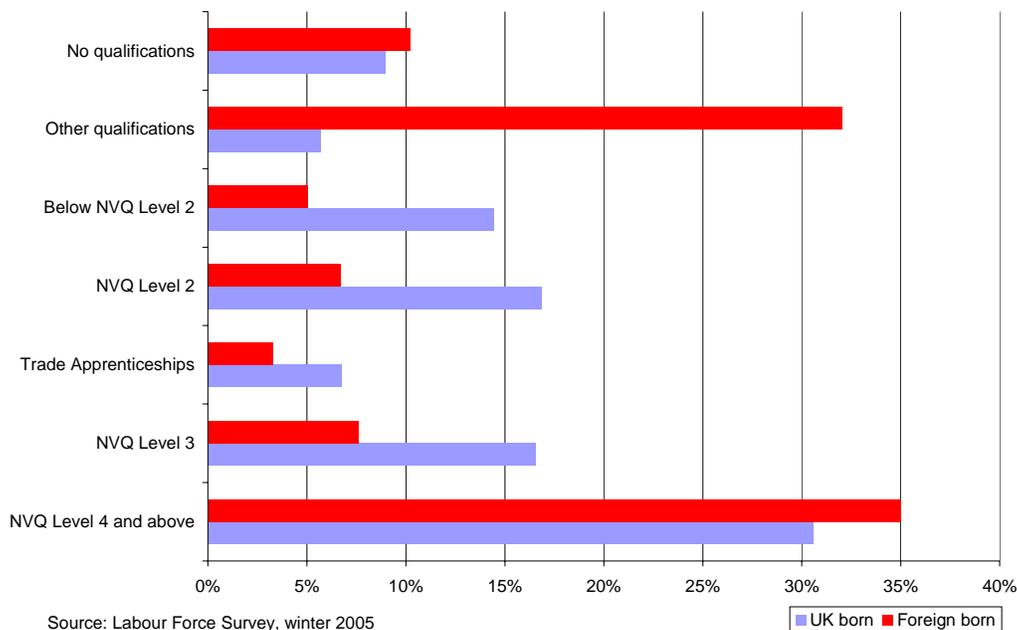
²⁰ The ten countries that joined the EU in May 2004 (Poland, Czech Republic, Hungary, Latvia, Lithuania, Estonia, Malta, Cyprus, Slovakia and Slovenia)

²¹ The European Union in 2003 (France, Belgium, Germany, Italy, Netherlands, Luxemburg, UK, Denmark, Ireland, Spain, Portugal, Greece, Sweden, Finland and Austria)

²² ‘Migrant Workers in the East of England’ EMDA June 2005

confirms the point made above that workers from overseas may struggle to have their qualifications recognised by employers.

Figure 29: Qualifications levels of UK and foreign-born workers



Narrowing down the analysis to people who arrived in the UK from 2000, as a proxy for recent migrants, the picture is similar. Although 25% of these working migrants had NVQ Level 4 or above, more than half (54%) had ‘other qualifications’. However, it should be noted that only 9% of these recent migrant workers had no qualifications at all, which is similar to the total UK-born population in employment. This suggests that recent migrants are no more likely to be ‘unskilled’ than the ‘indigenous’ working population.

It is also important to recognise that labour is not a homogenous commodity. Although many employers express indifference between UK and overseas labour sources for vacancies, for other employers there are distinct advantages to choosing an overseas worker for a particular role.

One example of this is the international transfer of staff within financial services companies. Within the company this is a case of transferring staff between operational units. However, at another level this is international migration. Evidence from the Leeds Financial Service Initiative demonstrates that employers value such transfers as they are a key conduit for the transfer of knowledge, skills and experience from a different national context.

From this we conclude that over and above the quantitative impact that migrant workers make on UK plc, for some employers there is a pressing need to realise the benefits of transferring human capital between different countries within their global operations.

3.3.4 Skills from overseas: Is supply matching demand?

Work Permits (UK) data shows that the volume of permits granted tends to peak when UK unemployment is lowest – confirming that it is a key adjustment mechanism for employers to fill labour gaps. This section looks in more detail at the relationship between labour demand and the supply of labour from overseas.

To a certain extent demand and supply for skills from overseas will match automatically through the government's administrative systems. Schemes such as SAWS, the Sector Based Scheme and Work Permits ensure that immigrants have the skills UK employers need, when they need them. Therefore, if the government's labour market intelligence is accurate and the schemes are managed effectively, skills supply should match demand.

An exception to the argument that the government is an agent in ensuring labour market efficiency is the Workers Registration Scheme. As workers from the A8 countries have virtual freedom to access jobs in the UK they do not need to meet minimum skills requirements, have a job offer or have a skill that is currently in short supply in the UK. In theory, this raises the potential for inflows of skills that are already relatively abundant in the UK labour market. This does not seem to have happened for the following reasons:

- Many A8 workers are being directly recruited by employers who have skill shortages and have some level of information that the people they are recruiting from Europe have the skills they need.
- Anecdotal evidence suggests that A8 nationals who are migrating speculatively have information that employers in the UK have some demand for the skills they have.
- Further anecdotal evidence from employers, namely that migrant workers from the A8 countries have a 'good' attitude to the work they do²³, may suggest that these migrant workers are sufficiently flexible to perform well in the available jobs in the UK (even if the jobs on offer do not match their skills exactly or the previous work experience they have).

The UK government is a key factor in the demand for skills from overseas but UK employers are even more significant drivers and agents of this demand. Recent surveys of CBI members have found high levels of demand for labour from 'old' and 'new' EU member states.

There is now an emerging idea that there is growing polarisation within the skills that employers are looking for in migrant workers, with demand high at both high and low ends of the spectrum. WRS data confirms that most work undertaken by A8 nationals since 2004 is low skilled and some analysts have pointed out that many low end jobs can neither be exported or replaced by technology. To the extent that this is correct, the need for low skilled migration seems unlikely to go away and therefore restrictions on low skilled migration could accentuate labour shortages. (this all seems to be point to the subjective and selective nature of the skills debate around migration)

There is also an argument that future growth in high skill jobs will increase demand for low skilled workers too, such as security workers and cleaners.

