Migrants in low-skilled work

The growth of EU and non-EU labour in low-skilled jobs and its impact on the UK

Migration Advisory Committee

Full Report

July 2014

Migration Advisory Committee

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Chairman's Foreword

1. Our Task

In May 2013, the Minister for Immigration asked the Migration Advisory Committee (MAC) to advise on the issue of low-skilled work immigration, the factors driving it and the resulting economic and social impacts. Specifically the Minister asked the MAC to:

"consider the labour market, economic and social impacts on the UK and specifically on British workers, drawing on and updating earlier work in this area. In particular, the MAC is asked to research the growth of migrant labour, distinguishing where possible between EEA and non-EEA migrants, in low skilled sectors of the UK economy and the factors driving this.

In doing this, the research should address:

(i) The extent to which, and the reasons why, employers actively choose to recruit migrant workers and through which channels.
(ii) Why these migrant workers are attracted to coming to work in the UK, and how the UK compares with other countries in this context.
(iii) The extent to which migrant labour fills gaps in the UK domestic labour supply for low-skilled work and whether the work they find is a match for the skills they bring.
(iv) *Whether there are structural or cultural issues which inhibit the recruitment of UK-born workers, including issues such as motivations and attitudes to work. Consideration should also be given to the interaction of factors including skills, housing, education provision, the benefits system and the labour market regulation, with a view to making recommendations as to possible actions here."*

2. Definitions and numbers

In this report, low-skilled jobs are defined using the Office for National Statistics (ONS) definition from the Standard Occupational Classification (SOC). For those

aged 16-64, low-skilled occupations account for 13 million jobs, equivalent to 45 per cent of total employment.

Migrants are defined by country of birth – i.e. those born outside the UK. Of the 13 million low-skilled jobs, 84 per cent are held by UK born workers and 16 per cent (some 2 million) by migrants. These 2 million low-skilled jobs held by migrants split 60:40 non-EU:EU. It is vital to emphasise that the majority of the stock of low-skilled migrant jobs are held by non-EU workers even though, since 2008, there has been no work route available for such workers to come here. But if we focus on migrants arriving in the last decade, half of those in low-skilled jobs came from EU8 plus EU2 countries.

Non-EU migrants in low-skilled jobs tend to be concentrated in local areas within London whereas EU migrants are somewhat more dispersed. The implication is that, in many areas of England and Wales, competition between UK-born and migrant workers will be either very small or virtually non-existent. The real impact of foreign-born will be mostly in a relatively small number of local labour markets.

Migration is driven by numerous variables: economic, social and migration-policy related. But it should be understood that other policies play a part. These include: education and training policy; the drive for labour market flexibility - only 1-worker-in-7 in the private sector is a union member; and welfare and housing rules.

3. Employment in low-skilled work

The total number of workers (all workers, not just those 16-64) in low-skilled jobs is around 13.4 million, similar to that in 1997. But migrants now account for 16 per cent of such jobs, up from 7 per cent in 1997. By contrast, natives now comprise only 84 per cent of this workforce, down from 93 per cent in 1997.

The employment rate of UK-born people aged 16-64 rose from 71 per cent in 1997 to 74 per cent in 2008. This rate appears unaffected by the significant and rapid migration to the UK. Post the 2008 recession, this rate fell to 71 per cent in 2010 but has climbed back to 73 per cent presently.

But the group most negatively affected by labour market developments over the last fifteen years are those aged under 25. The employment rate for young men fell 13 percentage points between 1997 and 2013, partly because of the severe economic downturn. Just over 1 million (14.4 per cent) 16-24 year olds are classified as NEET (not in education, employment or training). The Department for Education (DfE) estimates that one third of NEETs are “out of scope” (e.g. on a gap year or in custody). But this still leaves over 600,000 young people who require education and related interventions.

Prior education attainment is the most important predictor of whether a young person becomes NEET. Just 1-in-40 young people who achieve five of more GCSEs at A*-C grade are NEET aged 17. This compares to 1-in-6 of those who did not. This report emphasises the key importance of literacy and numeracy skills, relevant vocational training and work experience. Policies to help the social side, welfare and housing are also necessary to support education interventions. This emphasises the need for linked-up policies across government.

4. Recruitment practices in the low-skilled sectors

Why do employers recruit migrant workers into low-skilled jobs? In their evidence to the MAC and related research some employers reported the following:

- some British workers applying for low-skilled jobs lack basic numeracy and literacy skills;
- many migrants – particularly East Europeans – have a superior work ethic to British workers. This is stressed particularly by firms offering temporary or seasonal work, perhaps in unpleasant conditions with unsocial hours. Employers state that UK workers have very high attrition rates in such jobs;
- many migrants have higher level qualifications than their low-skill job requires;
- on average migrants are superior to British applicants on "soft skills" including reliability, team working and confidence;
- migrants are more flexible than UK-born workers, e.g. much more likely to do shift work;
- migrant workers are more willing to move or live on the site than the domestic workforce which (for obvious reasons) tends to be attached to particular geographic locations: low-skilled British workers are, relative to migrants, less geographically mobile; and
- many British workers, again understandably, will not accept pay rates and conditions that many migrants tolerate.

In their response to our call for evidence, employers were adamant that they do not discriminate on the basis of nationality. Nevertheless, the above factors strongly suggest that some employers have developed a preference for particular groups of workers.

Compared to British workers, migrants are more likely to be recruited via a private employment agency or gangmaster or by word of mouth from someone already working at the firm. Gangmasters and recruitment agencies play a key role in the process of immigration. They take workers to locations where work is available, but often provide other services for workers including accommodation and transport. Agency workers are very unlikely to organise collectively.

The incentives and decisions of firms and workers are influenced by public policy. The use of migrants is probably higher than it otherwise would be, for example in construction, because of inadequate vocational training, and in care because of underinvestment in the sector. Housing and welfare policy and the pursuit of labour market flexibility also play a part.

5. Compliance and enforcement

Compliance with and enforcement of labour regulations are vital to protect vulnerable British workers and migrant workers. Simultaneously, such enforcement lowers any incentive employers have to use migrants to undercut British workers. This enforcement activity is especially important in the UK because of our emphasis on the flexible labour market. For example, collective bargaining coverage has fallen from around 70 per cent in 1980 to under half that figure now.

It is important to note that labour exploitation can occur along a continuum or spectrum. The exploitation can be of both British and/or migrant workers.

Minor, but nevertheless serious, exploitation is when a worker receives a wage a bit less than the national minimum wage.

Serious exploitation may occur when, for example, a rogue employment agency and/or gangmaster charges excessive job finding fees and/or forces the worker to move employers. The layers of sub-contracting in food manufacturing – e.g. to meet seasonal variations in demand – help permit such exploitation.

Next in the spectrum is when a gangmaster essentially controls the worker. The employer gives over the wage to the gangmaster (i.e. often for a number of workers) who will make arbitrary deductions for e.g. transport and (unpaid) national insurance contributions. In order to gain control over the worker, the gangmaster may initially only offer the worker 1 day of work per week so that s/he uses up all her savings. In addition, the gangmaster/employer may retain the worker's passport, perhaps to commit welfare fraud or identity theft. Many, probably most, of the workers so controlled pay high rent in houses of multiple occupation (HMO).

Slavery itself is the far end of the spectrum. An example was the recent case of Irish travellers enslaving homeless (British) men to do tarmac work all over Europe.

The MAC is seriously concerned that the two major enforcement bodies are under-resourced and that the penalties for non-compliance are too weak.

Her Majesty's Revenue and Customs (HMRC) enforces the National Minimum Wage (NMW). But, on average, a firm can expect a visit from HMRC inspectors once in every 250 years and expect to be prosecuted once in a million years. Such enforcement effort hardly provides an incentive to abide by the NMW. Further, while HMRC does an excellent job with its limited resources, it may not be the appropriate body to enforce the NMW. Its job is to collect taxes. It may therefore view resources devoted to compliance of the NMW as a diversion from its main task.

The Gangmasters Licencing Authority (GLA) enforces labour standards in agriculture and food processing. Even when it finds evidence of serious exploitation – substantial underpayment of wages and dreadful housing conditions of workers – the courts normally only impose trivial penalties. There is a strong case for extending the work of the GLA into other sectors such as construction, cleaning, care and hospitality. This would require extra resources.

Likewise, the penalties for breaching the labour standards should be toughened up.

Any exploitation of workers also extends to the conditions in which they live. Migrants – particularly those from EU8 and EU2 countries – are much more likely than British workers to live in houses of multiple occupation. Some licencing of HMOs is mandatory and a local authority can impose additional licencing requirements. The MAC has seen from our visits to Wisbech and Peterborough how vital it is that local authorities have adequate resources to police HMOs.

6. Labour market and economic impact of immigration

Perhaps surprisingly, the national labour market and economic impact of immigration is, mainly, rather modest. The labour market impact covers employment, unemployment and pay. The wider economic impact includes Gross Domestic Product (GDP) per head, productivity, prices and the fiscal contribution.

A very straightforward way to examine employment is to study how the **employment** rate of natives alters over time. At a time of rapid immigration, the employment rate of UK-born aged 16-64 rose from 71 per cent in 1997 to 74 per cent in 2008. It fell in the recession, but is now back to 73 per cent. But we need to bear in mind that it is possible that, with a lower level of immigration, the native employment rate may have risen further. Within this quite stable overall employment rate there has been a shift away from younger workers towards older workers.

The MAC analysed the association between migration and native employment over the period1975-2010 in a report published in 2012. The study found negative associations (not necessarily causal) between stocks of working age migrants and native employment: (i) in periods of slow economic growth; (ii) for non-EU migrants; (iii) for migrants who have been in the UK for under five years. No significant associations were found for EU migrants, periods of stronger economic growth and for longer term migrants. The findings of the MAC study were replicated in a joint Department for Business Innovation and Skills and Home Office study published earlier this year.

Most studies find no association between migration and **unemployment**. The most recent study analysed the impact of migration inflows on the claimant count using National Insurance Number (NINO) registrations of foreign nationals at local authority level. It found no association between migration inflows and claimant count unemployment.

International evidence tentatively concludes that when extra unskilled migrants are employed in the household service sector this permits skilled women with children to supply slightly more **hours** to the labour market.

The six studies we review which have examined the link between migration and **average pay** find a tiny impact, sometimes negative, sometimes positive.

Somewhat more concerning is the impact of migration on the **distribution of pay**. Studies suggest that migration provides a modest boost towards the top of the pay distribution and downward pressure on the wages of the low paid. But, again, the numbers are small. For example, the most thorough study suggested

that 10,000 extra migrants working in caring personal services reduced pay growth in this occupation by £25 a year.

The MAC will publish its own updated analyses of the impact of migration on pay and employment later this year.

Migrants working in low-skilled occupations account for 16 per cent of the workforce in these jobs and 16 per cent of GDP produced by those in low-skilled occupations. Thus, foreign born workers have added to our **GDP,** but not disproportionately so. GDP goes up as a consequence of the higher population and employment. The much more relevant question is whether such migration boosts GDP per head or, better still, the welfare of British residents.

Studies suggest that the impact on **GDP per head** is, at best, very modestly positive. For example, the National Institute for Economic and Social Research (NIESR) calculated that the 2004 European Union (EU) enlargement raised GDP per head by 0.2 per cent, equivalent to around £50 per person for the period 2004 to 2009.

NIESR also states that any boost to **productivity** from immigration is tiny: if the immigration share increased from 10 per cent to 11 per cent (i.e. one percentage point) the gain would be around £20 per person. Any such productivity gain would probably be associated with skilled rather than unskilled immigration.

Likewise the impact on **prices** is minute. Over the period 2001-2011 the migrant-native ratio in England and Wales increased six percentage points. If a cleaning service cost £10 an hour in 2001 it would cost £9.91 in 2011 (unadjusted for inflation).

The most thorough study of the **fiscal contribution** of migrants was recently published by a team at University College London (UCL). It covered the period 2001-2011. It shows that, over the 11-year period: (i) recent European Economic Area (EEA) migrants (who came here after 2000) made a positive net contribution of £2,732 per person per year; (ii) non-recent, non-EEA migrants were net debtors at minus £2,198 per person per year; (iii) overall migrants contributed minus £978 to the public finances, almost identical to natives at minus £1,087. The negative sign for both natives and migrants is partly a consequence of the great recession. As a result, migrants' cumulative net contribution was minus £78 billion over the 11 year period.

7. Social impact

The main benefit of unskilled immigration goes to the employer – say in food manufacturing – who often cannot get an adequate supply of native labour. Other impacts on the national labour market and economy are modest. Therefore, public concern about immigration would appear to stem from other areas. These include: local impact; population growth; cohesion; congestion in health, education and transport; crime; and access to social housing. The MAC has investigated some of these issues.

Local authorities with the largest proportions of migrants in low-skilled work have experienced a substantial recent inflow of international migrants. But such inflows have generally been offset by outflows of population to the rest of the UK. The

key driver behind differential **population** growth across local authorities has been higher migrant fertility.

Cohesion (defined as people from different backgrounds getting on well together) has risen in all regions of England over the last decade. But across local authorities it is negatively correlated with migrants in low-skilled jobs as a percentage of the adult population. Equally, cohesion is also negatively correlated with UK born in low-skilled jobs as a percentage of the adult population. This suggests that some other variable – perhaps social deprivation – might drive the correlation.

Wellbeing, measured by mean life satisfaction score, is also negatively associated with migrants in low-skilled work as a percentage of the adult population. But - as with cohesion – it should be noted that such correlations do not imply causality.

The main issue surrounding immigration and **housing** concerns access to social housing. In the raw data, presently immigrants are more likely than natives to be in social housing. But there is considerable heterogeneity among immigrants. Those with EEA citizenship are less likely than natives to be in social housing. By contrast, non-EEA citizens and migrants who are now UK citizens are more likely than natives to be in social housing.

Once controls are introduced the picture changes. Controls include the demographic structure of the household, the area of residence and economic circumstances (all factors that are likely to influence the probability of being in social housing). These controls permit a comparison between equivalent immigrant and native households. The results show that immigrant households are significantly less likely to live in social housing than equivalent native households. Thus there is no evidence of discrimination in favour of immigrant households.

Nevertheless, the probability of a native household being in social housing has fallen over time. This is a result of three factors: the reduction in the stock of social housing; the increased number of immigrant households and alterations in the allocation procedure – designed to eliminate discriminatory practices – which raised the probability of an immigrant household being allocated social housing. From the perspective of a native household the chances of being in social housing have fallen. About one third of this reduced chance comes from the increase in the number of migrants and alterations in the allocation rules, and two thirds because the stock of social housing has fallen.

Around 15 per cent of UK nationals were claiming DWP out of work **benefits** in February 2013. The corresponding figure for non-UK nationals was 6 per cent.

It is not straightforward to get evidence of the impact of migrants in low-skilled jobs on the use of **education** and **health** services. There has been a substantial rise in the number of school pupils without English as their first language, particularly in London. Further, one of the main challenges facing schools is the turnover of pupils throughout the school year.

Evidence suggests little disproportionate access by migrants of health services (e.g. hospital visits, GP registrations). But one area where it is possible to identify the direct impact of migrants' use of the health service concerns the demand for maternity services. On average, foreign born women – especially those from poorer countries – have higher fertility rates and therefore a greater demand on maternity services.

One area of concern is the considerable public health risks arising from overcrowded migrant accommodation.

Studies of immigration and **crime** find little difference between migrants and the UK-born population.

The overall benefits and costs of immigration into low-skilled jobs are set out in the box below:

Migration into low-skilled jobs scorecard

BENEFITS

- Benefits owners of capital e.g. important for firms in labour intensive sectors such as food manufacturing, agriculture and restaurants, who often cannot get an adequate supply of UK-born labour.

- May complement UK-born skilled workers and some unskilled local workers, enabling them to specialise in more highly paid jobs.

- Migrants are more mobile and flexible than UK-born e.g. prepared to change location, live at the workplace and do shift work. This helps grease the wheels of our flexible labour market.

- The biggest gains go to the migrants themselves. Their income in the UK is much higher than in their home country and their extended family might benefit from any remittances.

COSTS, particularly in some local areas and some sectors

- Causes overall population to rise and the composition of many local area populations to alter rapidly. This may have implications for cohesion and wellbeing but such a possibility needs further investigation.

- Congestion – pressure on health (e.g. maternity services), education (e.g. churning during school year) and transport services.

- Impact on housing market: puts pressure on private rented market; locally problems with houses of multiple occupation; modestly reduces the probability of a native getting social housing – but the main problem here is not more migrants, rather a smaller stock of social housing.

- Small negative impact on the wages of the low paid. This raises issues around compliance and enforcement of e.g. the national minimum wage. Inspection regimes are insufficiently robust and penalties too feeble. An employer can expect a visit from HMRC once every 250 years and a prosecution once in a million years.

NEUTRAL OR VERY SMALL IMPACTS

- The employment rate of UK-born working-age population was practically unchanged by the substantial inflow of EU8 migrants after 2004.

- The youth labour market (aged 16-24) remains a cause for concern but this is about aggregate demand and education and training policy rather than immigration.

- Over the period 2000-2011, migrants and natives made very similar contributions to our fiscal position, around minus £1000 per person per year. This partly reflects the post 2008 recession. Recent migrants who arrived post 2000 made a positive contribution, but pre-2000 non-EEA migrants made a large negative contribution, reflecting differences in relative age and employment rate.

- The impact on GDP per head, productivity and the price of non-tradable services like dry cleaning, hair dressing, and gardening is tiny.

8. Emerging themes

Normally MAC reports contain specific recommendations. This present report is a bit different: we emphasise five themes which emerge from the evidence.

First, our flexible labour market has mainly served us well, but there are insufficient resources devoted to key regulatory bodies such as HMRC which enforces the national minimum wage and the GLA. Similarly, the penalties for breaching the regulations are not severe enough. There also needs to be more sharing of labour market intelligence among the agencies.

Second, the youth labour market is a concern. We do not find strong evidence that this is a consequence of the expansion of the EU in 2004. Schools presently have an incentive to boost the number of A* - C grades in GCSE exams. This may imply insufficient attention is given to those towards the bottom (and top) of the ability range. Many apprenticeships do not stretch the individual sufficiently and have too little employer input. Greater attention needs to be given to raising the awareness and adjusting aspirations towards available opportunities and improving the soft skills of those at the lower end of the ability range.

