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The Impact of Immigration on low paid British workers

Summary

1. There is mounting evidence that immigration has had a negative effect on wages at the lower end of the UK labour market. The effect is small but the evidence now seems consistent. There is also developing evidence of a negative impact on the employment of the UK born workers. Between the first quarter of 2005 and the last quarter of 2008 the number of UK born, aged 16 and over, in employment fell by about 230,000 while the foreign born increased by nearly one million. Thus the large scale immigration of recent years has done nothing to help the low paid and may well be affecting their chances of employment.

Introduction

2. It is not easy to determine the effect of immigration on wages with accuracy because even large-scale immigration is relatively small compared to a workforce of 30 million. Furthermore, the picture is complicated by the response of indigenous labour as well as by statistical considerations.

Wages

3. The House of Lords Economic Committee, reporting in April 2008 reached the following conclusion: [1]

"The available evidence suggests that immigration has had a small negative impact on the lowest paid workers in the UK and a small positive impact on the earnings of higher paid workers."

4. In his evidence to this Committee Professor Rowthorn, Emeritus Professor Economics at Cambridge University, challenged the Government claim that there is no theoretical reason why immigration need depress either native wages or increase native unemployment.[2] He pointed out that a period of adjustment is needed and that, during this period, some native workers might suffer a significant loss. An OECD Working Paper had suggested that this period might last between five and ten years. [3]

5. A study by Dustmann, Frattini and Preston analysed the effect of immigration on the wages of native workers Unlike much previous work they estimated wage effects along the distribution of wages without pre-allocating immigrants to a particular skill group. Over the period 1997 to 2005 they found that immigration had increased the average hourly wage by about 1 penny an hour

each year [4]. However, this increase was not evenly spread. They found that immigration depressed wages for the bottom 20% of the wage distribution but led to a slight increase in the upper part of the wage distribution. The overall effect was slightly positive because, they believe, immigrants are paid less than the value of their contribution to production. Over the period they found that the annual effect of immigration was to hold wages back by 0.7p per hour for the bottom 10%, add 1.5p per hour to wages at the median, and slightly more than 2p per hour for the top 10%. These are small effects compared to the annual increases of 18p, 25p and 53p per hour respectively.

6. A further study by Nickell and Saleheen in October 2008 took a different approach.[5] They found that, once the occupational breakdown is incorporated into a regional analysis of immigration in Britain, the immigration-native ratio has a small, but significant, negative impact on average wages. Closer examination revealed that the biggest impact was in the semi/unskilled services sector. In this sector they found that a 10% rise in the proportion of immigrants is associated with a 5% reduction in pay.

7. The most recent study from the Institute for Public Policy Research (IPPR) [6] concludes from its review of the theoretical literature that it is extremely unlikely that increased migration into the UK will have a substantial negative effect on either wages or employment in aggregate. They add that there could be a small negative effect on wages and/or employment but it could also be positive or have no effect at all.

8. Their review of the empirical evidence from previous studies in the UK concludes that "overall, the best research done so far seems to suggest that there are, at most, only small negative impacts from the increased migration we have seen in the last decade, at least for average wages for workers in the UK. The effects may be most pronounced (although still small) for low paid workers already in the UK."

9. Their own work also gives a negative result. They find that, over the period 2001 to 2007 a 1% increase in the share of migrants in the UK working age population would reduce wages by 0.3%. This amounts to 70p per week for someone on the minimum wage.

10. The IPPR study also recognises the limitations of available data. Their conclusions refer to aggregate labour market impacts but they note that it is entirely possible that there could be a more noticeable negative (or positive) impact within local labour markets. They recognised that the data do not permit testing anecdotal claims that immigrants are depressing wages and reducing the employment prospects of UK born people in certain localities.

Employment

11. Estimating the impact of immigration on employment encounters similar problems over data. They are not robust enough to provide statistically significant evidence of the displacement of UK born workers in particular areas. But this does not mean that the effects are not significant - only that they cannot be statistically confirmed.

12. In aggregate there are worrying signs that UK born employment is falling while that of foreign born is rising. Between the first quarter of 2005 and the last quarter of 2008 the number of UK born, aged 16 and over, in employment fell by about 230,000 while the foreign born increased by nearly one million. [7]

13. The impact of immigration may have been masked during the years of strong economic growth perhaps partly explaining the rather small impacts found in the studies outlined above. In the most recent 12 months to October-December 2008, employment of UK born workers fell by 278,000 (1.1%) while employment of non-UK born workers rose by 214,000 (6.0%). Analysis by nationality gives an even stronger effect; it shows a fall in employment of UK nationals by 234,000 (0.9%) and a rise in employment of non-UK nationals of 175,000 (7.9%). Immigration on this scale during a period of severe recession could turn out to have a significant impact on the employment of UK natives or nationals.

14. In occupations that are low paid the effects of immigration on pay and employment could be mutually reinforcing - immigration could hold pay levels down, thus discouraging native workers and encouraging the continued employment of low paid immigrants.

15. The Migration Advisory Committee has pointed to the dilemma which arises in respect of care workers:

We believe that the shortage of care assistants is primarily down to low pay in less skilled jobs. Allowing immigrants in to fill these jobs would do little to help redress this - indeed it could exacerbate it .[8]

They also noted that:

Although we recognise that many public budgets may be fixed in the short term, in the longer run it would not be sensible to supply these important services on the basis of low-paid immigrant labour. [9]

Conclusion

16. The large scale immigration of recent years has done nothing to help the low paid and may well be affecting their chances of employment.

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NOTES

- 1 The Economic Impact of Immigration HL Paper 82-1
- 2 The Economic Impact of Immigration Volume 2 Page 23
- 3 Jean, S and M Jiminez (2007, "The Unemployment Impact of Immigration in OECD Countries". Economics Department Working Paper 563, OECD, Paris
- 4 Working Paper for the Centre for Research and Analysis of Migration (CREAM) 2008 Page 24
- 5 "The Impact of Immigration on Occupational Wages:• Evidence from Britain"
- 6 "The Economic Impacts of Migration on the UK Labour Market", February 2009
- 7 ONS Quarterly Migrant Workers Estimates Feb 2009 Table 2 by country of birth.
- 8 Skilled, Shortage, Sensible, MAC September 2008 Paragraph 9.52
- 9 Ibid Paragraph 8.16