One of the main arguments laid against immigration, particularly for lower skilled employment, is that low skilled in-migration puts indigenous labour out of work. There are two main reasons why this is not the case:

- The evidence on low skilled employment demand in the UK suggests that employers are employing migrant labour because there is no local labour available. Either actively or passively, employers are using migrant labour as it is often the only source available to them²⁴.
- Migrants are also consumers, thereby expanding the domestic market for goods and services.

²³ E.g. Compas 2006, ESRC Annual International Conference, Oxford, July 2006

²⁴ E.g. Association of Labour Providers

In consultation for this research, the CBI echoed the view that migrant workers are going into the sectors where they are most needed. Further, the CBI suggest that employers are just not able to find this labour locally, scotching the argument that indigenous workers are being displaced.

The Association of Labour Providers echo this view. According to them there 'is not demand for migrant labour'. Rather, firms have labour requirements and often, in the food and drink supply chain, overseas labour meets their needs best or is the only available source. However, as we argue below, there are reasons why employers may actively be seeking migrant labour, rather than indigenous sources.

An emerging issue is whether the debate on the skill levels of migrants is correctly defined. The term 'low skilled' typically implies that no previous experience or special training is required to be competent at the job. However, this may imply that the work is easy or that there are no qualitative differences between how different people perform in the same job. Some commentators, such as Compas²⁵, draw out the evidence that employers employ overseas-born workers as an active decision or passively due to the absence of any real choice, because of their attitude and work rate²⁶. Therefore, low skilled labour is not all the same, there are wide qualitative variations such as attitude and productivity that are recognised and valued by employers.

Successive CBI Employers Surveys show that UK employers are seeking labour from across the skills spectrum. Evidence from the most recent survey²⁷, published in September 2005, shows that demand for workers from overseas is high. Around 20% of employers surveyed said that they recruited from outside the UK in the previous year. This survey also suggests that employers are mainly looking for skilled workers. Two-thirds of those surveyed were looking for skilled, managerial or professional workers and 43% recruitment from the A8 countries was for higher skilled workers.

One of the frequently asked questions in the debate on migrant workers is whether their skills are under utilised in the UK economy. The answer is not simple but may boil down to the issue that even if skills are being under utilised, these workers are contributing the sectors that are experiencing the most acute labour shortages. Therefore, the labour is being used appropriately, even if workers are not being 'stretched'²⁸.

However, perhaps a more pertinent question is whether the UK's population of refugees are being under utilised. Previous research has suggested that unemployment amongst refugees is high and job search is elongated. Two significant barriers faced by refugees in the UK are knowledge of the English language and portability of their qualifications. An estimated 80% of refugees have no English language ability when they arrive in the UK. However, 30% are estimated to have degree level qualifications and 60% have employment experience.

3.3.5 Wages

Basic economics suggests that net in-migration of labour, as quantitative growth in labour supply, could suppress wages, the equilibrium price of labour. Most evidence, however, suggests that this has not occurred²⁹. Indeed, it has even been argued³⁰ that immigration, by

²⁵ Op cit

²⁶ Changing Status, Changing Lives

²⁷ CBI-Per Temps Employment Trends Survey 2005

²⁸ However, anecdotal evidence on migrant workers' working hours suggests that they may be being 'stretched' in another sense

²⁹ The Local Labour Market Effects of Immigration in the UK. Dustman, C; Preston, I. And Wadsworth, J. 2003

preventing labour shortages and keeping wage inflation low, has kept product prices low for UK consumers, enhancing disposable incomes from wages.

3.3.6 Illegal and informal employment of migrant workers

In a post industrial UK with nearly full employment, there remains high demand for low and unskilled labour to work in industries that appear to be less attractive to indigenous workers, namely agriculture and food manufacture. Although wages in these industries are low by UK standards they are significantly higher than comparable wage levels in other countries, including many of the countries that joined the EU in 2004. Therefore, there is a willing supply of workers to these sectors to fill these vacancies.

However, these market forces give rise to incentives for some employers and labour providers to exploit migrant workers. Exploitation takes a variety of forms, including agencies charging workers for finding them jobs, employers setting wage levels below the minimum wage as well as poor treatment at work. This issue came to public attention in February 2004 when 21 Chinese shellfish pickers working through an agency died in a tragic incident at Morecambe bay, caused by the employer neglecting their responsibilities for employee health and safety.

Following the incident at Morecambe bay, the UK government have passed the Gangmasters (Licensing) Act 2004, which will come into force in December 2006. This act makes it an offence for an employer to recruit labour from an agency or Gangmaster that is not registered with the Gangmasters Licensing Authority. The sectors covered by this legislation are agriculture, horticulture, shellfish gathering and associated processing and packaging industries.

3.4 KEY SECTORS

3.4.1 Industry skills shortages

The preceding section has demonstrated the relevance and nature of the globalisation of labour markets for the UK. In this section we review the experience of some key sectors in the economy in terms of their demand for labour from overseas. Our overriding concern here is to focus on the demands UK employers have for labour, purely based on the scale and nature of their operations.

'I don't believe in labour shortages, employers are meeting their needs for good quality labour by recruiting from central and eastern Europe'

Mark Boleat, Association of Labour Providers

As we have mentioned elsewhere, a key backdrop to this study of migration in the UK is the supply and demand for labour. On the supply side there are domestic and migrant workers, characterised by their skills and experience, the education system and training providers. On the demand side there are employers, whose labour needs arise from their operational activities and strategic intentions in dynamic market and non-market contexts. Another important dimension in this complex and multi-faceted system is information. At any point in time, available evidence suggests which sectors of the economy appear to be suffering from the poorest fit between labour demand and supply.

³⁰ Immigration: A business view. CBI

Food & drink and agriculture

Food producers are probably the most significant employer of migrant labour in the UK. According to the Association for Labour Professionals, almost all of the recruitment in this sector is of migrant labour. Specific skills are not needed and qualifications are not relevant to the sector, so the barriers to entry for migrant workers are low. Moreover, language barriers are not a particular problem as, with high numbers of A8 nationals concentrated at employment sites, the better English speakers can help out those with poorer English language skills.