Third, there needs to be greater recognition of, and support for, the local impact of immigration. The non-UK born population of England and Wales grew by 2.9 million between 2001-11. Three quarters of this rise happened in just a quarter of local authorities. Although we show that, nationally, the economic impact of immigration on GDP per head, productivity and prices is very modest, the economic and social impact on particular local authorities is much stronger. This includes pressure on education and health services and on the housing market and potential problems around cohesion, integration and wellbeing.

Fourth, demand for migrant labour is strongly influenced by institutions and public policies not directly related to immigration. These include, for example, labour market regulation, investment in education and training, and pay levels in some publicly funded low wage jobs. The trade offs between immigration levels and greater or lower investment in these areas is worthy of fuller discussion.

Fifth, the 2004 EU enlargement provides lessons for both the UK and other member states for any future EU expansion. There are eight candidate or potential candidate countries. They have a combined population in excess of 90 million and income levels of around a third to a half the EU average. Given that differentials in income are a prime driver of migration flows, both the EU and British authorities will wish to think carefully how any future expansions are handled.

Finally, the MAC again place on record our thanks to our excellent (small) secretariat. They organised fruitful interaction with stakeholders and undertook thorough and innovative analysis of our qualitative and quantitative evidence.

Professor Sir David Metcalf CBE

The Migration Advisory Committee and secretariat

The Migration Advisory Committee (MAC) is a non-departmental public body comprised of economists and migration experts. It provides independent and evidence-based advice to the Government on migration issues. Questions to the Committee are determined by the Government.

Chair

Professor Sir David Metcalf CBE

Members

Dr Jennifer Smith

Dr Martin Ruhs

Professor Jonathan Wadsworth

Professor Jackline Wahba

UK Commission for Employment and Skills representative

Lesley Giles

Home Office representative

John Thompson

The secretariat

Henna Akram; Vanna Aldin; Anne Ball; Cordella Dawson; Stephen Earl; Emily Eisenstein; Jocelyn Goldthorp; Tim Harrison; Kyle Magee; Margaret Mcgrath; Daniella Oliviero; Aashya Patel; Christine Stone; David Style; Josephine Thomas.

Chapter 1 Introduction

1.1 Migration Advisory Committee

1.1 The Migration Advisory Committee (MAC) is a non-departmental public body comprised of economists and migration experts that provides transparent, independent and evidence-based advice to the Government on migration issues. The questions we address are determined by the Government.

1.2 Previously we have provided advice on, amongst other things, the design of the Points Based System (PBS) for managed migration including annual limits, the transitional labour market access for citizens of new European Union (EU) accession states, the economic impact of restricting or removing settlement rights and the minimum income requirement for sponsorship under the family migration route.

1.2 What we were asked to do

1.3 In May 2013, the Minister for Immigration asked the MAC to advise on the issue of low-skilled work migration, the factors driving it and the resulting economic and social impacts. Specifically the Minister asked the MAC to:

"consider the labour market, economic and social impacts on the UK and specifically on British workers, drawing on and updating earlier work in this area. In particular, the MAC is asked to research the growth of migrant labour, distinguishing where possible between EEA and non-EEA migrants, in low skilled sectors of the UK economy and the factors driving this.

In doing this, the research should address:

(i) The extent to which, and the reasons why, employers actively choose to recruit migrant workers and through which channels.

(ii) Why these migrant workers are attracted to coming to work in the UK, and how the UK compares with other countries in this context.

(iii) The extent to which migrant labour fills gaps in the UK domestic labour supply for low-skilled work and whether the work they find is a match for the skills they bring.

(iv) Whether there are structural or cultural issues which inhibit the recruitment of UK-born workers, including issues such as motivations and attitudes to work. Consideration should also be given to the interaction of factors including skills, housing, education provision, the benefits system and the labour market regulation, with a view to making recommendations as to possible actions here."

1.4 The Minister asked that we report to the Government by the end of May 2014.

1.3 What we did

1.5 The analysis in this report is based on a combination of desk-based research and evidence we received from corporate partners, gathered through a series of targeted activities. In this report the terms corporate partners, or just partners, refers to all parties with an interest in our work or its outcomes, and other Government departments, financial institutions, legal firms, representative bodies and private individuals are included within these.

Call for evidence

1.6 We launched a call for evidence on 19 September 2013 and this closed on 23 December 2013. The call for evidence document restated the Government's commission and identified some sub-questions on which we wished to receive corporate partners' views. The document was sent to a number of partners on our stakeholder database and posted on our website.

1.7 The questions in our call for evidence were as follows:

Questions for all partners

- Have migrants (EEA and non-EEA) doing low-skilled jobs had an impact on the economy, specifically the following (please give examples):
  - local employers and businesses;
  - national economy?
- Have migrants (EEA and non-EEA) doing low-skilled jobs had a social impact, specifically the following (please give examples):

  - the demand on health services, education, housing, social care and policing;
  - the delivery of health services, education, housing, social care and policing?

- Are there factors that impact on someone's likelihood to take up low-skilled work which affect UK-born and migrant workers differently?

Questions for employers and employment agencies

- Where and how do you recruit workers for low-skilled jobs? Is there any difference to how you recruit migrants (EEA and non-EEA) compared to UK workers?

- Does your organisation experience problems recruiting people for low-skilled jobs? Why?

- What skills do you require of low-skilled workers? How are these best acquired?

- What would you do if you were not able to recruit migrants (EEA and non-EEA) for low-skilled jobs?

- What are the advantages and disadvantages of: - employing migrants (EEA and non-EEA) in low-skilled jobs? - employing UK-born workers in low-skilled jobs?

Questions for employees and jobseekers (UK born and migrants)

- Please tell us about your experiences of looking for work and working in low-skilled jobs, especially in relation to competition for jobs, working conditions and factors affecting your decision to take up or reject offers of low-skilled work.

- Has the increase in low-skilled migrants had an impact on your pay, hours or working conditions?

Questions for migrant workers

- Why did you choose to work abroad?

- Why did you choose to come to the UK in particular?

- Do you plan to stay in the UK? Do you plan to return to your home country? Why?

Meetings and visits

1.8 We discussed this low-skilled commission with the MAC Stakeholder Panel on 18 October 2013, attended by representatives from the Confederation of Business Industry (CBI), the Trade Unions Congress (TUC) and the British Chambers of Commerce. An open partner event

was held on 29 October in London attended by 15 representatives from the skills sector, local authorities, trade unions, government departments, employers and other bodies. At the outset of this commission we also met with those Government departments with a central policy interest in these issues.

1.9 Recognising that migrants are distributed unevenly across the UK – and hence that different parts of the UK may experience migrant impacts in different ways – we identified a number of local authorities to use as focus areas to explore in greater depth the impact of migrant workers in low-skilled work. These were selected on the basis of having either relatively high migrant shares and/or high migrant growth, especially in the last 15 years. The areas were:

- Ealing
- Kingston upon Hull
- Newham
- Peterborough
- Southampton

1.10 We made contact with relevant parties in each of these local areas and were able to have very useful visits to each area, with the exception of Ealing. We visited Southampton on 19 November 2013; Newham on 10 December; Peterborough on 30 January 2014 with a follow-up visit on 20 March to see at first hand how some of the migrant issues we were told about during our first visit manifest themselves; and Hull on 20 February.

1.11 We also visited Scotland on 5 February 2014 and met with representatives from the Scottish Government, the Convention of Scottish Local Authorities, an employer and an immigration adviser.

1.12 We used these visits to gather local information about the impact of migration on areas such as economic development, education, housing, public service provision, recruitment agencies, job centres, and employers. What we learned is mentioned at relevant points in the rest of the report. Despite us making several requests to Ealing Borough Council for assistance in arranging a visit to that authority's area, no direct assistance was offered to us and the visit did not happen.

1.13 We also made a couple of targeted visits. One to Boston in Lincolnshire on 22 November 2013 was made in response to direct requests from the Citizens Advice Bureau and the local authority. The other was a visit to Wisbech in Cambridgeshire on 11 December so that we could learn about the experience of migrants who were being exploited and also so that we could see the efforts of the various local enforcement partnerships aimed at ending this.

1.14 A full list of those we met with, and who have not requested anonymity, is provided in Annex A to this report.

1.15 We received 66 written submissions of evidence. All of the written and verbal evidence from partners was considered alongside our own data analysis and examination of the relevant theory and literature. A list of those who supplied evidence, and who have not requested anonymity, is provided in Annex A to this report.

Research

1.16 We commissioned a number of pieces of research to help us with this work. Frontier Economics were asked to investigate a number of questions including:

- How has the composition of the workforce (in terms of different migrant groups) changed over time in different sectors?
- Is there any evidence that the ratio of British-born to migrant workers in different sectors changed during the recession?
- What characterises sectors with a relatively high migrant share in their workforce, or a growing migrant share?
- Are there any differences in characteristics between groups of workers in terms of skills, age etc? Does this vary by sector? How do these compare to the characteristics of the unemployed?

1.17 The Frontier Economics research was published on 1 July 2013 (Frontier Economics, 2013) and provides an overview of the use of migrant labour in low-skilled sectors relative to other sectors of the economy. The study builds on and expands the existing evidence base through quantitative analysis, and looks at the composition of the low-skilled workforce over time, a comparison of the different groups employed, and the characteristics of low-skilled sectors.

1.18 Published concurrently with the Frontier Economics research was research conducted by the Warwick Institute for Employment Research (IER) (Warwick (2013)). This examined whether and why demand for migrant labour persists in low-skilled sectors of the UK economy, as well as the factors that affect the supply of labour to low-skilled sectors. The study provided a review of the literature and adopted a case study approach, focusing on low-skilled roles in the construction and accommodation and food services sectors.

1.19 We also commissioned Warwick (IER) to build on the research detailed in Warwick (2013) to look at the determinants of the composition of the workforce in low-skilled sectors of the UK economy, involving further case studies on the retail and care sectors.

1.20 Professor Tommaso Frattini was commissioned to update his earlier research on the impact of migration on prices (Frattini (2008)). This investigated whether changes in the ratio of immigrants to natives in the UK in recent years had an impact on the prices of tradable and non-tradable goods and services, and whether any impact varies by sector.

1.21 The second Warwick research (Warwick (2014)) and the Frattini research (Frattini (2014)) are both published alongside this report.

1.22 On 7 February 2014 we held a workshop involving, among others, leading academics in the field of education, training and labour markets, to present to them the emerging findings from this research and discussed with them the implications for this report.

1.4 Structure of the report

1.23 Following this introductory chapter, Chapter 2 sets out how we have gone about defining a) low-skilled jobs and b) migrants for the purposes of this report. A lot of the detailed technical analysis that flows from this work is included in Annex B.

1.24 Chapter 3 tackles three key questions: 1) who are the migrants (by country of birth) working in low-skilled jobs; 2) what has been the overall trend in migration flows that has led to this increase in migrants in low-skilled work; and 3) what have been the drivers behind migrants' decisions to migrate to the UK, including how these have been shaped by changes to immigration policy.

1.25 Chapter 4 provides an overview of the UK labour market for low-skilled work. It first sets out what has happened to low-skilled jobs over time and then considers who is actually doing the low-skilled jobs now, and why this is.

1.26 Chapter 5 looks at the recruitment of migrant workers and Chapter 6 considers issues around compliance with, and enforcement of, the law relating to employment. It also presents some case study evidence of migrant exploitation.

1.27 The next three chapters look in detail at the impacts of migrants. Chapter 7 considers the impact of migrants on the UK labour market; Chapter 8 takes account of the wider, macroeconomic impacts of migrants; while Chapter 9 details the social impacts.

1.28 Chapter 10 provides a summary of our findings. It also outlines those areas where we think there could usefully be a focussing of policy on areas such as skills, enforcement, implications of further EU expansion, and regional impact instead of national impacts.

1.29 Because of the length and complexity of detail contained within this report, we have taken the step of publishing alongside this report a shorter report which summarises our key points.

1.5 Thank you

1.30 We are grateful to all partners who responded to our call for evidence and to those who engaged with us at meetings and events. We are particularly grateful to those partners who organised or hosted events on our behalf.

Chapter 2 Definition of low-skilled jobs and migrant workers

2.1 Introduction

2.1 The Government commissioned us to consider the reasons for migration into low-skilled jobs and the impacts of this. Our first task was to establish those segments of the labour market that are considered to be low-skilled jobs.

2.2 Since there is no single objective definition of low-skilled jobs, we have considered different existing definitions as well as different methods that could be used to define low-skilled jobs. Overall, we prefer to use a definition based on the Office for National Statistics (ONS) Standard Occupational Classification (SOC) skill classification. However, we adopt a flexible approach and we make use of other definitions, when they are more suitable, during the course of this report.

2.3 In section 2.2 we explain why we prefer to define low-skilled jobs based on levels one and two of the ONS SOC skill classification. We then set out those occupations which are classified as low-skilled as a result of using this definition. We briefly make comparisons with other definitions and methods, with further detail provided in Annex B.

2.4 We then, in section 2.3, discuss various definitions for the term migrant and how use of these may affect analysis of migration and its impacts. Finally, in section 2.4, we present the different ways in which migrants' countries of origin are grouped together in this report, in part due to the need for aggregation owing to data constraints.

2.2 Defining low-skilled jobs

2.5 Our preferred, though not only, method of defining low-skilled jobs is to use the ONS SOC skill classification. The ONS created the SOC in 1990 as a consistent way of identifying and grouping occupations. Occupations are divided into 1, 2, 3 and 4 digit codes with the 1 digit code representing the broadest level of classification of occupations and the 4 digit code breaking these occupations down into individual job titles. It has been revised twice, with SOC 2010 being the latest version.

2.6 The ONS SOC skill levels categorise occupations into four groups according to the time deemed necessary for a person to become fully competent in the performance of associated tasks. This is a function of the time needed to obtain required formal qualifications, on the job training and experience. Table 2.1 below details the SOC skill levels.

Table 2.1: ONS SOC skill levels

SOC skill level	Definition
1	Competence associated with a general education, usually acquired by the time compulsory education is completed (aged 16). Jobs at this skill level may require short periods of on-the-job-training and knowledge of health and safety regulations.
2	Same level of competence associated with a general education as level 1, but jobs at this level typically require a longer period of on-the-job training and/or work experience.
3	Generally require knowledge associated with post-compulsory education, but not normally to degree level. Some jobs at this level will not require formal qualifications or vocational training, but will instead require a significant period of work experience.
4	Relates to what are termed professional occupations and high level managerial positions in corporate enterprises or national/local government. Occupations at this level normally require a degree or equivalent period of relevant work experience.

Source: Office for National Statistics (2010)

2.7 The Organisation for Economic Co-operation and Development (OECD) defines the low-skilled on the basis of the person (OECD, 2011) rather than the job. According to the OECD, low-skilled people are those whose education is less than upper secondary. This education level comprises part of the definition of ONS SOC skill levels one and two. **Therefore, one definition of a low-skilled occupation could be that it is classified at skill level one or two by the ONS** as this would also cover the OECD definition.

2.8 Table 2.2 sets out the 1 digit codes of classification of occupations and also the breakdown of these into the 2 digit codes according to SOC 2010, alongside their corresponding SOC skill level and whether they are defined by us as low-skilled as a result. Using this definition and data from the Annual Population Survey (APS), low-skilled occupations accounted for 13.4 million jobs or 45 per cent of total employment in 2013.

Table 2.2: Occupations and their SOC skill level

Low-skilled	SOC 2010 1-digit code	SOC 2010 1-digit title	SOC skill level	SOC 2010 2-digit code	SOC 2010 2-digit title
	1	Managers, directors and senior officials	4	11	Corporate managers and directors
			3	12	Other managers and proprietors
	2	Professional occupations	4	21	Science, research, engineering and technology professionals
			4	22	Health professionals
			4	23	Teaching and educational professionals
			4	24	Business, media and public service professionals
	3	Associate professional and technical occupations	3	31	Science, engineering and technology associate professionals
			3	32	Health and social care associate professionals
			3	33	Protective service occupations
			3	34	Culture, media and sports occupations
			3	35	Business and public service associate professionals
✓	**4**	**Administrative and secretarial occupations**	**2**	**41**	**Administrative occupations**
			2	**42**	**Secretarial and related occupations**
	5	Skilled trades occupations	3	51	Skilled agricultural and related trades
			3	52	Skilled metal, electrical and electronic trades
			3	53	Skilled construction and building trades
			3	54	Textiles, printing and other skilled trades
✓	**6**	**Caring, leisure and other service occupations**	**2**	**61**	**Caring personal service occupations**
			2	**62**	**Leisure, travel and related personal service occupations**
✓	**7**	**Sales and customer service occupations**	**2**	**71**	**Sales occupations**
			2	**72**	**Customer service occupations**
✓	**8**	**Process, plant and machine operatives**	**2**	**81**	**Process, plant and machine operatives**
			2	**82**	**Transport and mobile machine drivers and operatives**
✓	**9**	**Elementary occupations**	**1**	**91**	**Elementary trades and related occupations**
			1	**92**	**Elementary administration and service occupations**

Source: Office for National Statistics (2010)

2.9 The primary advantage of using the ONS SOC skill classification is that it reflects skill level in terms of both formal qualifications and the work experience required to perform effectively in these jobs. It classifies skilled trade occupations, such as electricians, bricklayers and tailors, as skilled, even though many of these attract relatively low wages and require few formal qualifications.

2.10 In Annex B we also consider alternative definitions of low-skilled, namely;

- occupations not skilled to National Qualifications Framework level three (NQF3);
- the OECD definition of incidence of low pay;
- the Low Pay Commission (LPC) definition of low-paying occupations; and
- a definition based solely on the age at which a person left full-time education.

2.11 The occupations identified by the ONS SOC skill classification and the NQF3 definitions are almost identical, the main difference being the inclusion of skilled trades as low-skilled under NQF3 but not under the ONS SOC skill classification.

2.12 The OECD and LPC definitions are based on a sufficient proportion of workers in an occupation being paid at or above a specific pay threshold. The OECD threshold is less than two-thirds of median pay, and the LPC threshold is at or below the age-related National Minimum Wage (NMW) plus 10 per cent. The LPC definition identifies more occupations as low-skilled than the OECD definition, although both identify far fewer than the ONS SOC skill classification.