Large flows of labour from the A8 countries has led to the government cutting back on other permits schemes to control the flow of low skilled labour into the UK. The Seasonal Agricultural Workers' Scheme (SAWS) is one such example. SAWS allows workers from outside the European Economic Area (EEA), such as Ukraine, to enter the United Kingdom to do seasonal agricultural work for farmers and growers. To qualify, they must live outside the European Economic Area and be a student in full-time education.

Construction

Construction is an interesting case study in the context of immigration and migrant workers. Traditionally, construction does not have a reputation for being an inclusive employer, an issue which is being addressed by industry representation groups such as ConstructionSkills. Specifically, a smaller proportion of all workers come from ethnic minority communities compared with the proportion they comprise of all employment across all industries³¹.

On the other hand, construction is a highly cyclical industry characterised by well defined booms and slumps. This has led to a fragmented industry structure, with contract employment and sub-contracting being commonplace. The vast majority of firms are very small, employing under 10 people. Consequently, the potential for labour shortages is high, as firms are not able to carry excess labour through slumps, a factor exacerbated by the low margin nature of the business. In theory, this makes the industry look more likely than most to have demands for immigrant labour.

At present, the match between labour demand and migrant workers seems to be becoming more evident and now seems to follow the theory a bit better. Evidence from the Humber case study for this research found evidence of high demand for labour, sustained by growth in private, regeneration and public contracts, which is being significantly supplied by migrant workers.

Another example is the preparations for the 2012 London Olympics. In addition to this intense spike in construction labour demand in the city over the next few years requiring labour and contracting firms from elsewhere in the UK, analysts are expecting considerable labour inputs from overseas. Some of the most concerned industry voices about potential skill shortages are in the regions that are expecting to lose construction labour to London in the run up to the Olympics.

National Employers Skills Surveys highlight construction as a key industry which is carrying skill shortages, partly due to demand factors and partly as a result of the high average age of the workforce and the need for replacement labour. However, very few people coming through the Workers Registration Scheme appear to be going to work on construction sites across Britain. There are two explanations for this. Firstly, many migrant workers in the UK construction sector will be classed as 'self-employed' and as a result are not required to register on the WRS. Secondly, as we have noted elsewhere, the WRS data has limitations as a result of the estimated number of migrant workers and employers who are ignoring it.

³¹ Labour Force Survey, winter 2005

CBI Employers surveys suggest that construction firms are more likely than other sectors to be looking at employing overseas labour. Moreover, the construction industry also appears to look furthest from the UK for this labour. This willingness to 'cast a wide net' is suggestive of significant domestic labour shortages.

Health sector

The health sector includes primary and secondary health care as well as private and not for profit provision in the care home sector.

Between 2000 and 2005 there was a steep rise in the numbers of overseas workers in the health sector. Demand for 'basic' nurses from outside the European Economic Area (EEA) was driven by political requirements to improve service delivery and performance in the NHS, for example reducing waiting times.

Now demand for non-EEA workers in the NHS is reducing for a number of reasons. Firstly, there has been higher investment in training new nurses in the UK. This investment is now 'bearing fruit' and this home grown supply is expected to meet a significant amount of the NHS' demand for nursing and other, related occupations. Secondly, there has been a renewed political drive to reduce budget over-runs in the NHS. For some NHS Trusts, this means that they are looking to make cost savings in their current wage bills, which may mean that recruitment activity slows down. Lastly, there is also now a recognition that some countries that were previously thought to produce a 'surplus' of nurses and other occupations are now apparently suffering health skills shortages themselves. Consequently, the Department of Health has adopted a moral obligation not to deprive developing countries of their health staff.

One exception to this trend is the care home sector. The care home sector, increasingly dominated by private sector provision, still have a high demand for nurses from outside the EEA and demand is expected to rise in this sector. Notably, pay and conditions tend to be unfavourable compared with the NHS, so the sector is less attractive to UK-qualified nurses.

Although demand for overseas nurses will continue to be high in the care home sector, there is the theoretic possibility of a surplus of nurses in the NHS. This is reflected in the recent Home Office announcement that nurses are to be removed from the list of 'shortage occupations' for Work Permits in the UK³². The market adjustments to this situation are likely to take two main forms:

- Some overseas-qualified nurses may move on to other countries with nursing shortages, such as the US and Canada.
- Some UK-qualified nurses may go to these countries with emerging or established shortages.

In the future, NHS demand for overseas-qualified nurses is likely to be more focused on specific skills, such as neonatal intensive care rather than on basic nursing staff.

In the care home sector, there is a possibility that EU-qualified nurses will replace supply from outside the EEA. This is made possible by the enlargement of the EU to include certain countries in central and eastern Europe.

³² Effective from 14th of August 2006. Overseas nurses will still be regarded as representing a 'shortage occupation' only if they qualify as having one of eight specialities (e.g. cardiac physiology).

Other public services

The Home Office' list of Shortage Occupations also contains teachers, in England. Although the nature of this demand differs from the demand for healthcare staff in the NHS earlier this decade, this is still an indicator that immigrants are being sought to help deliver public services in the UK.

The private service industry

Evidence from the Labour Force Survey shows that foreign-born workers are disproportionately represented in the distribution, hotels and catering sectors.

Our analysis of enterprise impacts in the next chapter shows that people from ethnic minorities in the UK are disproportionately involved in the transport sector. In many English cities, this often takes the form of taxi drivers from countries in south Asia.

Financial and business services are also a major employer of foreign-born workers. There is, however, a distinction to be made between financial services, where higher skilled foreign-born workers are often employed, and business services, where migrant workers from A8 countries are increasingly employed.

Manufacturing and engineering

As with construction, manufacturing has a reputation for not employing many people from ethnic minority backgrounds. This is borne out by Labour Force Survey data for winter 2005.

However, as we have discussed above, manufacturers in the 'traditional' end of the industry, especially food and drink production, are amongst the largest employers of migrant workers from the A8 countries.

At the other end of the skills spectrum it is notable that no less than 30 engineering occupations are listed in the April 2006 Work Permits (UK) Shortage Occupations List. Although typically migrants are also required to meet minimum qualification and experience standards, this is a clear indication of a shortage of skilled labour in the engineering sector.

3.4.2 Labour from EU Accession countries

On the one hand the data from the WRS illustrates the minimum scale of the labour market contribution from migrant workers from Central and Eastern Europe.

On the other hand, there is significant evidence that this data is not a fully accurate reflection of the scale of movements or the number of migrants in the country. The Association of Labour Providers (ALP) claim that the figure fall some way short of the reality, in terms of migrant workers in the food processing service. Moreover, JRF research found that 22% of migrants surveyed by the research considered themselves 'illegal resident' in the UK.

According to the CBI, who were consulted for this research, it is difficult to know how long migrant workers from EU accession countries are staying in the UK. However, given the close proximity of these countries to the UK and the seasonal nature of much of the labour demand, for instance in tourism, agriculture and hospitality, they thought it likely that workers are travelling back and forth quite regularly.

A key factor which facilitates regular travel between the UK and the accession countries is the increasing range of air routes between the countries and the comparatively low cost of travel.

It is important to bear in mind that anecdotal evidence of informal employment outside the WRS undermines the accuracy of WRS statistics. The ALP go further than this, describing the statistics as ‘pure fiction’.

3.4.3 Prospects for industry demand for overseas workers

The following case study example shows that the complexity of global economic interactions can create demand for overseas labour in almost any sector.

The Russian energy giant Kuzbassrazrezugol is looking to re-open Hatfield coal pit in Yorkshire. Although the UK coal industry has been in long term decline, hastened by withdrawal of government support in the early 1980s, rising global energy prices have made production from the Yorkshire site commercially viable again. However, such has been the decline in the industry that the UK has insufficient labour to supply the anticipated production of coal from Hatfield. At present, the site owners predict that they will need several hundred workers from outside the UK to meet demand, in addition to several hundred from the UK.

4 Enterprise

4.1 SUMMARY

Governments throughout the world have embarked on major programmes designed to boost entrepreneurship activity. This action is based on the idea that entrepreneurship is linked to firm creation, job creation, innovation, productivity growth, and overall growth of the economy. In addition, globalisation and an increasingly knowledge-based economy have increased the importance of entrepreneurship. This is because there is less emphasis on physical capital accumulation as the basis for wealth creation and more emphasis on human capital accumulation.

Research into entrepreneurship and self-employment has indicated numerous factors driving entrepreneurial activity and self-employment; young people are significantly less likely to be self-employed than older people, men are much more likely to be entrepreneurs than women and the more educated an individual, the higher his or her probability of entering self-employment.

Research has also found that migrants are significantly more likely to become entrepreneurs than the native population. The Global Entrepreneurship Monitor has found that non-white immigrants to the UK have higher levels of entrepreneurship activity than white residents of the UK. The new business creation activity of non-white immigrants is twice that of other groups. Non-white immigrants comprised 3% of the UK sample but contributed 8% of its nascent and new entrepreneurs³³. Significant differences were found between non-white immigrants and other groups in attitudes towards entrepreneurship. Non-white immigrants were more likely to be actively starting a business, planning to start a business in the next three years and less afraid of business failure than other groups.

4.2 ETHNICITY AND ENTERPRISE

Ethnicity appears to play an important role in determining likelihood of self-employment, with substantially different rates of self-employment amongst ethnic groups. Since ethnic minorities in the UK are also more likely to consist of immigrants, the same factors may be responsible for the marked differences.

The differing rates of entrepreneurial activity among the UK's ethnic groups is well documented. The number of ethnic minority-owned businesses has grown rapidly in the UK over the last two decades^{34,35} and ethnic minorities are believed to be responsible for about 10% of business start-ups³⁶. It is also estimated that Britain's ethnic communities have an income of £10 billion per year (Natwest, 2000), which indicates their economic significance.

³³ Global Entrepreneurship Monitor, 2002, Paul D. Reynolds, William D Bygrave, Erko Autio, Michael Hay. November 2002

³⁴ ONS 2001

³⁵ NatWest (2000). Ethnic Minority Businesses. London: National Westminster Bank.

³⁶ Bank of England (1999). The Financing of Ethnic Minority Firms in the United Kingdom: A special Report. London: Bank of England.

While the ethnic minority population engages in enterprise and self-employment at rates similar to the white population, there are substantial differences in entrepreneurial activity between minority groups.

Figure 30: Self-employment rates by ethnic group

Self Employment* by Ethnic Group: Great Britain 2005	
British	12.7%
Other White	15.6%
White and Black Caribbean	1.7%
White and Black African	9.0%
White and Asian	13.6%
Other Mixed	14.0%
Indian	12.3%
Pakistani	23.2%
Bangladeshi	14.3%
Other Asian	13.3%
Black Caribbean	12.4%
Black African	5.8%
Other Black	9.6%
Chinese	18.3%
Other	13.1%

Source: Labour Force Survey, Winter 2005
 *Self-employment as percentage of total employment

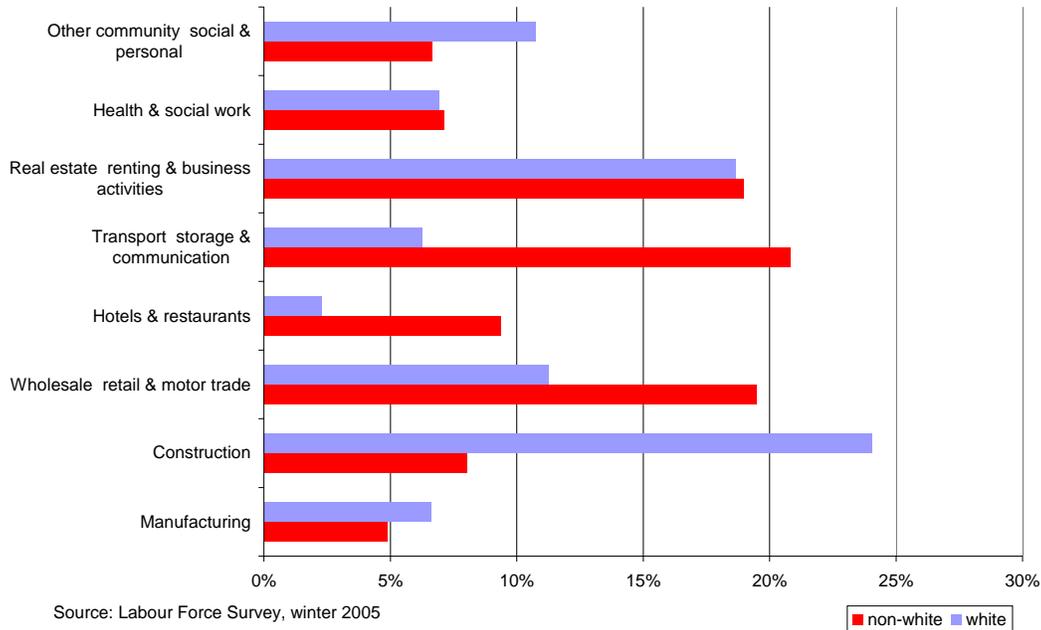
The Labour Force Survey (LFS) monitors economic activity within the population and records self-employment status data. It is therefore a vital data source in analysing entrepreneurial activity amongst different ethnic groups. The self-employed categorisation is self assigned in the LFS so that those classed as self-employed are those that consider themselves to be self-employed. Therefore, the LFS data includes all self-employed individuals whether they are 'entrepreneurs', highly paid 'consultants' in the service sector, subcontractors, tradesmen or what in the past might have been termed 'casual' or seasonal labour in construction or catering industries. However, it still gives a good indication of individuals undertaking entrepreneurial activity and starting their own firms.