2.13 The fourth definition classifies an occupation as low-skilled if more than 50 per cent of those in employment left full-time education at age 16 or younger. While the number of occupations is very similar to the ONS SOC skill classification, the composition is different, primarily in the inclusion of skilled trades as low-skilled and the exclusion of administrative and secretarial occupations.

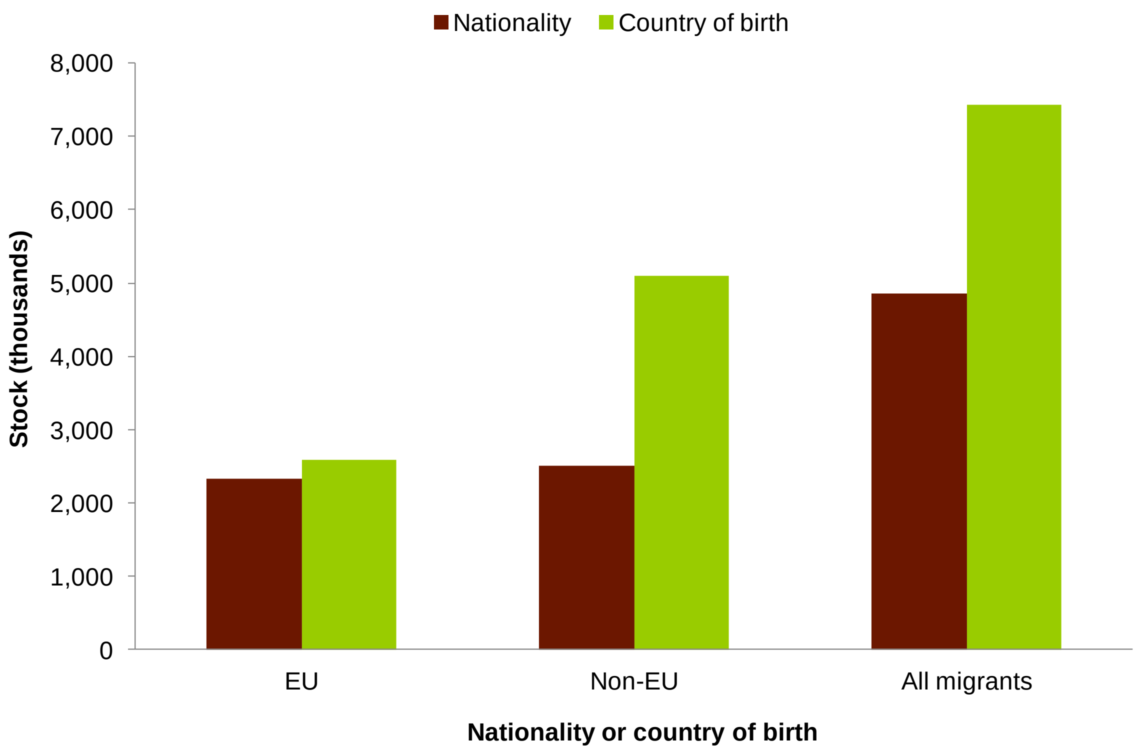
2.3 Defining migrants

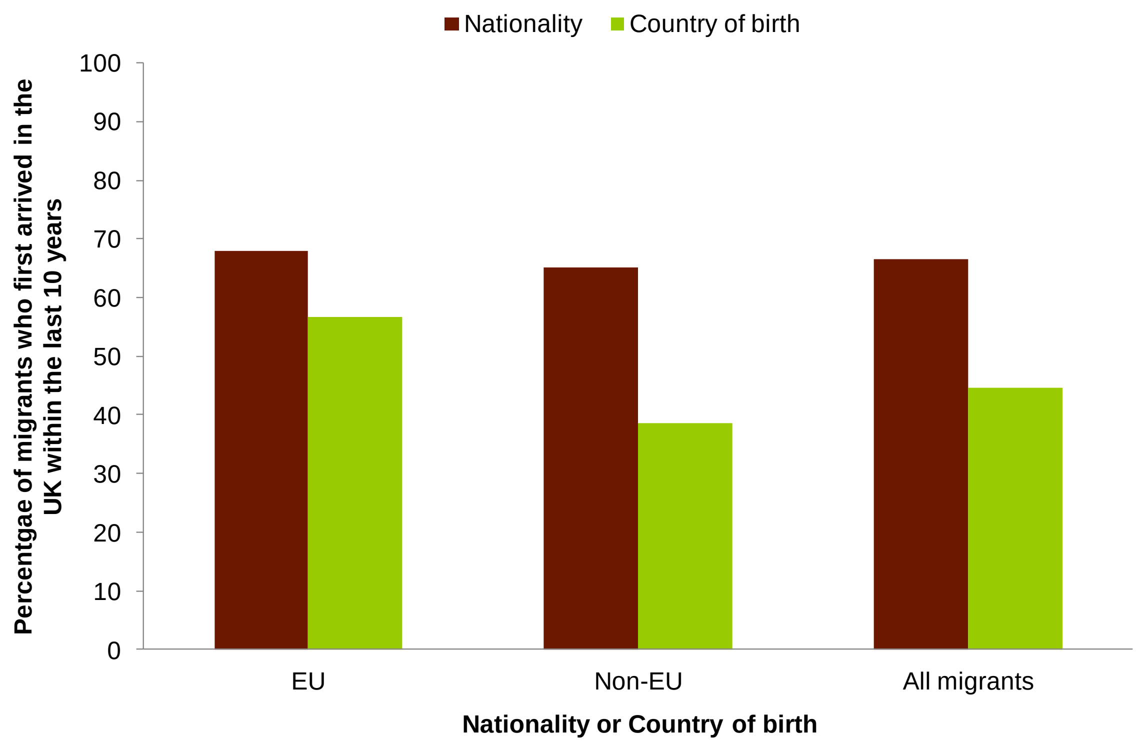
2.14 The term migrant is not used consistently in public, academic or policy discourse around migration policy and research. A migrant may be defined as foreign-born (in the case of this report, all individuals born outside the UK, regardless of their current citizenship) or a foreign national (those who do not hold UK citizenship). For both categories, we can make further distinctions between recent migrants and those who have resided in the UK for a long time. These distinctions are important to recognise when drawing conclusions about the impacts of migration.

2.15 To demonstrate the potential differences between the definitions, Figure 2.1 shows for 2012 the stock of European Union (EU) and non-EU migrants and the percentage of these that first arrived in the UK within the last ten years, defined according to country of birth and nationality. A country of birth definition results in a larger estimate of the number of migrants in the UK. This is because many of those who were born outside the UK will have acquired British citizenship and so do not figure in the nationality definition. This difference is far more pronounced in the case of non-EU than EU migrants because of their greater incentive to apply for British citizenship, though this is influenced by whether a migrant's birth country allows dual nationality.

2.16 A nationality definition means that a higher proportion of migrants will be recent arrivals. Acquisition of British citizenship by migrants requires, amongst other things, at least 5 years residence in the UK before the date of application. This means that foreign-nationals who arrived in the UK relatively recently will not have had sufficient time to meet this residence requirement.

Figure 2.1: Stock of migrants and percentage who first arrived in the UK within the last 10 years by nationality and country of birth, 2012





Source: Annual Population Survey

2.17 Since the differences can be considerable, the choice of definition is an important factor for analysis of migration and its impacts. Not only does it matter to how migration is measured, but it has a bearing on policy such

as the Home Office net migration target, on estimates of the fiscal and labour market impacts, and on public perceptions.

2.18 Using country of birth provides a definition which is *"consistent, and corresponds to a common understanding of migration"* (Anderson and Blinder (2014)) and provides statistical certainty in that an individual can only be born in one country. Though, as mentioned in paragraph 2.15, many foreign-born individuals have become British citizens meaning *"...they enjoy the same residence rights and access to the UK labour market as UK born individuals"* (Home Office (2014)) and are therefore not subject to immigration control. As a result of this, a nationality definition may be more appropriate for analysis relating to specific policy decisions. However, using nationality can be *"problematic, as nationality may change. Moreover, if self-reported, 'nationality' may be interpreted as describing an elective affinity dependent on social and cultural factors and personal feelings, rather than legal status"* (Anderson and Blinder (2014)).

2.19 **For this report, unless otherwise specified, migrants are defined as people born outside the UK.** Further differentiations can be made between short- and long-term migrants. The United Nations (UN) defines a long-term migrant to the UK as someone born outside the UK who has been, or plans to be, in the UK for a period greater than 12 months (United Nations, 1998). For this report, we are most interested in investigating the impacts of migrants who have arrived since the early 1990s, to cover different periods when the UK experienced large migration inflows, and therefore adopt the UN definition. We recognise there are some limitations associated with using the UN definition: someone born abroad, but who has been living and working in the UK for 30 years, will have a different set of impacts compared to a newly arrived migrant. Migrants who have been in the UK for a long time are more likely to assimilate into the labour market as they gain requisite skills and cultural awareness. On the other hand, Manacorda *et al.* (2012) found evidence that migrants may complement native labour but may be substitutes for earlier migrants, suggesting that it may be important to account for earlier migrants who have since become British nationals. As a consequence of these different issues and because data may only be available for one definition, our definition of migrants is used with some flexibility. We indicate in the report where we use a definition other than people born outside the UK who have been, or who plan to be, in the UK for longer than 12 months.

2.20 The commission from the Government asked that, where possible, we separate out the trends and impacts associated with low-skilled migration from the European Economic Area (EEA) from that of non-EEA countries. This separation is helpful to policy makers who have to apply different levels of immigration control to these groups. We will seek to provide this information where we are able to, although separating the impacts of different groups is not always simple, or even possible, with particular sources of data.

2.4 Grouping migrants' countries of birth

2.21 Different data sources group migrants' countries of birth differently, reflecting, for example, changes in the membership of the EEA. Table 2.3 sets out the groupings we have used in this report.

<table>
<tr><th colspan="7">Table 2.3: Migrant countries</th></tr>
<tr><td rowspan="6">EEA</td><td rowspan="5">EU</td><td colspan="3">Acceded in 2013</td><td colspan="2">Croatia</td></tr>
<tr><td>Acceded in 2007</td><td rowspan="3">EU12</td><td>EU2</td><td colspan="2">Bulgaria
Romania</td></tr>
<tr><td rowspan="2">Acceded in 2004</td><td>EU8</td><td>Czech Republic
Estonia
Hungary
Latvia</td><td>Lithuania
Poland
Slovakia
Slovenia</td></tr>
<tr><td></td><td colspan="2">Cyprus
Malta</td></tr>
<tr><td colspan="3">EU15</td><td>Austria
Belgium
Denmark
Finland
France
Germany
Greece
Ireland</td><td>Italy
Luxembourg
Netherlands
Portugal
Spain
Sweden
United Kingdom (UK)</td></tr>
<tr><td rowspan="3">Non-EU</td><td colspan="5">Iceland, Liechtenstein and Norway are not members of the EU, but nationals of these countries the same rights to enter, live in and work in the UK as EU citizens.</td></tr>
<tr><td rowspan="2">Non-EEA</td><td colspan="5">Switzerland is not in the EEA but Swiss nationals have the same rights as EEA nationals.</td></tr>
<tr><td colspan="5">All other countries.</td></tr>
<tr><td colspan="7">Notes: European Economic Area (EEA). European Union (EU). When Cyprus and Malta acceded to the EU they had a similar Gross Domestic Product (GDP) per capita to the EU average, whereas EU8 countries had a much lower GDP per capita than the EU average.</td></tr>
</table>

2.5 Conclusions

2.22 The Government commissioned us to consider the reasons for migration into low-skilled jobs. This necessitates that we, first of all, define those segments of the labour market which are low-skilled.

2.23 After considering different existing definitions and methods, our preferred definition of low-skilled is based on the ONS SOC skill classification. This reflects the fact that it allows occupations that may have relatively low pay and that require few formal qualifications to nevertheless be considered skilled, provided that they involve significant on-the-job training and experience. However, when appropriate, we use alternative definitions of low-skilled in this report.

2.24 We looked at the different ways of defining migrants and how this can affect the analysis of migration and its impacts. Unless otherwise specified, in this report migrants are defined as people born outside the UK, who have been, or plan to be, in the UK for a period greater than 12

months. As in the case of low-skilled, this definition will also be used with some flexibility.

Chapter 3

Recent migration to the UK and factors affecting this

3.1 Introduction

3.1 Having set out in the previous chapter our preferred definitions of migrants and low-skilled employment, we provide here some contextual information on the volumes of migrants working in these jobs and the reasons for the growth in migration since the 1990s.

Migrants in low-skilled work

3.2 In 2013, there were approximately 28.5 million[1] people aged 16-64 in employment in the UK; 85 per cent were UK-born, and 15 per cent were non-UK born (of which 6 per cent were born in the European Union (EU) and 9 per cent were born outside the EU).

3.3 There were 12.9 million people working in low-skilled occupations (45 per cent of all employed). Of these, 10.9 million were UK-born and 2.1 million were foreign born[2].

3.4 Migrants accounted for approximately 16 per cent of all low-skilled[3] employment aged 16-64 in the UK, slightly above the overall share of the population but broadly in line with their share of all employed persons, regardless of skill level.

[1] These figures are calculated using data from the Annual Population Survey (APS) (2013) for individuals aged 16 to 64 including both full- and part-time working. Data from the Office for National Statistics (ONS) the total number of people employed in the three months to March 2014 was 30.4 million and includes all over the age of 16.
[2] Figures may not sum to total due to rounding
[3] Table 2.2 in Chapter 2 defines occupations that we classify as low-skill.

Table 3.1: Working age population and total employment of individuals aged 16-64 by region of birth in high- and low-skilled employment, 2013

Region	Working age population (000s)	Total employment (000s)	*% all employed*	High-skill employment (000s)	*% all high-skill employment*	Low-skill employment (000s)	*% all low-skill employment*
EU*	1,040	770	*3*	480	*3*	290	*2*
EU8 & EU2	1,080	840	*3*	270	*2*	580	*4*
Non-EU	4,190	2,610	*9*	1,430	*9*	1,190	*9*
UK	33,910	24,300	*85*	13,440	*86*	10,860	*84*
All country of birth groups	40,220	28,530	*100*	15,620	*100*	12,910	*100*

Notes: For all individuals in employment aged between 16 and 64 for whom a SOC code and country of birth could be allocated. For country groupings and definitions of high- and low-skilled employment see Chapter 2, with exception of EU* which is comprised of EU15 (minus the UK) plus Malta and Cyprus. Figures have been rounded to the nearest ten thousand. The working age population is defined as the total population aged from 16 to 64. Columns may not sum to the total due to rounding.
Source: Annual Population Survey

Aims of this chapter

3.5 In this chapter we address the following questions:

- Where do the migrants in low-skilled jobs come from?
- What have been the trends in migration flows to the UK?
- What were their reasons for migrating here?

3.6 We use a number of data sources including the 2011 Census and the Annual Population Survey (APS). We try as far as possible to maintain consistency in the overall numbers used, though inevitably there may be some discrepancies due to differences in geography or time periods. A full description of data sources is given in Box B.3 in Annex B.

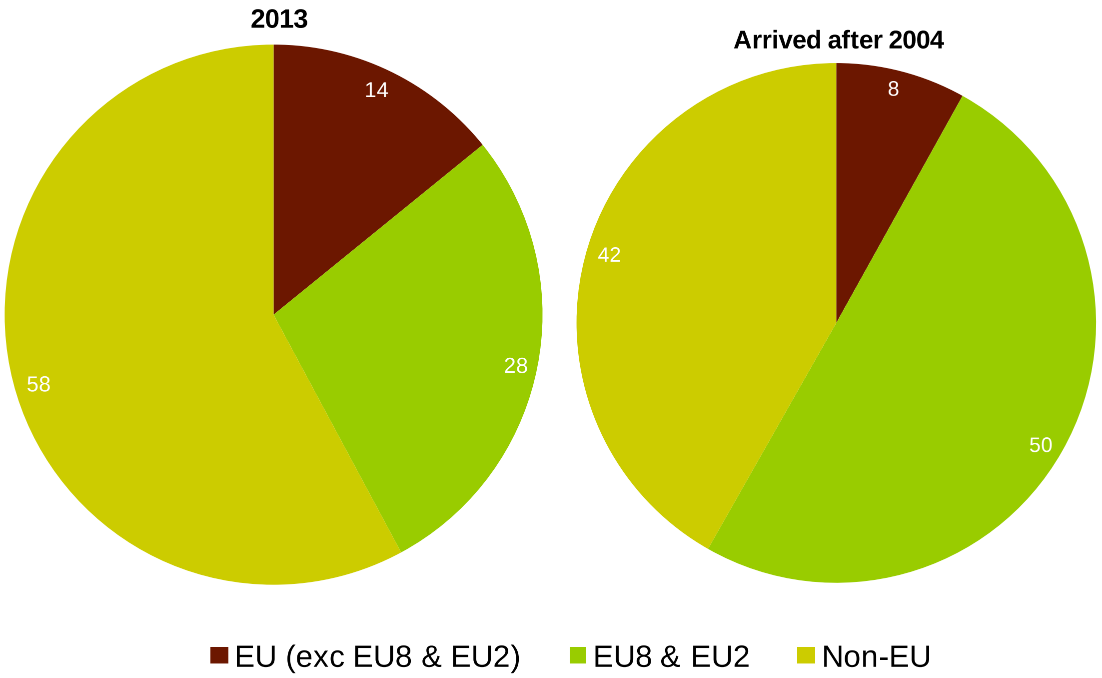
3.2 Where do the migrants in low-skilled jobs come from?

3.7 **Approximately 60 per cent of migrants in low-skilled jobs in the UK originate from non-EU countries.** Of the 2.1 million migrants in low-skilled work, 1.2 million were born outside of the EU, though the majority of these arrived in the UK more than ten years ago. Just over a third arrived after 2004 and fewer than one in ten has arrived since 2010. The

modal source countries were India, Pakistan and Bangladesh, though between them they only account for 17 per cent of the total number of migrants in low-skilled jobs (Table 3.2).

3.8 One million migrants in low-skilled work in 2013 have come to the UK within the last ten years. Half of these came from Central and Eastern Europe, following EU enlargement in 2004 and 2007. Over 300,000 came from Poland, who account for around one in six of all migrant workers in low-skilled employment and almost one in three of those who arrived since 2004. Even so, by 2013 migrants from Central and Eastern Europe still accounted for little more than a quarter of all foreign born workers in low-skilled occupations.

Figure 3.1: Share of EU8 and EU2, EU (excluding EU8 & EU2) and non-EU migrants in low-skilled migrant jobs, 2013



Notes: For all individuals in employment aged between 16 and 64. Share of migrants in low-skilled jobs is for the stock in 2013. Share of those who arrived after 2004 are of total migrants in these jobs who arrived after 2004.
Source: Annual Population Survey

3.9 Since 2010 this picture has altered slightly. Of the 289,000 who arrived since then, 15 per cent came from the EU15 – especially Portugal, Italy and Spain. This is twice their share since 2004 and is most likely as a result of the relatively poor economic climate and higher unemployment in the Eurozone.

Table 3.2: Total migrants in low-skill employment by country of origin and year of arrival, 2013						
	Stock in 2013	as a share	Arrived after 2004	as a share	Arrived after 2010	as a share
All migrants	2,052,000	100	1,038,000	100	289,000	100
Country/region of origin						
Total EU8 & EU2	574,000	28	520,000	50	139,000	48
Poland	327,000	16	305,000	29	61,000	21
Lithuania	69,000	3	61,000	6	19,000	7
Romania	50,000	2	44,000	4	16,000	6
Latvia	38,000	2	36,000	3	16,000	6
Hungary	31,000	2	27,000	3	15,000	5
Bulgaria	20,000	1	14,000	1	4,000	1
other	39,000	2	33,000	3	8,000	3
Total EU excl EU8 & EU2	290,000	14	84,000	8	43,000	15
Germany	69,000	3	7,000	1	2,000	1
Ireland	52,000	3	7,000	1	4,000	1
Portugal	40,000	2	17,000	2	6,000	2
Italy	27,000	1	15,000	1	9,000	3
Spain	25,000	1	15,000	1	11,000	4
Other	77,000	4	23,000	2	11,000	4
Total non-EU	1,188,000	58	434,000	42	107,000	37
India	167,000	8	81,000	8	23,000	8
Pakistan	132,000	6	44,000	4	15,000	5
Bangladesh	53,000	3	16,000	2	4,000	1
Philippines	51,000	2	33,000	3	6,000	2
Nigeria	47,000	2	25,000	2	3,000	1
Other	738,000	36	235,000	23	56,000	19

Notes: The 5 countries within each group shown are ranked according to the highest number of migrants, from the respective country, in low-skilled work in 2013 with the exception of Bulgaria in the EU8 and EU2 group. Columns showing shares are in reference to the column on the immediate left and are calculated of all migrants. ‘Other’ sums all those in employment from country of birth groups not specified in the Table.
Source: Annual Population Survey

Likelihood of being in low-skilled work by country/region of birth

3.10 Table 3.3 sets out which regions and/or countries demonstrate a greater likelihood of being employed in low-skilled jobs, though it should be noted the indicators for individual countries are based on what has been published by the Office for National Statistics (ONS). On the basis of these data, the key areas for likelihood of low-skilled employment seem to be:

- Small parts of the EU15 – especially Portugal

- The **EU accession countries** – particularly Poland and Lithuania, though less so for migrants from Romania;
- **Parts of Africa** including:
    - Central and Western Africa – (including Ghana and Nigeria)
    - Parts of South and Eastern Africa – especially Somalia
- **Southern Asia** – most areas except those born in India
- **Parts of South-East Asia** – especially the Philippines
- **South America**
- **The Caribbean** – especially Jamaica

3.11 In each case, the share of low-skilled working exceeds 50 per cent and very often exceeds 60 or even 70 per cent. Sometimes this is driven by recent migrant flows (since 2001), though in some cases low-skilled employment shares are still relatively high for migrants who arrived before 2001 (for instance, Portugal, Ghana, Somalia, Afghanistan, Bangladesh, Pakistan and the Philippines).

Table 3.3: Likelihood of migrants from certain countries of origin to work in low-skilled jobs, 2011						
Low-skilled	**Born outside the UK**			**By period of arrival**		
	Total	**Arrived before 2000**	**Arrived since 2001**	**Total (%)**	**Older (%)**	**Recent (%)**
Total = employed in low-skilled jobs/total employment, recent = recent migrants in low-skilled jobs/all recent migrants, older = older migrants in low-skilled jobs/all older migrants						
All categories: Country of birth	**2,008,217**	**892,237**	**1,115,980**	**48**	**44**	**53**
Europe: United Kingdom				**47**		
Ireland	69,883	59,291	10,592	40	43	27
Other Europe: Total	759,593	198,107	561,486	53	41	59
Other Europe: EU countries: Total	693,639	161,916	531,723	54	41	60
EU countries: Member countries in March 2001: Total	**199,277**	**120,541**	**78,736**	**38**	**40**	**36**
France	24,159	11,488	12,671	30	32	29
Germany	65,238	53,536	11,702	40	43	31
Italy	28,173	15,468	12,705	38	40	36
Portugal (including Madeira and the Azores)	**31,949**	**13,431**	**18,518**	**62**	**61**	**63**
Spain (including Canary Islands)	17,953	8,149	9,804	39	41	38
Other member countries	31,949	13,431	18,518			
Other member countries in March 2001	31,805	18,469	13,336	30	31	28
EU countries: Accession countries April 2001 to March 2011: Total	**494,362**	**41,375**	**452,987**	**65**	**44**	**68**
Lithuania	**49,268**	**2,558**	**46,710**	**72**	**50**	**73**
Poland	**280,519**	**9,937**	**270,582**	**68**	**44**	**69**
Romania	**29,436**	**1,690**	**27,746**	**55**	**36**	**57**
Other EU accession countries	**135,139**	**27,190**	**107,949**	**61**	**43**	**68**
Rest of Europe: Total	**65,954**	**36,191**	**29,763**	**42**	**42**	**43**
Turkey	20,153	11,685	8,468	45	45	45
Other Europe	45,801	24,506	21,295	41	41	42
Africa: Total	**362,369**	**195,669**	**166,700**	**48**	**44**	**55**
Africa: North Africa	24,155	15,116	9,039	45	43	48
Central and Western Africa: Total	**130,460**	**57,776**	**72,684**	**57**	**50**	**65**
Central and Western Africa: Ghana	**37,622**	**18,880**	**18,742**	**61**	**55**	**68**
Central and Western Africa: Nigeria	**57,167**	**23,098**	**34,069**	**51**	**43**	**60**
Central and Western Africa: Other Central and Western Africa	**35,671**	**15,798**	**19,873**	**64**	**56**	**72**
South and Eastern Africa: Total	202,459	118,138	84,321	44	41	49
South and Eastern Africa: Kenya	38,345	32,929	5,416	44	43	50
South and Eastern Africa: Somalia	**19,575**	**9,806**	**9,769**	**73**	**69**	**77**
South and Eastern Africa: South Africa	42,332	19,655	22,677	32	30	33
South and Eastern Africa: Zimbabwe	**33,576**	**10,877**	**22,699**	**46**	**34**	**55**
South and Eastern Africa: Other South and Eastern Africa	**68,631**	**44,871**	**23,760**	**48**	**44**	**61**
Africa not otherwise specified	**5,295**	**4,639**	**656**	**56**	**55**	**71**
Middle East and Asia: Total	**632,097**	**329,302**	**302,795**	**50**	**48**	**52**
Middle East: Total	48,417	25,138	23,279	40	35	47
Middle East: Iran	14,139	7,709	6,430	36	31	44
Middle East: Iraq	14,842	5,950	8,892	49	38	61
Middle East: Other Middle East	19,436	11,479	7,957	37	36	38

Table 3.3: Likelihood of migrants from certain countries of origin to work in low-skilled jobs, 2011						
Low-skilled	**Born outside the UK**			**By period of arrival**		
	Total	**Arrived before 2000**	**Arrived since 2001**	**Total (%)**	**Older (%)**	**Recent (%)**
Total = employed in low-skilled jobs/total employment, recent = recent migrants in low-skilled jobs/all recent migrants, older = older migrants in low-skilled jobs/all older migrants						
Eastern Asia: Total	48,809	24,121	24,688	34	31	38
Eastern Asia: China	19,361	5,745	13,616	33	27	37
Eastern Asia: Hong Kong (Special Administrative Region of China)	19,419	14,225	5,194	36	33	47
Eastern Asia: Other Eastern Asia	10,029	4,151	5,878	33	32	33
Southern Asia: Total	**433,715**	**236,195**	**197,520**	**54**	**54**	**54**
Southern Asia: Afghanistan	**15,500**	**7,339**	**8,161**	**67**	**66**	**68**
Southern Asia: Bangladesh	**52,054**	**32,283**	**19,771**	**56**	**52**	**64**
Southern Asia: India	179,584	95,168	84,416	47	51	44
Southern Asia: Pakistan	**124,676**	**77,163**	**47,513**	**61**	**61**	**62**
Southern Asia: Sri Lanka	**40,657**	**21,930**	**18,727**	**54**	**49**	**62**
Southern Asia: Other Southern Asia	**21,244**	**2,312**	**18,932**	**70**	**47**	**74**
South-East Asia: Total	99,187	43,521	55,666	50	44	56
South-East Asia: Malaysia	11,003	6,876	4,127	30	29	33
South-East Asia: Philippines	**51,405**	**15,148**	**36,257**	**60**	**59**	**60**
South-East Asia: Singapore	8,792	8,106	686	36	37	23
South-East Asia: Other South-East Asia	**27,987**	**13,391**	**14,596**	**54**	**47**	**63**
Central Asia	1,969	327	1,642	46	38	49
The Americas and the Caribbean: Total	**149,747**	**92,328**	**57,419**	**42**	**44**	**39**
North America: Total	34,946	20,380	14,566	25	28	21
North America: Canada	11,597	7,878	3,719	27	30	23
North America: United States	22,659	12,040	10,619	24	27	21
North America: Other North America	690	462	228	36	32	46
Central America	2,956	1,391	1,565	36	41	33
South America	**46,330**	**19,156**	**27,174**	**52**	**49**	**55**
The Caribbean: Total	**65,515**	**51,401**	**14,114**	**54**	**54**	**57**
The Caribbean: Jamaica	**42,256**	**32,837**	**9,419**	**59**	**57**	**64**
The Caribbean: Other Caribbean	23,259	18,564	4,695	48	48	47
Antarctica and Oceania: Total	**34,506**	**17,521**	**16,985**	**26**	**30**	**23**
Australasia: Total	32,629	16,413	16,216	25	29	23
Australasia: Australia	21,769	10,915	10,854	26	30	23
Australasia: New Zealand	10,852	5,490	5,362	24	27	22
Australasia: Other Australasia	8	8	0	23	35	0
Other Oceania and Antarctica	1,877	1,108	769	37	40	32
Other	22	19	3	41	38	75

Notes: Data are based on all individuals aged 16 and over in employment. Data for the countries presented in the table have been analysed from the list of countries provided by the Census. Older migrants are defined as those who arrived in the UK before 2000. Recent migrants are defined as those who arrived after 2001. Proportions in the 'Total' column have been calculated, for each country, by dividing the number of people employed in low-skilled jobs by the total number in employment (regardless of skill level). This is used a proxy to identify the propensity of migrants from a particular country/region of origin to work in low-skilled jobs. For the last two columns: proportions have been calculated, for each country, by dividing the number of recent (older) migrants working in low-skilled jobs by all recent (older) migrants. This has been used a proxy to identify the propensity of recent/older migrants from particular country of origins to work in low-skilled jobs.
Source: Office for National Statistics (2014c). England and Wales Census of Population, 2011

3.3 Trends in recent migration flows to the UK

3.12 With half of the current stock of foreign-born workers in low-skilled employment having arrived in the last ten years, we need to consider this in the wider context of overall migration flows to the UK and their drivers. In this section we look at:

- overall inflows and net migration by citizenship; and
- the geographical distribution of EU and non-EU migrants in England and Wales.

3.13 Long-term immigration is measured by the number of people coming to the UK for one year or longer. Overall inflows have been increasing over this time. There were substantial increases in the number of people entering the UK in 1998, regardless of skill, largely driven by non-EU migration. Following EU enlargement from 2004 onwards there was a similarly substantial increase in migrants from Central and Eastern Europe (Figure 3.2).

3.14 By using data from the APS, we are able to proxy the inflow of immigrants by skill. There were 55,000 immigrants in employment who arrived in the UK in 2013, of which half were employed in low-skilled jobs[4]. Of these, 80 per cent were EU-born.

3.15 Net migration is the difference between the number of people entering the UK and the number of people leaving. Figure 3.3 shows that in those periods when immigration increased substantially, so did net immigration. Net immigration to the UK practically tripled between 1997 and 1998, and increased by a further 45[5] per cent between 2003 and 2004.

3.16 Net immigration of all migrants peaked at around 273,000 in 2007[6], and fell back to 177,000 in 2012 mainly due to a decline in immigration from outside the EU. It has since increased again, and in the year to December 2013, it was 212,000, driven by an increase in immigration from EU countries. Net migration flows from EU countries were 124,000, almost equivalent to that of non-EU countries (146,000).

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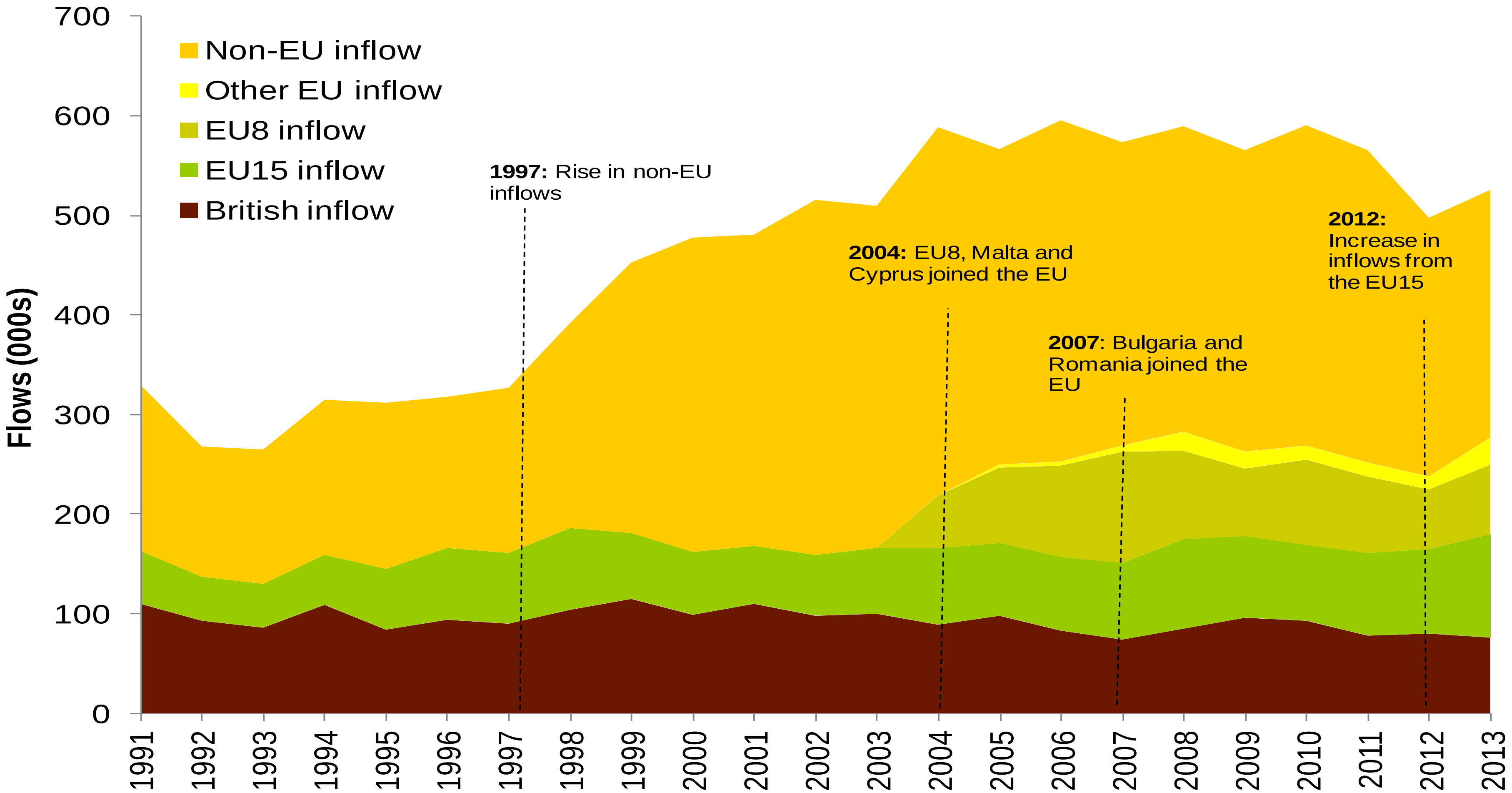
[4] Data from the APS for individuals aged from 16 to 64 who arrived in 2013 and for whom a SOC code could be allocated.