An analysis of the latest LFS self-employment data reveals that the self-employment rate for Whites is 12.7 % compared with 23.2 % Pakistanis, 18.3 % for the Chinese, 14.3 % for Bangladeshis, 12.4 % for Black Caribbean, 12.3 % for Indians and 5.8 % for Black African. These figures indicate that some ethnic minorities have a greater propensity towards self-employment compared with their White counterparts. There are also large regional variations in ethnic minority self-employment rates between regions in the UK which is largely dependant on the ethnic profile of an area.

Another feature of self-employment of the UK's ethnic minority groups is the distinct industry breakdown compared with white ethnic groups. We analyse the difference between white and non-white ethnic groups in figure 30. Over one-fifth (21%) of all non-white self-employed people worked in the transport and telecommunications sector, compared with a mere 6% of white self-employed people. Nearly one-fifth of non-white self-employed people worked in the distribution sector compared with 11% of white self-employed people. Non-white entrepreneurs are also over represented in the catering industry, with 9% working here compared to 2% of white self-employed.

On the flip side of these industry highlights, non-white self-employed people are considerably under represented in the construction industry, accounting for only 8% of all non-white self-employed compared to 24% for white people. Non-white self-employed people are also slightly under represented in the personal services industry.

Figure 31: Self-employment by industry for white and non-white groups



In common with many other developed countries, ethnic minorities and immigrants in the UK are disproportionately represented within the self-employment sector.

Evidence indicates that not only is immigrant status important but so too is the number of years that have elapsed since the immigration. Research undertaken on entrepreneurship in the US suggests that people who have lived in a US county for less than five years are not involved in nascent entrepreneurship³⁷. This suggests that immigrants take time to engage in entrepreneurial activity.

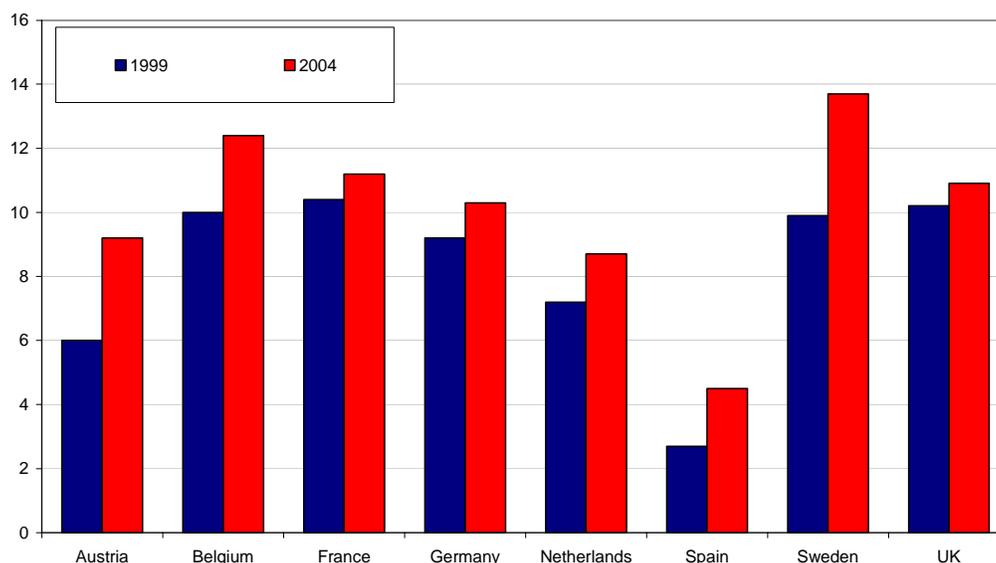
It takes time for potential immigrant entrepreneurs to build knowledge of market forces, government regulations, demographic structure, customer preferences, culture etc. Self-employment rates are therefore expected to increase along with the length of time that immigrants have been resident in the host country. The cost of entry into self-employment is also likely to deter the most recent cohorts of immigrants.

4.2.1 Self-employment among immigrants is growing

Self-employment among migrants appears to be growing both in numbers and as a percentage of overall population. In some countries, the increase has been particularly apparent. In 2004 foreign born persons accounted for some 11 % of self-employment in France and the UK, 12 % in Belgium and nearly 14 % in Sweden – figures which are generally higher than the share of immigrants in the total workforce.

³⁷ Paul D. Reynolds and Sammis B. White, *The Entrepreneurial Process: Economic Growth, Men, Women, and Minorities* (Westport, Connecticut: Quorum Books, 1997).

Figure 32: Share of foreign-born in total self-employment, 1999 & 2004



Source: OECD

4.2.2 Why are self-employment rates higher for immigrants and ethnic minority groups?

Various explanations have been put forward to explain the increasing and relatively large numbers of foreign-born self-employed. The first is based on the selective nature of migration, the suggestion being that immigrants are more dynamic and less reluctant to take risks than natives. However, little empirical evidence is available to confirm this argument. A second argument emphasises the case of foreigners who have specific difficulties in entering the labour market for many migrants, though not on account of their intrinsic qualities. Such difficulties can be attributable to language difficulties, problems with the recognition of qualifications or discrimination. Therefore, some categories of migrant worker are using self-employment as a fall back option and are relatively more inclined than nationals to create their own jobs.