[5] Revised net migration statistics are used for 2004. Further details can be found at Office for National Statistics (2014m)

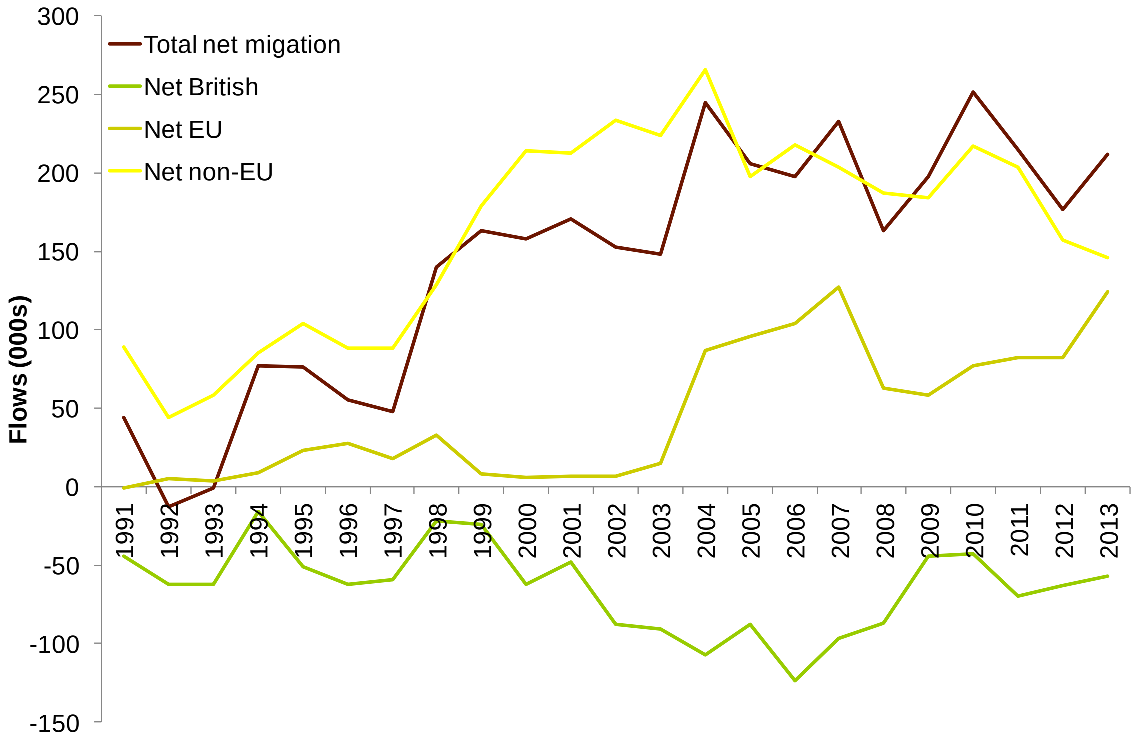
[6] Revised net migration statistics are used for 2007. See note 3 for further details

Figure 3.2: Inflows of long-term international migrants by citizenship, 1991 to 2013



Notes: Provisional figure for flows, year ending December 2013. Other EU includes the EU8 groupings plus Malta and Cyprus from 2004 to 2006, and Bulgaria and Romania from 2007.
Source: Office for National Statistics (2014j) and (2014l)

Figure 3.3: Net long-term international migration by citizenship, 1991 to 2013



Notes: Provisional figure for flows, year ending December 2013. Revised net migration figures are not presented here as these are not available for specific country/region groupings.
Source: Office for National Statistics (2014j) and(2014l)

Where do migrants in low-skilled jobs go in the UK?

3.17 An important factor to consider is where these migrants go once they arrive in the UK. If they are spread evenly across the country then the impacts may be more evenly spread too. If not, then impacts may be felt more strongly in some places than others. In this section, we look at the:

- distribution of migrants in low-skilled work in England and Wales; and
- concentration of migrants in low-skilled jobs at the local level.

3.18 The following analysis is based on an ad-hoc Census data request we made to ONS to identify migrants in low-skilled work at local authority level. As such the focus of this analysis is on England and Wales only.

3.19 Just as network and economic drivers help explain why migrants come to the UK, they also play a role in determining the location decision once in the UK. Figures 3.4 and 3.5 demonstrate the different geographical distribution patterns between EU and non-EU migrants. For those born outside the EU – mainly from the Asian Commonwealth – a large proportion have gone to London and the West Midlands. However, there has been an increase in migrants locating in other regions such as the East, East Midlands, South East and South West. EU8 migration, especially after 2004, increased significantly across all regions, though

again with more in London and the South East. The research evidence suggests that the degree of geographical concentration of Asian and EU8 migrants has declined slightly over time (Rincon-Aznar and Stokes (2011)).

3.20 Rincon-Aznar and Stokes (2011) also found that location decisions for new migrants were affected by economic conditions; both high unemployment rates and high house prices are negatively associated with new immigration and were statistically significant for immigrants from EU8 countries. The role of network effects (when migrants move to countries where there is an existing stock of immigrants from their country, see network drivers in section 3.4) was unclear, as this was most likely bound up with other region-specific effects included in the authors' model.

3.21 Looking specifically at migrants in low-skilled work, their distribution across the UK is uneven. This can be seen from Figures 3.4 and 3.5, which show the distribution of EU/non-EU migrants working in low-skilled jobs in an area as a per cent of the local population[7] employed in these jobs.

3.22 There are notable differences in the concentration of EU and non-EU migrants employed in low-skilled jobs across England and Wales. Two trends can be noted for the top 30 areas with the largest share of EU and non-EU migrants, respectively.

3.23 First, the share of migrants in low-skilled work from non-EU countries is larger than EU countries. Newham was the area with the greatest share of non-EU migrants with 53 per cent of the population working in low-skilled jobs originating from non-EU countries. By contrast, Boston, in the East Midlands, had the highest share of EU migrants, equivalent to a quarter of the local adult population working in low-skilled jobs.

3.24 Second, whereas non-EU migrants in low-skilled jobs tend to be concentrated in local areas within London, EU migrants are more dispersed across England and Wales. For instance, the majority of the 30 local areas ranked by the greatest share of non-EU migrants in these jobs were in London. For EU migrants, this proportion was around two-thirds.

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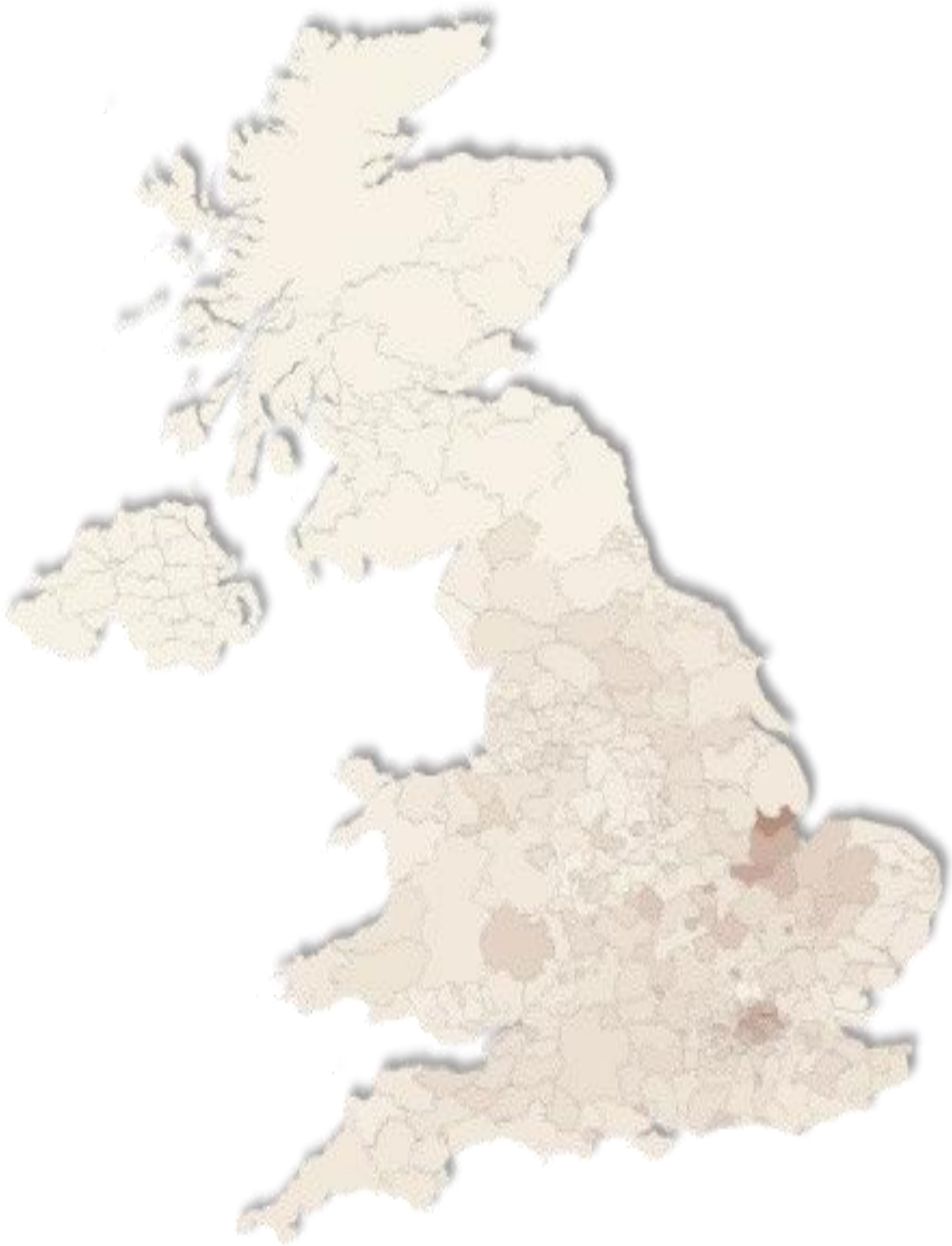
[7] Data based on all usual residents aged 16 or over in employment a week before the Census

Figure 3.4: Share of low-skilled jobs taken by EU migrants by local authorities in England and Wales, 2011

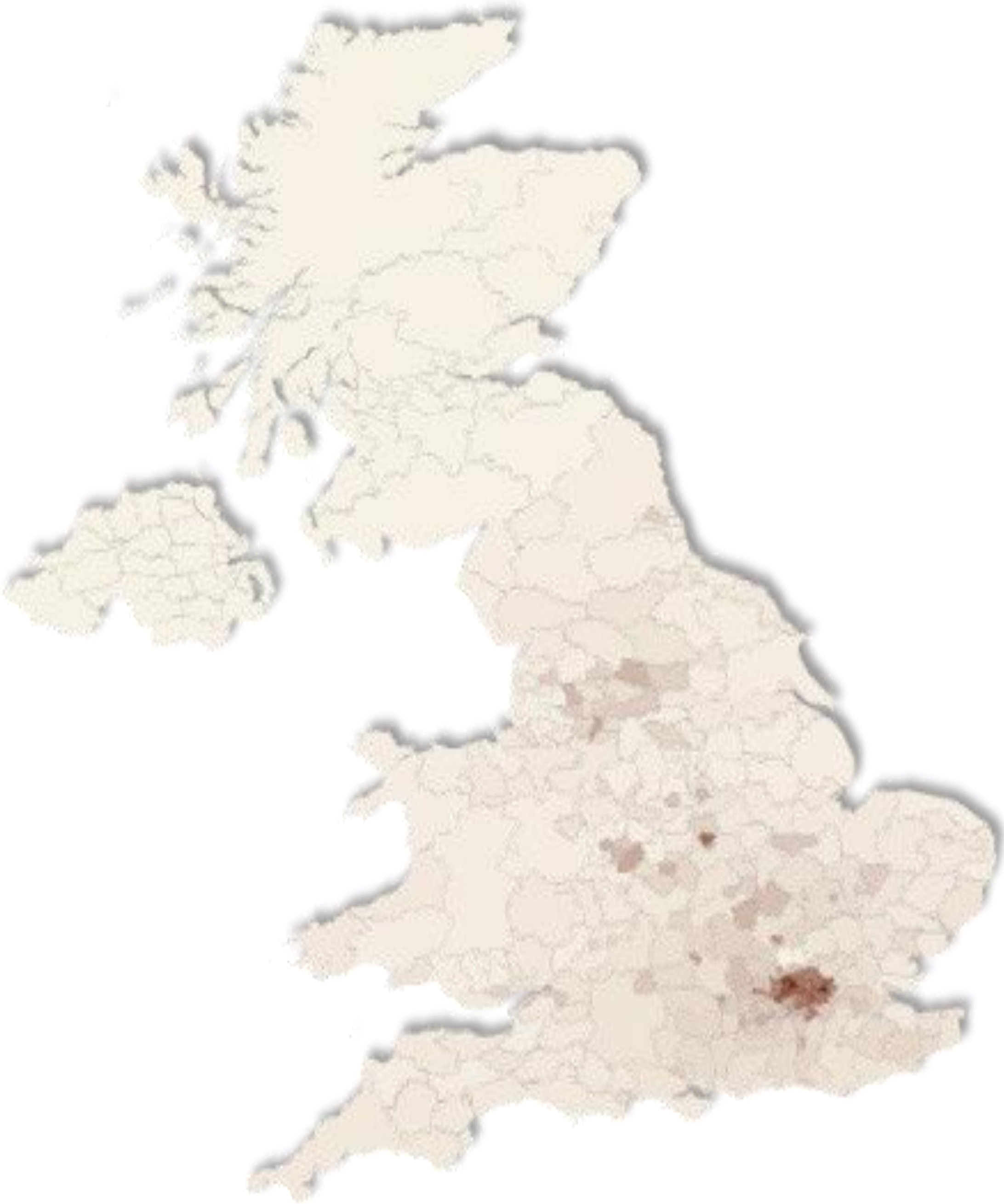


Scale: Share of low-skilled jobs taken by EU migrants

0 - 0.1375	0.1357 - 0.275	0.275 - 0.4125	0.4125 - 0.55

Notes: Data are based on all usual residents aged 16 and over in employment the weeks before the Census.
Source: Office for National Statistics (2014c). England and Wales Census of Population, 2011

Figure 3.5: Share of low-skilled jobs taken by non-EU migrants by local authorities in England and Wales, 2011



Scale: Share of low-skilled jobs taken by non-EU born migrants

0 - 0.1375	0.1357 - 0.275	0.275 - 0.4125	0.4125 - 0.55

Notes: Data are based on all usual residents aged 16 and over in employment the weeks before the Census.
Source: Office for National Statistics (2014c). England and Wales Census of Population, 2011

Concentration of migrants in low-skilled work across England and Wales

3.25 When compared with natives working in low-skilled jobs, migrants are concentrated in fewer local authorities, though this does vary for EU and non-EU migrants (see Figure 3.6). The implication of this is that in terms of low-skilled employment at least, there are large parts of England and Wales where competition between UK-born and migrant workers will be either very small or virtually non-existent. **As such the real impact of the foreign-born will be felt mostly in a relatively small number of local labour markets**.

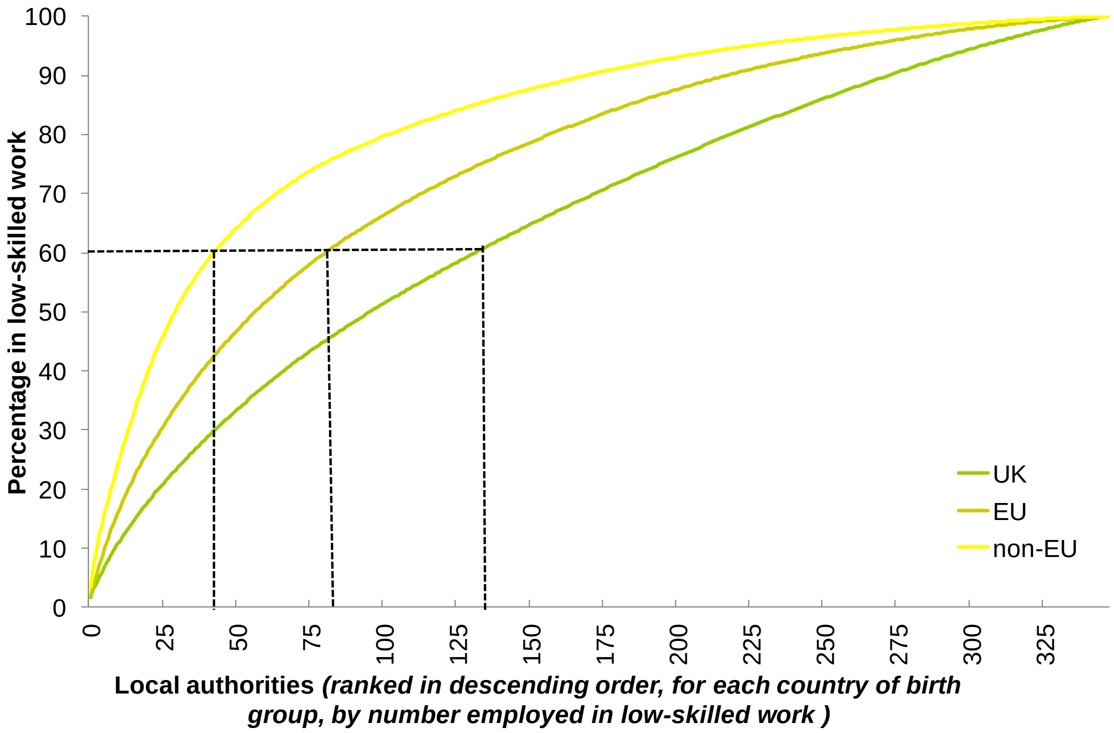
3.26 To illustrate this, Figure 3.6 presents the cumulative share of all low-skilled employment for UK, EU and non-EU born workers respectively across the 348 local authorities of England and Wales[8]. Local authorities are ranked in descending order according to the absolute level of low-skill employment. If low-skilled workers (regardless of origin) were evenly spread across all local authorities, this would be depicted as a straight line from the bottom left to the top right of Figure 3.6.

3.27 The UK-born population working in low-skilled jobs is much more evenly spread across all local authorities compared to migrants. For example 60 per cent of these UK-born workers are in around 41 per cent of local authorities (132 out of 346).

3.28 For non-EU migrants there is a more pronounced uneven distribution (demonstrated by the increased curvature of the line): 60 per cent of migrants in low-skilled work from non-EU countries are concentrated in just 12 per cent (or 43 out of 346) of local authorities in England and Wales. EU migrants in low-skilled occupations are more evenly spread out than non-EU, but are still more concentrated than equivalent UK-born workers. 60 per cent of EU-born migrants are concentrated in around a quarter of local areas in England and Wales.

[8] In fact because of small sample sizes City of London has been merged with Westminster and Isles of Scilly has been merged with Cornwall, resulting in 346 observations overall.

Figure 3.6: Cumulative share of low-skill employment by local area, by country of birth, 2011



Notes: Data are based on all usual residents aged 16 and over in employment. The horizontal axis represents the 346 local authorities in England and Wales, labelled numerically. Local authorities are ranked along the horizontal axis in descending order by the volume of low-skilled employment in each local authority. The graph then shows the cumulative volume of low-skilled workers as a percentage of total employment in low-skilled jobs.
Source: Office for National Statistics (2014c). England and Wales Census of Population, 2011

3.29 Figure 3.7 provides more detail, by local authority, of migrants and UK-born workers in low-skilled employment as a proportion of the overall local population aged 16 and over. Also shown for comparison are the proportions employed in high-skilled work

3.30 The areas with the highest proportion of migrants working in low-skilled occupations are to be found in London, though here there are some variations. Outside of London in areas such as Boston and Corby, although migrants account for a smaller proportion of the adult population, they are disproportionately employed in low-skilled jobs.

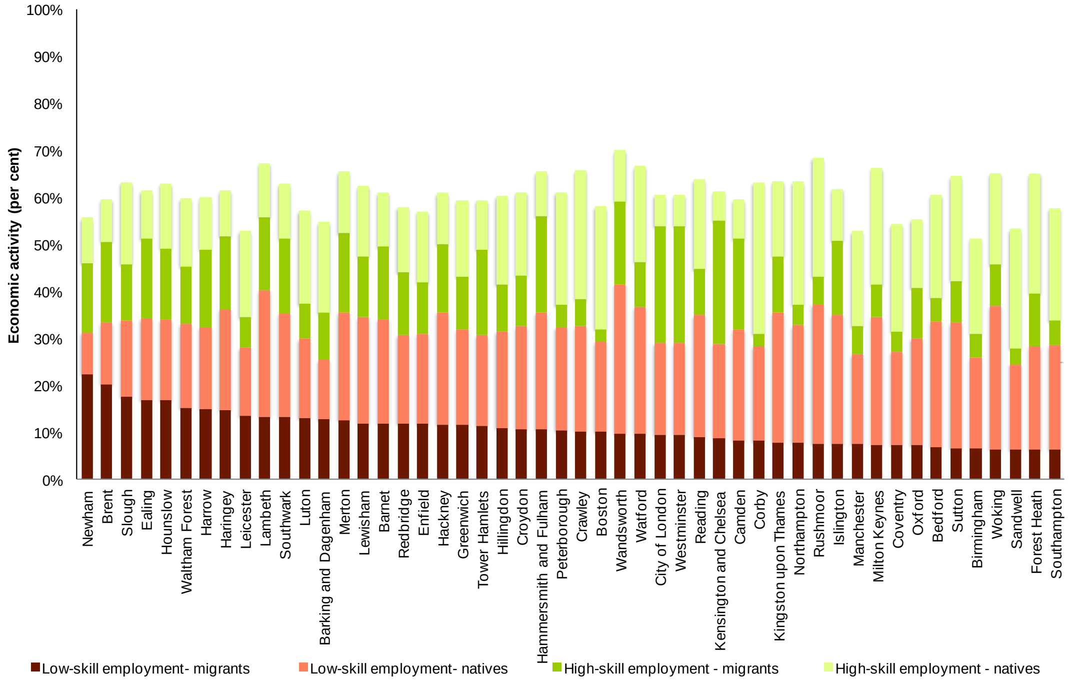
3.31 When we examine the composition of the migrants in low-skilled jobs by local area, we find that the areas with a high proportion of migrants in low-skilled jobs are dominated by different migrant groups. For instance, most areas in London are dominated by non-EU migrants in low-skilled work. However, EU migrants are prominent in the composition of migrants working in these jobs outside of London. Particularly noticeable for areas such as Boston, Peterborough, Corby, Southampton and Northampton

where there is a sizeable proportion of EU12[9] migrants in these jobs. These trends are set out in the second panel of Figure 3.7.

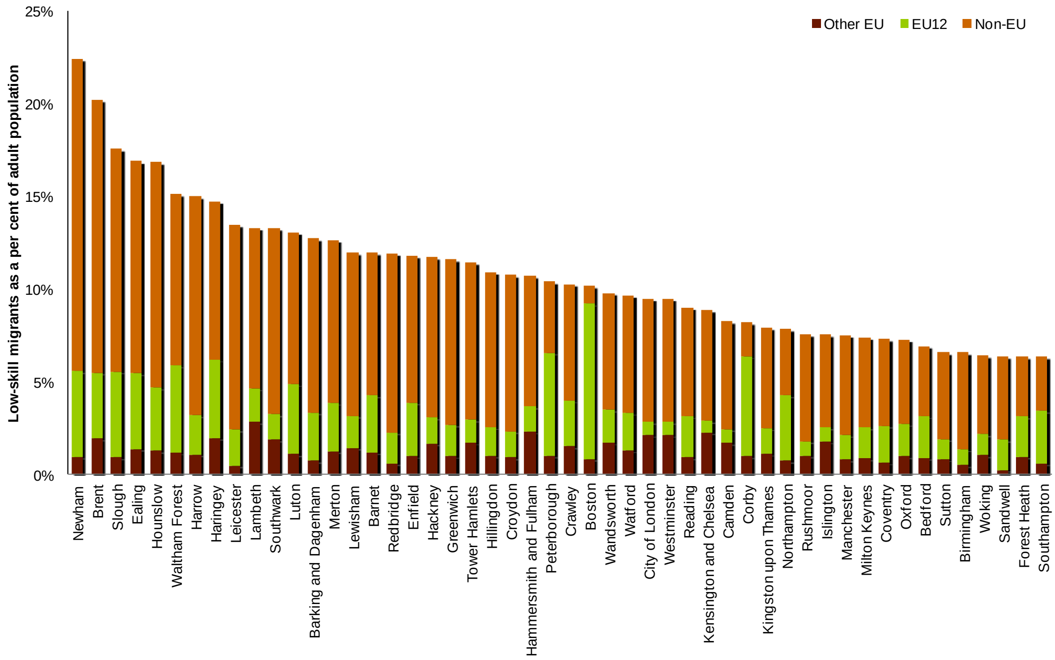
[9] EU8 and EU2 countries plus Malta and Cyprus

Figure 3.7: Low- and high-skilled employment as a proportion of local area population aged 16 and over, 2011

Employment by low and high skilled occupation



Migrants in low-skilled jobs by broad region of birth



Notes: Data are based on all residents aged 16 and over. For country groupings see chapter 2 – here EU12 includes all those countries that joined the EU in 2004 and 2007. The 50 local authorities presented are ranked in descending order of areas with the greatest employment of migrants in low-skilled work as a proportion of local population aged 16 and over. Two local areas have been aggregated into one, namely City of London and Westminster because of small sample sizes and disclosure.
Source: Office for National Statistics (2014c). England and Wales Census of Population, 2011

3.4 Drivers of migration to the UK

3.32 One of the questions in our commission from the Government was to consider the push and pull factors behind the recent growth in migration. In this section we set out:

- the available evidence on the self-reported reasons behind the decision to migrate;
- the economic and broader factors driving migration to the UK and how this aligns with the literature on the theory of migration;
- the effect of immigration and other public policies on the scale and direction of migration.

Self-reported reasons for migrating

3.33 We begin by considering the main self-reported reasons for coming to the UK given by all migrants from the Labour Force Survey. We then look at the main reasons given by migrants working in low-skilled jobs.

3.34 There are notable differences in the main reasons for migrating provided by the stock of all EU8 and EU2 migrants, migrants from the EU excluding these countries and non-EU migrants. Three quarters of migrants from the EU8 and EU2 countries stated that their main reason for coming to the UK was for work. This compares with 39 per cent of migrants from EU countries excluding the EU8 and EU2 and 24 per cent of migrants from non-EU countries. Instead, for a significant proportion of migrants from countries excluding EU8 and EU2, the main reasons given for coming to the UK were family related[10]. A similar proportion of migrants from both EU countries (excluding the EU8 and EU2) and non-EU countries reported they came for study reasons. The reasons provided are for the stock of all migrants by broad region of birth, thus it is important to note that these may change over time.

3.35 We then consider the reasons given by migrants working in low-skilled jobs when they were asked why they came to the UK (Table 3.4). For EU-born migrants – and especially so for those from Central and Eastern Europe – the primary reason for migrating was again for work. Just over three quarters of migrants from EU2 and EU8 countries reported that they came to the UK for employment reasons. Just over a third of other EU-born migrants, stated they came for the same reason. If we consider migrants from these countries who arrived in 2008 or later, the proportion of those stating employment as their main reason for migrating to the UK increased to 64 per cent.

[10] The following reasons are defined as family reasons: get married/form civil partnership, as a spouse/dependent of UK citizen, spouse/dependent of someone coming to UK

3.36 Changes were made to the UK immigration system in 2008 for migrants from outside the European Economic Area (EEA). Over 80 immigration routes were simplified into five Tiers and although one of these – Tier 3 – was specifically for immigration of low-skilled workers, it has never been opened. Therefore, since 2008 there has not been a direct economic route of entry for non-EU migrants going into low-skilled jobs. Yet 25 per cent of non-EU migrants in low-skilled jobs who entered the UK since 2008 reported they came for employment reasons.

3.37 Whilst there is no work-related migration route for low-skilled migrants from outside the EU, migrants that come to the UK for other reasons (such as for study or as dependants of economic migrants) can work, and many find employment in low-skilled jobs. Half of non-EU migrants – over half a million people - working in low-skilled jobs indicated that the main reason they came to the UK was for family reasons.

Table 3.4: Low-skilled workers' main reason for coming to UK by country of birth, 2013

	EU (exc EU8 & EU2)		EU8 & EU2		Non-EU	
Main reason	Stock (thousands)	%	Stock (thousands)	%	Stock (thousands)	%
Employment	99	34	437	76	192	16
Study	30	10	29	5	160	13
Get married / Form civil partnership	14	5	6	1	96	8
As a spouse / dependent of UK citizen	68	23	25	4	283	24
Spouse / dependent of someone coming to UK	49	17	43	8	227	19
Seeking asylum	0	0	2	0	110	9
Visitor	9	3	13	2	36	3
Other	21	7	22	4	82	7
No answer	0	0	1	0	5	0
Total	290	100	578	100	1,190	100

Note: For all individuals in employment aged between 16 and 65 for whom a SOC code and country of birth could be allocated. Columns may not sum to the total due to rounding.
Source: Annual Population Survey

3.38 Around 11 per cent of all migrants in low-skilled jobs indicated that they came for study reasons. Approximately 688,000 workers in low-skilled jobs were enrolled on a full-time university, polytechnic or college course. This represents 5 per cent of the low-skilled workforce. 101,000 (15 per cent) were non-UK born. Of these, 70 per cent were born outside of the EU.

3.39 Much of the participation in the labour market from full-time students comes in low-skilled occupations: 67 per cent of EU born students and 71

per cent of non-EU born students that work are employed in low-skilled occupations[11].

3.40 In the next section we look at what the relevant literature and data can tell us about the reasons for migration.

Broad drivers for migration

3.41 Individuals decide to migrate based on costs and benefits in the country of origin and the country of destination. Costs such as transport and adjustment (settling down in the destination country) and benefits such as increased income and job prospects and better education are taken into consideration, and a person decides to migrate if the benefits are greater than the costs.

3.42 A number of theories have been developed that seek to explain why migration occurs (for a survey, see Castles *et al.* (2014)). Though these are often complex, in the case of migration to the UK these often boil down to two main drivers: economic and labour market factors, and network effects.

3.43 What we aim to do in this section is to discuss potential reasons that may help explain recent migration to the UK. We then consider how immigration policy changes, in the UK and in other countries, and the flexibility of the UK's labour market can itself shape the scale and direction of migrant flows.

Economic and labour market factors

3.44 Wage and income differentials, relative to source country[12], are important factors explaining why migrants come to the UK. Low unemployment rates and buoyant GDP growth in the UK coincided with increased inflows of migrants to the UK from 1994 onwards. However, considering these trends alone could be misleading as the decision migrants take in moving to another country is a complex one. Income inequality should also be considered; economic theory suggests that highly skilled migrants are attracted to countries with greater income inequality, because this indicates high returns to education and skills (Czaika *et* al. (2013)).

3.45 When comparing economic indicators such as GDP per capita, real wage differentials and unemployment rates among countries, it is important to note that simple comparisons need to be put into context with the appropriate living costs in the respective countries. Therefore, whilst the analysis presented below on GDP per capita and unemployment can be helpful, looking at income minus all expenditures among countries would

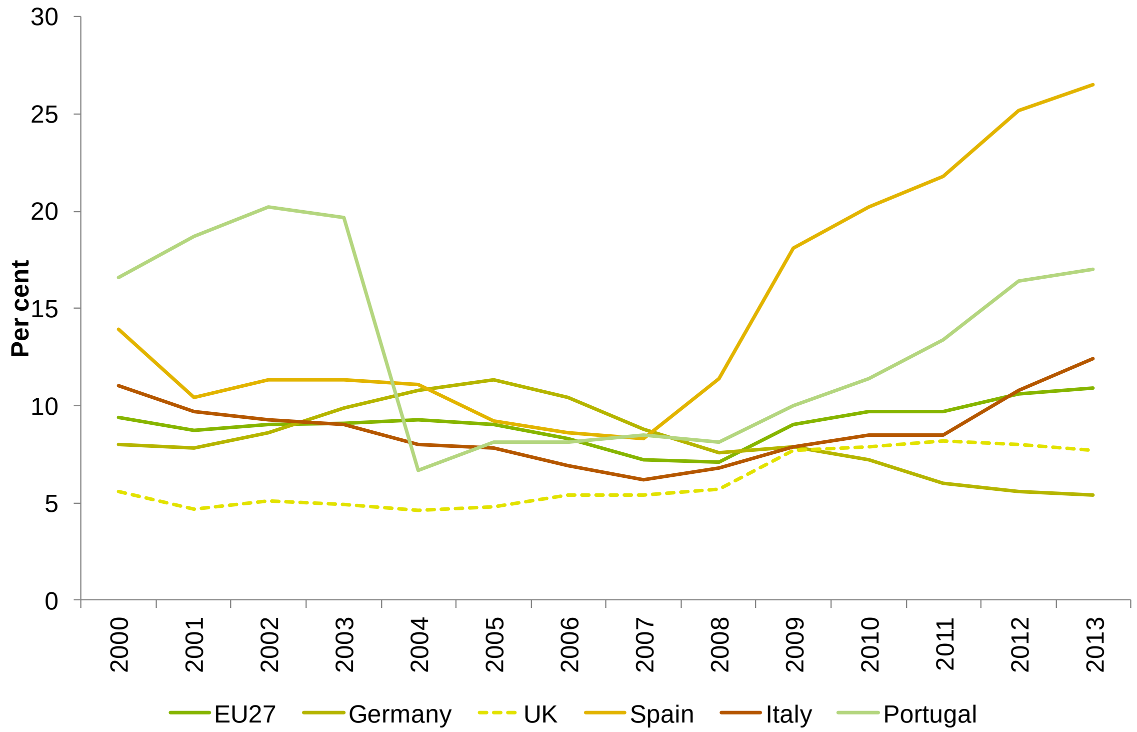
[11] Annual Population Survey, 2013.
[12] A migrant's country of residence before they arrived in the UK

be more informative in assessing whether there are incentives to migrate on the basis of this differential.

3.46 On the basis of **a purchasing power parity comparison**, EU8 and EU countries that joined the EU from Eastern Europe in 2004 and 2007 still had, by 2012, per capita incomes (adjusted for local living costs) below three-quarters of the levels in UK, France and Germany. Since the financial crisis of 2008, per capita incomes in Portugal and Greece have also fallen below this level. Income differentials between the EU8 and EU2 and countries in Western Europe could therefore act as an incentive for individuals from poorer EU countries to migrate to more prosperous European countries.

3.47 In addition to relative incomes, the **relative chances of finding work** are an important factor in driving migration. In 2006, the unemployment rate in Spain was 9 per cent, and following the 2008 financial crisis and continued slow growth in the Eurozone this had risen to 27 per cent by 2013. Weaker labour markets in Spain as well as in Italy and Portugal may well explain the rise since 2010 of migrants from these countries (See Figure 3.8). By contrast, in 2013, the unemployment rate in Germany was 5 per cent, below that of the UK.

Figure 3.8: Annual unemployment rates - Selected EU Member States, 2000 to 2013

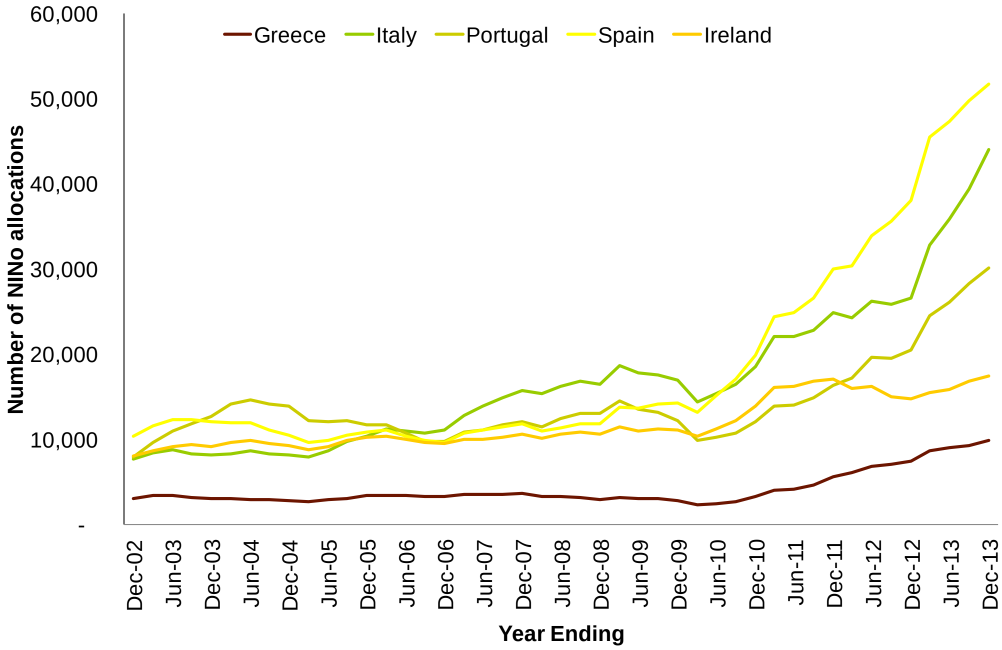


Notes: Data are based on nationals aged from 15 to 64.
Source: Eurostat (2014)

Migration from the Eurozone

3.48 Steep increases in unemployment have coincided with significant emigration of both their own citizens and third country nationals for some member states namely, Spain, Portugal, Italy, Greece and Ireland. Table 3.2, shows that there has been an increase in the proportion of the stock in low-skill employment in the UK from Italy and Spain from migrants arriving after 2010. This is consistent with the increase in the national insurance allocations for nationals from Greece, Italy, Portugal, Spain and Ireland as shown in Figure 3.9.

Figure 3.9: Annual national insurance number (NINo) allocations for nationals of selected EU countries, 2002 Q4 to 2013 Q4



Notes: NINo registrations to adult overseas nationals entering the UK. Rolling 4-quarter average.
Source: Department for Work and Pensions (2014), Stat-Xplore

Network drivers

3.49 The source countries for migration differ among advanced countries for historical reasons that reflect the influence of social networks. Former territories and colonies are an important source of arrivals for the UK.