Access to opportunity is another driver of entrepreneurship amongst certain migrant groups. In this regard, the development of economic activities aimed specifically at immigrants' communities of origin (ethnic businesses) is a third explanation for the relative magnitude of non-salaried activities among foreign workers. The Commission for Racial Equality (CRE) and others have noted the anecdotal evidence of businesses starting up to serve the needs of migratory populations.

An interesting feature of this is that some of the anecdotal evidence is about pubs and delicatessens serving Polish products. This is interesting because typically Polish workers in the UK are viewed as being a transient population. It may be that although, on average, each Polish worker is transient, there is sufficient 'throughput' of Polish workers that a sizeable market for Polish goods exists in certain area of the UK.

Such activities can include the provision of traditional or specific services, notably in the field of health, education and the hotel/catering trade, or they can involve strengthening merchandise trade with countries of origin. Community-type activities often extend beyond the somewhat restricted framework of the ethnic community and sometimes even foster integration in the host society. The Italian, Turkish, Indian and Asian culinary specialities that are now an integral part

of our eating habits were, for example, largely introduced by immigrants. Much the same is true as regards traditional oriental medicines and African and Latin American music.

Another explanation of enterprise patterns by ethnicity in the UK is that the current patterns that are evident are the result of cumulative changes following on from historical occurrences. For example, a large immigration flow from a particular country may have coincided with a period of high unemployment. This might have 'forced' these immigrants to develop their own sources of income rather than searching for relatively scarce paid employment. This initial 'occurrence' may subsequently have been reinforced by business proprietary being passed and inherited within large families and eventually business ownership becomes an integral part of the immigrant population in the UK.

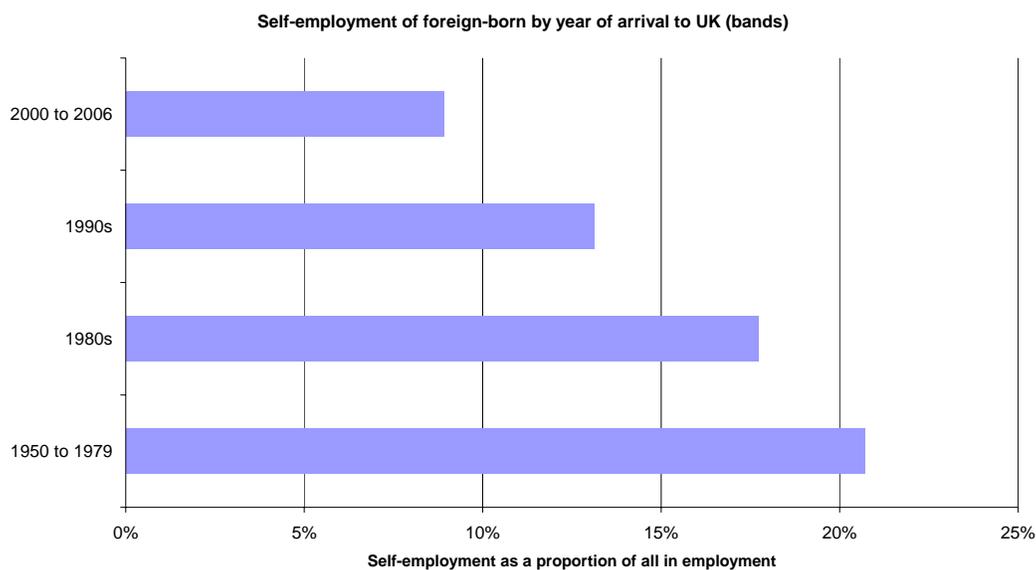
However, the high self-employment rates amongst ethnic minority groups across developed countries may also be indicative of difficulties in the integration of minority groups into the wider labour market.

4.3 MIGRATION AND ENTERPRISE

4.3.1 Enterprise and new immigrants

It is quite difficult to obtain an accurate picture of the enterprise behaviour of newer migrants into the country. Analysis of the ethnicity of business owners is fairly well established. To a greater or lesser extent this assesses the difference between entrepreneurship rates amongst 'stocks' of immigrant groups in the UK. However, it is a blunt measurement tool. It lumps together a 30 year old Bangladeshi entrepreneur whose great grandfather moved to the UK in the 1910s with a 24 year old entrepreneur who has just moved to the UK for the first time from Bangladesh.

Another way of trying to measure entrepreneurship of newer immigrants is to look at how self-employment rates vary with the length of time spent in the UK. Figure 33 below shows self-employment rates for different time bands of arrival in the UK, from the Labour Force Survey. This clearly shows that the probability of being self-employment increases the longer an immigrant has been in the country. This may also be related to the average age of the immigrant, as typically self-employment rates are higher for older age groups in the working age population.

Figure 33: Self-employment of immigrants to the UK by year of arrival

Source: Labour Force Survey,
winter 2005

4.3.2 Refugees and enterprise

Earlier evidence in the skills chapter painted a stylised picture about refugees in the labour market. We presently view them as being skilled above the average level but with above average unemployment. The reason for this apparent contradiction is that refugees face particular barriers in accessing work in the UK, including poor English language skills and lack of recognition for their foreign qualifications. Another reason may simply be that refugees are not always ready to work after the distress they have endured.

The barriers mentioned above may make self-employment a more attractive option for refugees. Moreover, if there is an option to sell products or services to a sizeable catchment of people from a similar ethnic or racial group, then English language skills may cease to be a barrier.

There is some evidence that the UK is seen as a positive choice for settling as a refugee. There is anecdotal evidence that refugees travel to places such as Holland, where they are actually granted refugee status, and then moving on to the UK, the country where they would eventually like to try and settle. This may lend support to the idea that the UK is seen as a multicultural and tolerant society.

Another dimension to the UK's attraction to outsiders is that it may also be viewed more favourably than many other EU countries as a place to start a business. Whilst this is unlikely to be an initial motivating factor for asylum seekers and refugees, it may be relevant in the longer term, and there may be common positive perceptions of the UK behind both sets of attractions.