3.50 There is a positive relationship between migration from a source country and the stock of immigrants from that country in the destination country. Bruder (2003) states, *"Only the first migrant has to pay the full migration costs. Every following migrant benefits from the experiences of those who are already living there"*. This is expected to reduce the associated costs of migration as, for example, established cultural communities can assist in providing information and overcoming language barriers. Therefore, the theory predicts that individuals are likely to migrate to a county where there is an existing stock of immigrants from their country.

3.51 Czaika *et al.* (2013) supports this and shows the existence of colonial links and associated networks help to explain migration inflows from particular regions as newer migrants follow the route taken by earlier migrants. Long established cultural and social links lower the costs and potential risks of migration, and therefore make the UK an attractive destination for migrants from former British colonies and from countries that are geographically close to the UK.

3.52 Collier (2013) states *"migration adds to the diaspora, whereas absorption into the mainstream society reduces it".* Diasporas are the concentration of migrants in smaller areas outside their country of origin. As migrants assimilate with the native population, there is an outflow from the diaspora. Czaika *et al.* (2013) shows that network effects can weaken over time and this has been particularly true for Commonwealth countries such as Australia, Canada, New Zealand and South Africa.

The role of policy in determining direction and scale of migration flows

3.53 Although theory suggests that migration flows are largely determined by economic factors, these flows can be influenced by the domestic policy environment too. Here we consider not only the impact the main immigration policy changes have had on migrant flows but also how other policies around labour market regulation and welfare systems can play a role.

3.54 Mitchell *et al.* (2011) use data from the International Passenger Survey (IPS) to identify the factors determining migration to the UK over the period 1980 to 2007. Using econometric models controlling for possible differences in the determinants of migration from different source locations, they looked at 14 source regions. Most of the increase in immigration from the mid-1990s onwards can be attributed to migrants from three regions: Asian commonwealth (including India and Pakistan), other Asia (including China) and the EU8.

3.55 The following key economic and social variables were tested:

- per capita income in the UK relative to that of the source group;
- the UK unemployment rate, in order to proxy for business cycles;
- per capita income in the UK relative to that in alternative host countries (France, Germany, Belgium, the Netherlands and the US);
- the demographic share of population in the source group aged 15-29 because income differentials are likely to have a greater benefit for younger migrants;
- income inequality in the UK relative to that in the source group;
- the lagged migrant stock in order to capture network effects; and

- immigration policy with respect to other hosts.

3.56 The authors find that both the UK unemployment rate and policy changes are robust drivers of migration to the UK, and that the former has a stronger effect in the short run. Demographic shares and UK incomes relative to incomes in the source region are also found to be robust drivers. Network effects were found to be important in determining migration from the EU8 and other African Commonwealth (including Kenya and Nigeria).

3.57 In terms of explaining the rise in migration to the UK, 75 per cent of this rise was attributed to changes to immigration rules in the UK vis-à-vis those in other countries. Further, network effects such as contact through family and friends explains 24 per cent of the rise in migration from the early 1990s to mid-2000.

3.58 Ortega and Peri (2012) found that immigration flows are responsive to income per capita in the destination country, especially within the context of free labour mobility within the EU. They also found that when immigration polices were tightened, for example by increasing the requirements for entry, immigrant inflows were reduced.

3.59 Over the last twenty years there have been a number of major immigration policy decisions that were followed by an increase in migration to the UK. We will look at these in turn.

Non-EEA immigration since 1997

3.60 Non-EEA immigration increased from 169,000 in 1996 to 298,000 in 1999. It has been argued (for instance see Goodhart, 2010, Migration Watch, 2009) that this increase in the late 1990s resulted from a series of changes to UK immigration policy, namely:

- the abolition of the primary purpose rule;
- a significant increase in asylum claims; and
- the liberalisation of student visas and work permits.

3.61 The **Primary Purpose Rule** was introduced in 1983 whereby non-EU immigrants coming to the UK on the grounds of marriage had to prove that the marriage was not entered into primarily to obtain entry to the UK. This rule was abolished in 1997. Across all the family immigration routes[13] the number of persons granted entry to the UK had averaged 22,000 a year between 1992 and 1996. In 1997 it grew to 28,275 and then between 1998 and 2003 it was relatively stable averaging just over 34,000 a year. 90 per cent of the increase between 1996 and 1998 resulted from an increase in

[13] This includes husbands, male fiancées, wives, female fiancées and children

husbands and wives, mainly from the Indian sub-continent (Home Office (2002), (2004) and (2007)). So, although family immigration increased by over half between 1996 and 1998, the absolute rise of around 12,000 was only a small part of the increase in total non-EU immigration of around 130,000 between the mid- to late 1990s.

3.62 According to Goodhart (2010), the introduction of the Human Rights Act in 1998 played a role in the increase in immigration due to **asylum** in the late 1990s. Asylum applications had averaged around 30,000 a year during the early and mid-1990s, before increasing to 46,000 in 1998 and then to 71,000 in 1999, a level at which it stayed up to and including 2002[14], before falling back to around 25,000 or less by 2005. The total numbers actually granted asylum[15] were in fact much smaller than this, though did increase significantly between 1995 and 2002 from around 6,000 in 1995, to 11,600 in 1998, 26,700 in 1999, 35,700 in 2000 to over 40,000 in 2001 and 2002 (Home Office (2004) and (2007)). Asylum (excluding dependants) therefore may have added around 30,000 to total immigration flows between 1995 and 2000.

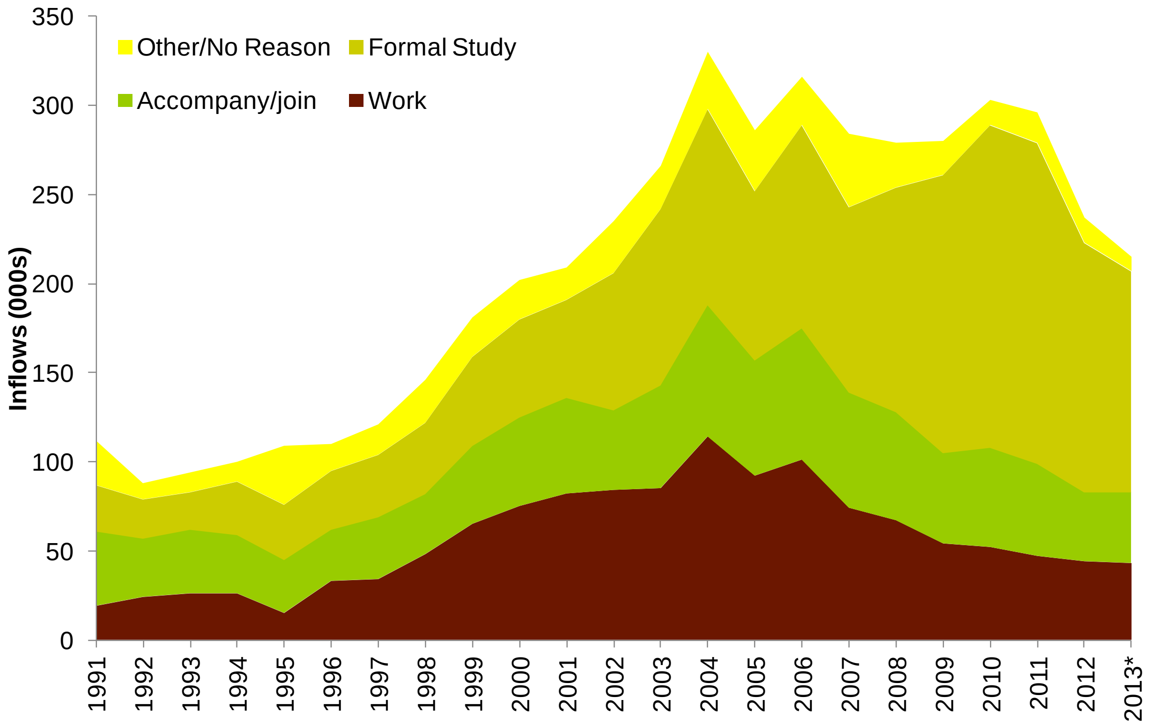
3.63 The late 1990s also saw significant growth in the volume of **work permits** issued, from around 50,000 or fewer in the mid-1990s to 92,000 in 2000 (and over 100,000 from 2001 onwards). This was mainly due to a tripling of volumes of main applicants coming for employment for a year or longer (from 11,700 in 1995 to around 36,300 in 2000; the volumes for short-term employment of a year or less were practically unchanged at around 30,000) and a rise of over 10,000 in dependants of the main work permit applicant (from 14,300 in 1995 to almost 25,000 in 2000). Although the number of those coming to the UK as **students** increased, it did so only marginally from 285,000 in 1995 to 312,000 in 2000 (Home Office (2004) and (2007)).

3.64 The changes suggested by the visa data above are largely born out by the survey measure of immigration. Figure 3.10 shows the inflow of non-EU migrants by reason over the period 1991 to 2013. From 1997 to 1999, there was an increase of 60,000 of non-EU nationals from 121,000 to 181,000. Half of this increase could be accounted for by an increase in immigration due to work related reasons, a quarter by formal study and 15 per cent due to an increase in immigration to accompany/joining a partner/ immediate family member. So, although the abolition of the Primary Purpose Rule may have contributed to higher inflows of non-EU nationals, its impact seems to have been relatively small.

[14] Asylum applications (excluding dependants) peaked at 84,130 in 2002. In 2002 there were around 103,000 decisions on asylum cases for main applicants and their dependants. Over two-thirds (68 per cent) of these asylum applications were refused. It is an open question as to how many of those refused are still resident in the UK.

[15] This includes all those granted asylum or exceptional leave to remain.

Figure 3.10: Inflows of non-EU nationals by main reasons for migration, 1991 to 2013



Notes: Provisional figure for flows, year ending September 2013.
Source: Office for National Statistics (2014f), International Passenger Survey (IPS) estimates of long-term international migration, citizenship by main reason for migration.

EU enlargement: 2004 and 2007

3.65 The next major policy intervention came in 2004 and affected intra-EU migrant flows. From 2004, the EU was enlarged to include a number of new member countries, mostly from Central and Eastern Europe. The EU8 (including Poland and Lithuania) joined in 2004 and the EU2 (Bulgaria and Romania) joined in 2007. In each case, existing EU Member States were allowed to apply transitional controls for a period of up to seven years restricting access of EU8 and EU2 nationals from these countries to EU15 national labour markets.

3.66 Not only did the decision by each individual member state to grant access to its labour market to migrants from either the EU8 or the EU2 have an impact on their own inflows from these countries, but so too did the decision of other states whether to allow access. In fact, member states opened up their national labour markets at different times for both EU8 and EU2 accession (Table 3.5). This impacted on the choice of destination for migrants from the EU8 and EU2 countries.

Table 3.5: Relaxation of transitional controls for EU8 and EU2 migrants: EU15 Member States

Year controls lifted	EU8 Accession	EU2 Accession
2004	Ireland, Sweden, UK	N/A
2006	Greece, Spain, Italy, Portugal, Finland	N/A
2007	Luxembourg, Netherlands	Finland, Sweden
2008	France	
2009	Belgium, Denmark	Denmark, Greece, Spain*, Portugal
2011	Germany, Austria	
2012	N/A	Ireland, Italy
2014	N/A	Belgium, Germany**, Spain, France, Luxembourg, Netherlands, Austria, UK

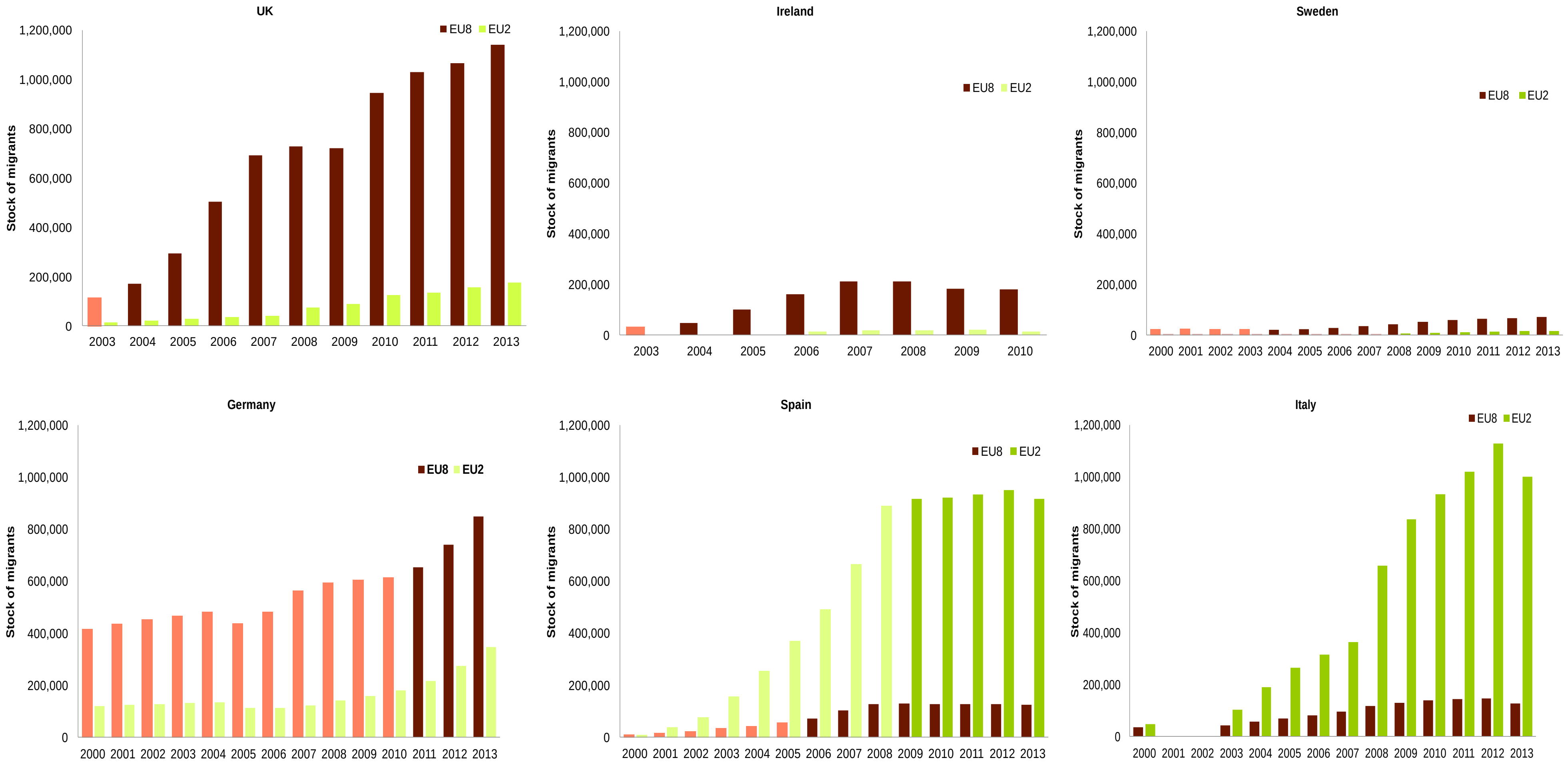
Notes: *Spain reimposed restrictions on Romanians from 2011; ** Germany partially lifted restrictions for some EU2 workers in Jan 2012.

3.67 Palmer and Pytlikova (2013) found that the interdependence of decisions whether to open up labour markets led to those countries with open labour markets experiencing larger migrant flows than those countries that restricted labour market access.

3.68 Initially only Ireland, Sweden and the UK granted free access to their labour market for EU8 nationals in 2004. Migrant flows from these countries were significant for Ireland and the UK, but not for Sweden. Figure 3.11 shows the annual estimates for EU8 and EU2 nationals living in member states just prior to the 2004 accession and how this changed over the period to 2013. Year-on-year changes in migrant volumes essentially equate to net migration. It should be noted that the same scale has been used for each graph to demonstrate more clearly the differential impact of EU8 and EU2 flows by member state.

3.69 Between 2003 and 2007-9, the number of EU8 nationals living in the UK rose from 115,000 to about 700,000. This represented an increase equivalent to 1 per cent of total UK population. Although absolute growth of EU8 nationals in Ireland and Sweden was much less, in Ireland EU8 nationals accounted for almost 5 per cent of total population by 2008**,** up from less than 1 per cent in 2003. Migrant flows to these countries were subsequently reduced firstly with the 2008 recession and then when other states relaxed their own labour market restrictions. For example, labour market restrictions were lifted in Germany in 2011 and the stock of EU8 nationals resident there increased by over 30 per cent over the next two years.

Figure 3.11: Number of EU8 and EU2 nationals resident in selected EU member states, 2000 to 2013



Notes: UK and Ireland data for EU8 is actually for EU8 plus Malta and Cyprus. No data for UK or Ireland 2000-2002 and for Ireland 2011-2013. Data for the UK for 2011 to 2013 comes from the APS. Lighter shaded bars indicate that full access to national labour market had not yet been granted
Source: Eurostat (2014) and Annual Population Survey

3.70 Flows of EU2 migrants have shown a different pattern and have mainly been destined for Spain and Italy (Figure 3.11). In Spain this was partly due to an already sizeable EU2 resident base, as Spain had admitted 360,000 migrants from Romania and Bulgaria by means of bilateral agreements between 2000 and 2005 (Brücker 2007). By 2010 the stock of EU2 nationals resident in each of Spain and Italy exceeded 900,000.

3.71 The scale of EU2 flows to the UK has been much less than for EU8 migration. By 2010 there were an estimated 124,000 Bulgarian and Romanian nationals living in the UK, far below the levels experienced in Spain or Italy, and even in Germany. The design of restrictions for EU2 nationals by the UK did have an unintended consequence. Labour market restrictions for EU2 nationals were on the basis of limited access to certain sectors (agriculture and food processing – between them allowing fewer than 30,000 migrants a year and mostly short-term only – see MAC (2013)). However, no restrictions existed for those coming to the UK to work as self-employed. The evidence suggests EU2 migrants were incentivised to move into sectors such as construction and cleaning. Self-employment rates for EU2 nationals were substantially higher (around 30 per cent) than for any other group, UK national or otherwise (Frontier Economics (2013)).