5 Spending and public services

5.1 SUMMARY

This chapter is concerned with the monetary flows associated with immigration and migrant workers. Therefore we are interested in:

- Tax revenue from migrant workers in the UK
- Cost of public service delivery to support migrant workers and immigrants in the UK
- How much migrant workers and immigrants spend in the UK economy
- Remittances of disposable income returned 'home' by UK migrant workers

5.2 FISCAL IMPACTS

5.2.1 Summary

Within the wide range of sensitive policy issues that characterise migration policy in the UK, one of the thorniest is whether or not migrants make a net contribution to the UK public purse.

In recent years, this issue has crept up the policy agenda in response to public perceptions that migrant workers from eastern and central European are filling low skilled vacancies. Consequently, some argue that such low skilled people are more likely potential social benefit beneficiaries.

5.2.2 Fiscal contribution of migrants

The balance of evidence and, arguably, informed opinion is that migrants to the UK are a net economic benefit to the UK economy. This is a significant finding. That migrant workers are valued by employers is undisputable – from every angle it is clear that employers are benefiting from overseas workers and some even actively seek to employ them in preference to UK-born labour. However, to this benefit can be added the net benefit to the public purse.

A Home Office report in 2002 claimed that migrants³⁸ contributed £2.5 billion more in taxes in 1999/2000 than they received in benefits and State services³⁹. Though this figure is not undisputed. Scrutinising the underlying assumptions, Professor R. Rowthorn finds that the actual impact could, under a different set of assumptions, be negligible or even negative. It is not the purpose of this report to conclude on the net economic impact of migrant workers on the UK economy. That said, it is always possible to undermine another analyst's economic impact assessment by adjusting the assumptions or widening the scope of what features of social interaction can be quantified and counted in the economic framework.

IPPR analysis⁴⁰ suggests that the contribution of immigrants to public finances is growing, and is likely to continue to grow in the near future. In their analysis of the fiscal impact of immigrants they note that foreign-born workers in the UK have higher average earnings than UK-born workers. Moreover, of those employed in lower skilled, lower income jobs, working hours are long, with consequent fiscal benefits for the UK. However, these effects are slightly

³⁸ Migrant workers in the fiscal year 1999/2000

³⁹ Ceri Gott and Karl Johnston, (2002), *The Migrant Population in the UK: Fiscal Effects*, RDS

⁴⁰ *Paying Their Way: The Fiscal Contribution of Immigrants In The UK*. IPPR, April 2005.

offset by the fact that the foreign-born working age population have a lower employment rate than the UK-born working age population.

In 1999–2000, immigrants accounted for 8.8% of government tax receipts (and 8.4% of government spending). By 2003–04, immigrants accounted for 10.0% of government tax receipts (and 9.1% of government spending). Total revenue from immigrants grew in real terms from £33.8 billion in 1999–00 to £41.2 billion in 2003–04. This 22% increase compares favourably to the 6% increase for the UK-born.

Our analysis also suggests that the relative net fiscal contribution of immigrants is stronger than that of the UK-born, and has been getting even stronger in recent years. In each of the years we have examined, immigrants have become proportionately greater net contributors to the public finances than non-immigrants.

Net fiscal impacts only represent part of the economic impacts of immigration. Migration can help fuel economic dynamism, capital formation and labour market flexibility. On the other hand, without successful integration, many immigrants can lag behind. The diversity and dynamism that immigrants bring are hard to capture in statistics.

Migration Watch UK, however, claim both the Home Office paper and the IPPR paper make serious errors in their methodology by attributing dependants of UK and Non-UK couples to the UK population. Migration Watch UK adjusted this basis so that dependent children of a migrant and a native parent are allocated 50:50 to each population, reversing the findings of the original Home Office paper. Far from making a net positive fiscal contribution of £2.5 billion in 1999/2000 as the Home Office claimed, the net fiscal contribution was negative at minus £200 million.

The IPPR findings, that migrants make a larger fiscal contribution than natives, are also claimed to be invalid. In 1999/2000 migrant's contribution per head was about £300 less than that of the native population, not approximately £300 more as IPPR had suggested. Their contribution per head had improved, but only to a level which matched that of the native population (instead of being £818 more as IPPR had calculated.)

Another important point to bear in mind is that much of the above analysis is focused on recent migrants, in particular an estimated stock of 5 million migrants in the UK. However, migrants have cumulative impacts on host countries, often becoming immigrants and then full legal citizens. Therefore, as at 2006, a substantial proportion of the UK workforce consists of current migrants, veteran migrants and descendents of migrants. So, over and above the net fiscal benefits or costs of migrants over an arbitrary period of time, it has to be recognised that labour migration is part and parcel of the fabric of the whole UK economy.

5.2.3 Demand for welfare and public services

The Home Office themselves estimate that migration benefits the UK economy. According to one 2001 study, a 1% increase in migration results in an increase in GDP of between 1.25% and 1.5%⁴¹.

Public perceptions that migrants from central and eastern Europe may be a drag on public welfare spending are not supported by the available evidence. Of the 392,000 people that have made applications to the WRS less than 400 have been approved to receive benefits.

⁴¹ Migration: An Economic and Social analysis. Home Office, 2001

Of the 306,000 foreign nationals who have registered for National Insurance Numbers in the UK in 2003/4, 17,000 (6%) have claimed out-of-work benefits. Although this appears to be quite high, it is actually half the rate of benefit claimants that occurred in previous years⁴².

So, migrant workers generally appear to be just that – economic migrants in search of the best returns for their available labour time. This conclusion does run contrary to some popular opinion but is nevertheless borne out by government administrative data and estimates

5.3 SPENDING BY MIGRANTS

5.3.1 Summary

Up to this point we have focused on the fiscal impact of migrants in the UK – that is, whether tax revenue exceed transfer payments to migrants. However, interest also exists in whether the private side of the economy is benefiting from migrant workers who earn wages in the UK.

Migrant workers and immigrants therefore have to spend much of their disposable income in the UK; including housing, retail and transport.

However, as we discuss below, a key motivation factor for migration to the UK is economic. Migrants want to work in the UK to earn money that they can, in part, send to family and community networks back home.

Remittances ‘back home’ are thus ‘leakage’ from the UK private sector. However, that is only part of the story. Remittances are more significant than international aid as a source of income for developing countries.

5.3.2 Consumer spending in the UK

The balance of evidence suggests that recent migrants do not behave in the same way as the general UK consuming population. In addition to remittances, which are discussed below, migrant workers are likely to be working longer hours which reduces the time and opportunity for leisure spending. Additionally, anecdotal evidence suggests that migrant workers are often not purchasing housing from the mainstream private rented sector. For example, anecdotal evidence suggests that workers in the agricultural sector are often living in accommodation on site.

5.3.3 Remittances

Remittances are transfers of money by people working in other countries to family and friends back ‘home’. The level of remittances has grown substantially in recent years and is playing an increasing important role in the economies of many developing nations. In 2005, the World Bank estimated that migrants officially sent home more than \$223 billion to their families in developing countries. This is substantially more than the level of international aid.

Research into the provision of money transfer services in the UK for immigrants and migrant workers from developing countries suggests the following types of cross-border remittances⁴³:

- Enabling family in their home country to subsist
- Students working part-time to supplement their family income back home

⁴² National Insurance Number Allocations to Overseas Nationals Entering the UK. DWP, 2005

⁴³ ‘Sending Money Home: A Survey of Remittance Products and Services in the United Kingdom’ DFID 2005

- Ad hoc contributions (the most common type) – for example to meet medical expenses, school fees or irregular periods of hardship
- Sustaining businesses back home – for example, to pay employees, contractors and property maintenance costs
- Project development – funding infrastructure projects back home such as hospitals, schools and utilities
- Charitable payments – especially common in Bangladeshi, Nigerian and Indian cultures

The level of migrant's remittance flows from the UK depends on the migrants ability (income and savings from income) and their motivation to remit savings back to their home country. Clearly the length of stay is important. Temporary migrants may have higher incentives to remit to those left behind than permanent migrants. Furthermore, the longer the duration of the migrants stay, it is possible that the bonds to their home country become weaker and the level of remittances will fall. This is certainly reflecting in views on intergenerational remittance behaviour⁴⁴.

The DFID research establishes that the reasons for sending remittances are closely related to the primary reasons for migration in the first place. Primarily, the objective of such migrants, or at least their family and friends back home, is financial security. In many migrant cultures, particularly the African and Asian groups analysed for DFID, it is the financial security of the *collective* rather than the individual which is relevant. Another driver of migration is education. Often, the two drivers operate together and families 'send' young family members to the UK to obtain an education and in return the students are responsible for sending home some of the returns from their part-time work in the UK.

It could be argued that the longer migrants stay in the country the higher the salary they are likely to command thus they could send more home. Also the migrant's marital status and whether or not they have dependants play an important role in the level of remittances an individual sends home.

Another relevant discriminator is how long the immigrant has been in the UK. There is a general trend identified in the DFID research that younger generation immigrants, born in the UK, may not share the sense of connection to their 'homeland' that their mothers and fathers, the original migrants, did. This sense of intergenerational tension is likely to have implications for the patterns of remittances from the UK.

Earlier we observed that EU inter-migration is a policy mechanism for reducing income inequalities between EU member states and regions. Clearly a similar mechanism exists at an international level, with people in developing countries recognising that developed countries such as the UK offer opportunities for their young and mobile people to build human and financial capital. Such opportunities often do not exist in their own developing homelands. However, a key difference between inter-EU economic migration and migration between developing countries and the EU is that the latter is 'artificially' limited by EU and member state migration policies.

5.4 OTHER ECONOMIC IMPACTS

5.4.1 National output (GDP)

Much of the focus of this study is on migrant workers and foreign-born workers. By definition such people contribute to turnover in the private sector and service delivery in the public sector. That is, they are contributing to Gross Domestic Product (GDP). The crucial question is whether

⁴⁴ DFID op cit

their contribution to output is in proportion to the numbers employed in the UK. HM Treasury appear to provide the definitive answer to this question. The Treasury estimated migrants generate 10% of UK output although only accounting for 8% of total employment.

5.4.2 Product prices

According to the ALP, the supply of migrant workers in the food and drink supply chain, at the wages employers are willing to pay, is helping to keep prices low in supermarkets. This is a benefit to UK consumers, whose disposable income is higher as a result.

5.4.3 Business competitiveness

The absence of supplies of migrant labour would mean shortages would persist. There is also the possibility that wages might be higher. Both these factors could undermine the competitiveness of UK businesses in global markets, and in domestic markets where they have to compete with imports from lower cost economies. This is the view of the ALP.

5.4.4 Private services

Although not the preoccupation of this research, there are clearly many cultural differences between the different ethnic minority groups in the UK and the majority, 'white British' population. The distinctiveness and strength of these ethnic characteristics sometimes gives rise to specific demands for products and services that differ from those generally available in the UK. For example, food products which are preferred for religious reasons by some Asian and Asian British communities.

Some examples of these demands are:

- Shari compliant financial products for Muslim property buyers and entrepreneurs
- Halal, Kosher and other food products that conform to the requirements of specific religious groups
- Preferences for products from home countries, such as the anecdotal evidence of Pakistani-owned grocers selling Polish beer

The overwhelming evidence is that, with a sufficient ethnic population to sustain market supply, providers quickly recognise and meet these opportunities. This can be seen in the number of ethnic minority restaurants originally set up to cater for ethnic minority demand and specialised delicatessens providing preferred goods. In time, the other ethnicities represented in the UK often absorb these products into their own goods and service demands, creating larger markets for these products. In short, the creation of ethnic minority goods and services alters the mainstream patterns of consumer spending in the UK, as in any other multicultural society.

Appendix A

Consultations (list)

- Advantage West Midlands
- Association for Labour Providers
- CBI
- Cheshire and Warrington Economic Alliance
- Construction Works Ltd (Hull)
- CRE
- De Montfort University
- Department of Health
- DWP
- Ethnic Minority Enterprise Project (Tower Hamlets)
- Leeds Financial Services Initiative
- People 1st (SSC)
- Refugee Council
- Yorkshire Forward (Sustainable Development)
- SEMTA (SSC)