The effect of other domestic policies

3.72 Changes to immigration policy help explain much of the rise in migrant inflows since the mid-1990s, but other domestic policy areas may also impact on the migration decision too. Here we consider two of these: labour market regulation and welfare systems.

(i) Flexibility of the UK's labour market

3.73 The flexibility of a labour market is concerned with its ability to respond to changes quickly. The determinants of labour market flexibility depend on the relationship between the characteristics of a flexible labour market and the institutional environment. For example, working time flexibility is a characteristic of a flexible labour market and the regulations around this, for example part-time working/self employment, are one way of affecting the actual flexibility of working time. Job mobility is another characteristic that determines the flexibility of the labour market and hiring and firing costs affect this. If these costs were relatively high, firms would prefer to retain workers instead of looking for new workers.

3.74 The OECD produces a set of employment protection indicators which are compiled from 21 items covering different aspects of employment protection regulations[16] as they were in force on 1 January of each year. These are weighted and used to create two measures of

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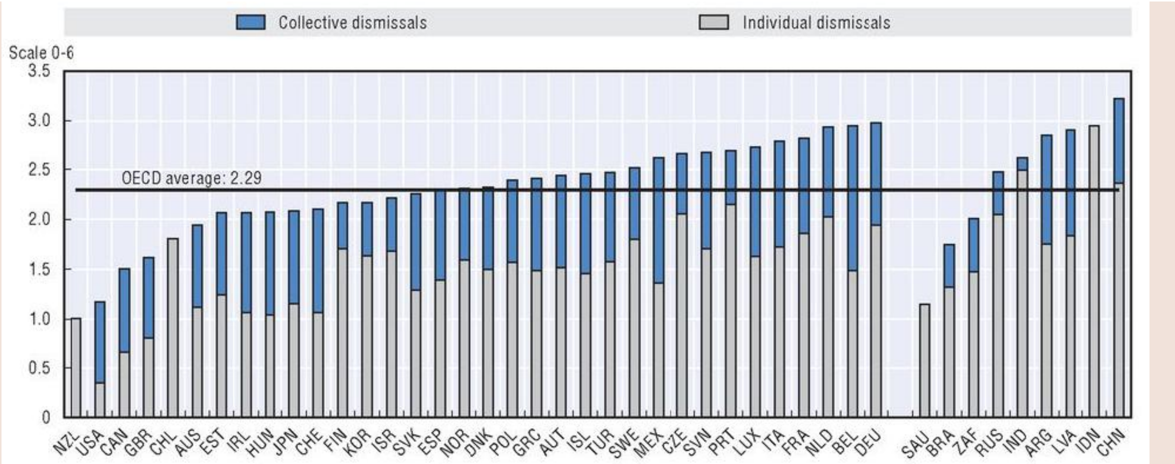
[16] For example, costs and procedures involved in dismissing individuals or groups of employees or hiring workers on fixed-term contracts. For further details, see notes to Figure 3.12

employment protection. One concerns the regulations governing individual and collective dismissals of workers (EPRC) and another involves the regulation of temporary contracts (EPT). The measures use a scale of 0 to 6, where 6 indicates the highest level of employment protection for regular workers. Figure 3.12 shows the EPRC indicator for OECD countries and some emerging economies.

3.75 The UK, along with other countries such as Canada and the USA, has relatively light restrictions for individuals and collective dismissals of regular workers. Further, in the UK the number of workers under the umbrella of collective bargaining has halved since its peak figure of 70 per cent plus in 1980. China has by far the most restrictions. Within the OECD, the indicator was higher than the OECD average for Germany, Belgium and the Netherlands. The availability of migrant workers combined with the low level of labour market regulations in the UK has enabled some employers to maximize the advantages to them.

Figure 3.12: Protection of permanent workers against individual and collective dismissal, 2013*



Notes: *Data refer to 2013 for OECD countries and Latvia, 2012 for other countries. The figure presents the contribution of employment protection for regular workers against individual dismissal (EPR) and additional provisions for collective dismissal (EPC) to the indicator of employment protection for regular workers against individual and collective dismissal (EPRC). The height of the bar represents the value of the EPRC indicator.
Individual dismissal of workers with regular contracts, incorporating three aspects of dismissal protection: (i) procedural inconveniences that employers face when starting the dismissal process, such as notification and consultation requirements; (ii) notice periods and severance pay, which typically vary by tenure of the employee; and (iii) difficulty of dismissal, as determined by the circumstances in which it is possible to dismiss workers, as well as the repercussions for the employer if a dismissal is found to be unfair (such as compensation and reinstatement).
Additional costs for collective dismissals. Most countries impose additional delays, costs or notification procedures when an employer dismisses a large number of workers at one time. The indicator measuring these costs includes only additional costs which go beyond those applicable for individual dismissal. It does not reflect the overall strictness of regulation of collective dismissals, which is the sum of costs for individual dismissals and any additional cost of collective dismissals.
Source: OECD (2014)

3.76 Increasing certain rights for migrants can lead to greater costs for employers. For instance, if migrants are entitled to a safe work

environment or guaranteed the minimum wage, the initial cost of providing this falls on the employer. In highly regulated labour markets, employers must treat migrants in the same way as they do indigenous workers. But in labour markets with fewer regulations and more flexibility, migrants could be viewed as a preferential source of labour, in certain industries at least, where this flexibility is of benefit to the employer.

3.77 Ruhs (2012) uses the experiences of the UK, Ireland and Sweden, in terms of the scale and direction of immigration inflows, when transitional controls for EU8 countries were lifted, to illustrate the impact of flexible labour markets. Controlling for population size, Sweden experienced a much lower inflow of EU8 workers compared with the UK and Ireland. This was in part attributed to the relatively high level and effective enforcement of labour market regulation in Sweden. This meant that migrants and natives needed to be offered exactly the same wages and rights, meaning that for employers, in terms of cost, there would be no preference for migrants.

3.78 UK labour market flexibility and its relatively low levels of labour regulation together with a range of polices from training to welfare have contributed to growing recruitment and employment of migrants in certain sectors. Especially within the context of free movement within the EU, the flexibility of the labour market is a key factor impacting on employer demand for migrant labour and thus the scale of labour immigration.

(ii) Welfare migration

3.79 Another potential driver for migration is the so-called *welfare magnet hypothesis*. Evidence from the US (Borjas (1999)) found that location decisions of migrants who had arrived in the United States were more likely to be concentrated in states offering higher welfare benefits. Thus welfare can act as a magnet for migration, especially for low-skilled migrants (Barrett (2012)).

3.80 Research of a welfare magnet in the EU and other OECD countries has produced mixed results (Giulietti and Wahba (2013)). A study for EU countries finds *"that the causal effect between social welfare spending and immigration is very small and statistically insignificant; in other words, there is no evidence of a "welfare magnet hypothesis". At the same time, however, there are indications that immigration contributes to increased UBS [Unemployment Benefit Spending]. This effect, however, is a consequence of the self-selection of migrants, who are usually less educated and more exposed to unemployment. Therefore, selective immigration policies might play a key role in monitoring social spending and eventually in the process of active inclusion of migrants"* (Zimmermann *et al*. (2012)). This body of research has however raised other important issues.

3.81 First, the degree of freedom of the migration regime can affect the skill composition of immigrants. Under free movement regimes, unskilled migrants are attracted by the generosity of the welfare state, whereas

skilled migrants are deterred by a generous welfare state (Razin and Wahba (2012)).

3.82 Second, the structure of benefits matter for the size and composition of immigration. Jackson *et al.* (2013) found that health, education and welfare benefits have a positive impact on skilled immigration, while the effect of unemployment benefits is insignificant and retirement benefits are negatively associated with skilled immigration.

3.83 It is, therefore, not only immigration policy in isolation that determines the direction and scale of immigration inflows, but other public policies too. In the following chapters we consider the issues related to the impacts of immigration on welfare systems with, first, the net fiscal contribution of migrants (Chapter 8) and, second, whether migrants are more likely than natives to claim welfare benefits (Chapter 9). In Chapter 5 we consider key policies, for example education and training, and provide examples of how they may have contributed to growing recruitment and employment of migrants in certain sectors.

3.5 Conclusions

3.84 Most of the 2 million foreign born workers in low-skilled employment are from outside the European Union (and the vast majority of these have been here long-term). This is perhaps contrary to initial expectations, which are understandably influenced by recent migration trends, including migration from Central and Eastern Europe since 2004. A million migrants in low-skilled jobs have come to the UK since 2004 and half of these have been migrants from the new EU member states.

3.85 Immigration and net immigration to the UK have risen substantially since the mid-1990s. Although economic factors explain much of this, changes to immigration policy, firstly in the UK towards the end of the 1990s, and secondly across the EU from 2004, have had an important influence. Non-EU migration increased mainly as a result of greater use of work permits, but also partially because of asylum and changes to family migration policy. EU migration to the UK, especially from Central and Eastern Europe, was significantly influenced by the relative openness of national labour markets during the transition phase of accession, leading to migration diversion towards Ireland and the UK and away from Germany and Austria.

3.86 Migrants in low-skilled jobs are concentrated in relatively few areas of England and Wales. This uneven distribution means that potential impacts of migration are likely to be experienced differently across the UK with some areas arguably unaffected.

3.87 EU-born migrants are predominantly seeking work, while most non-EU migrants cite family reasons as their main reason for migrating to the UK. In the absence of a specific route for low-skilled migration from outside of the EU, this may indicate some system abuse (e.g. students coming to the UK to work) or, given the timing of arrival, be consistent with the fact that

nearly two thirds of these migrants have been here for over a decade anyway. Either way, it seems that differences in income are an important pull factor for individuals from poorer EU countries to migrate to more prosperous countries such as the UK.

Chapter 4 Employment in low-skilled work

4.1 Chapter overview

4.1 This chapter provides an overview of employment in low-skilled work. Overall UK employment has been increasing over the last 40 years. This is a consequence of the increase in the working population. The employment rate has cycled without showing trend between approximately 68 and 76 per cent for this entire time period.

4.2 Using the Office for National Statistics (ONS) Standard Occupational Classification (SOC) skill classification definition of low-skilled, the number of people in low-skilled jobs in 2013 was very similar to the number in low-skilled jobs in 1997 at around 13.5 million. A decrease of 1.1 million in the number of UK-born workers in low-skilled jobs was offset by an increase of 1.1 million in the number of migrant workers in low-skilled jobs, so that the share of migrants in low-skilled jobs increased from 7 per cent to 16 per cent. The numbers of both UK-born and migrants employed in high-skilled occupations increased over the same period.

4.3 For almost all occupations, there was an increase in the employment of migrants since 1997. In some low-skilled occupations, for example elementary service and administration occupations, this increase was of similar size to the decrease in employment of natives in these occupations. Different migrant groups were responsible for the increases in different occupations. Non-EU migrants accounted for most of the increase in migrant employment in caring, leisure and other service occupations, whereas EU8 and EU2 migrants accounted for the majority of the increase in process, plant and machine operatives.

4.4 We also considered the ‘hollowing out’ of the labour market and while the evidence is not definitive, there have clearly been substantial changes in the type of jobs available. This has important implications for the composition of the labour force by gender and progression up the skill ladder.

4.5 While the overall UK employment rate has been stable since 2000, there have been important shifts by gender and age. The employment of UK-

born aged 50 to 64 has increased, while the employment of other UK-born groups has declined. These changes in employment correspond to changes in population, with the exceptions of the 50 to 64 age group, for whom employment has increased more than the growth in population, and the under 25 age group, for whom population increased but both employment and participation fell.

4.6 It might be thought that the decline in employment for the under 25 age group is associated with greater competition with migrants for low-skilled jobs. While this is possible we note that the youth unemployment rate is comparable to 30 years ago when there was far less migration. There are other factors to consider as well, such as the increase in the number of 16 to 24 year olds choosing to stay in education, which therefore affects the number that will be in work and participating in the labour force.

4.7 Focusing on those young people who are not in some kind of education, employment or training (NEET), DfE told us how this group includes people with a wide variety of circumstances. Some, such as gap year students, those with an illness or disability and those with children, have an identifiable barrier as to why they are not participating in education, employment or training. Others with no identifiable barrier may be dissatisfied with their opportunities, believe they can not access the jobs or courses they want, or be disillusioned due to their experiences at school.

4.8 Academic attainment, work experience and soft skills all play a role in determining a young person's access to employment and training opportunities. Basic qualifications, especially English and Maths, are important for their employment prospects. Evidence from Wolf (2011) and the Organisation for Economic Co-operation and Development (OECD)'s adult skills survey suggest that the skills of young people in these areas are placing them at a disadvantage in today's labour market.

4.9 Therefore, there are a range of factors which may hinder young natives in the UK labour market for low-skilled jobs, and may put them at a disadvantage if competing with migrants.

4.10 Wilson et al. (2014) forecast that employment in low-skilled jobs will contract by 0.2 million by 2022. The largest contractions are forecast for administrative and secretarial occupations, sales occupations and process, plant and machine operatives. Not all low-skill occupations will contract. Jobs in caring and personal service occupations are forecast to expand by more than half a million.

4.11 **In the first part of this Chapter, we set out what has happened to low-skilled jobs over time.** To put these changes into context, in section 4.2 we briefly consider what has happened to employment for the UK economy as a whole, and if and how this differs for natives and migrants. In section 4.3 we separate the labour market into high- and low-skill occupations, to see if employment outcomes have been different for the two groups. We then review changes at occupational level in section 4.4, including the reduction in routine jobs, also known as hollowing out.

4.12 Having established that there have been increases in the employment of migrants across low-skilled occupations, **in the second part of this chapter, we look at who among the UK-born is in employment in low-skilled work.** We begin by looking at changes in UK-born labour supply in section 4.5, in particular, how participation in the labour market has changed for the older and younger age groups. In section 4.6 and section 4.7, we then consider youth unemployment and NEETs, and investigate the factors that make young people more likely to become or remain NEET. We review reasons why young people may struggle in the labour market in section 4.8, including education, skills and work experience.

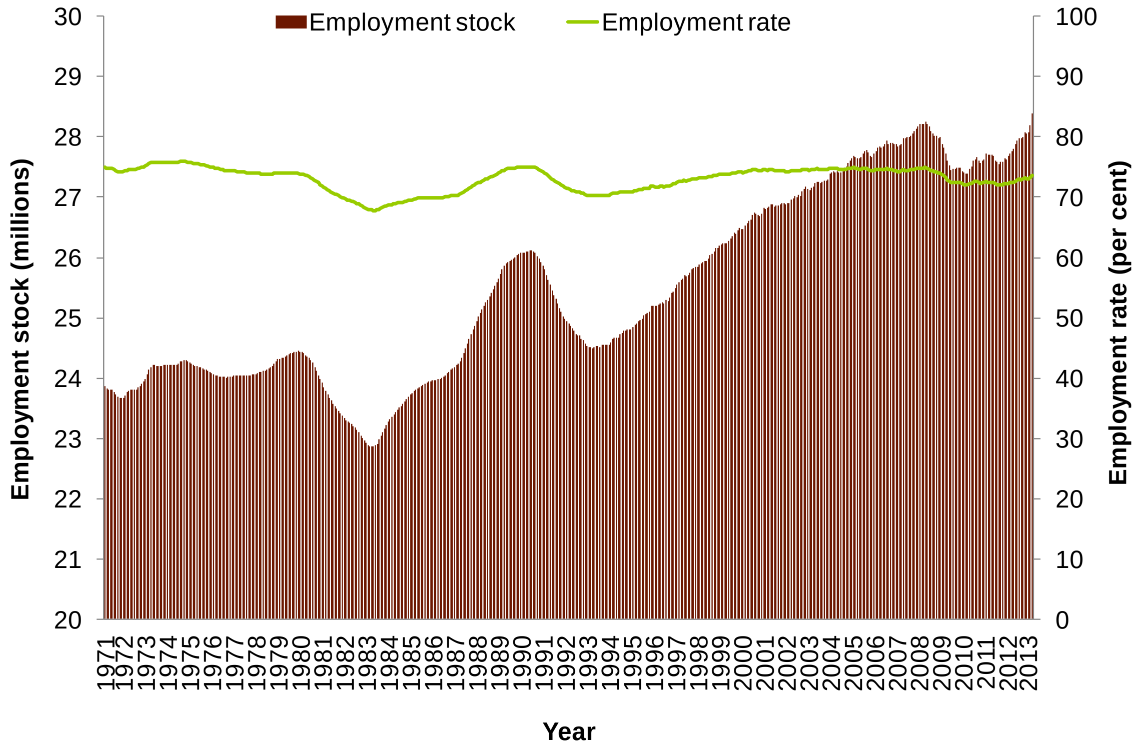
4.13 In section 4.9 we consider the future of low-skilled jobs before then presenting our conclusions.

4.2 Overall UK employment

4.14 Total employment in the UK has increased by around 5 million over the last forty years or so. Figure 4.1 shows the UK employment stock and rate from 1971 to 2013. Despite recessions in the early 1980s and 1990s and most recently in 2008, in each case the labour market recovered to regain jobs that were lost and now total employment is at record levels (30.2 million in the three months to January 2014).

4.15 However, much of this increase in employment is a consequence of the increase in working-age population such that the employment rate (employment divided by working-age population) has not increased but cycled without showing an upward trend between approximately 68 and 76 per cent for this entire time period. The employment rate in the three months to January 2014 was 72.3 per cent.

Figure 4.1: Employment stock and rate for all individuals aged 16 to 64/59 (men/women), 1971 to 2013



Note: Seasonally adjusted.
Source: Office for National Statistics (2013a)

Migrant employment

4.16 As we demonstrate later in this chapter there have been significant changes to labour supply in the last 20 years. On the one hand, there has been a shift in the demographic of UK-born employment away from younger to older workers. Among other factors, more young people are staying on in education and more people aged 65 and over are participating in the labour market. On the other hand the UK labour market has experienced a significant increase in migrant workers.

4.17 Figure 4.2 presents employment levels in the UK for different migrant groups. From 1997 to 2013, the number of non-EU migrants in employment increased by around 1.5 million (over 100 per cent). While the employment level of EU migrants has also increased, the change in employment levels varies for different groups of EU countries. In 1997 there were approximately 570,000 migrants from EU14[17] countries in employment, and at the end of 2013 this figure was just over 800,000, an increase of around 40 per cent. The number of migrants from EU8 and

[17] Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden.

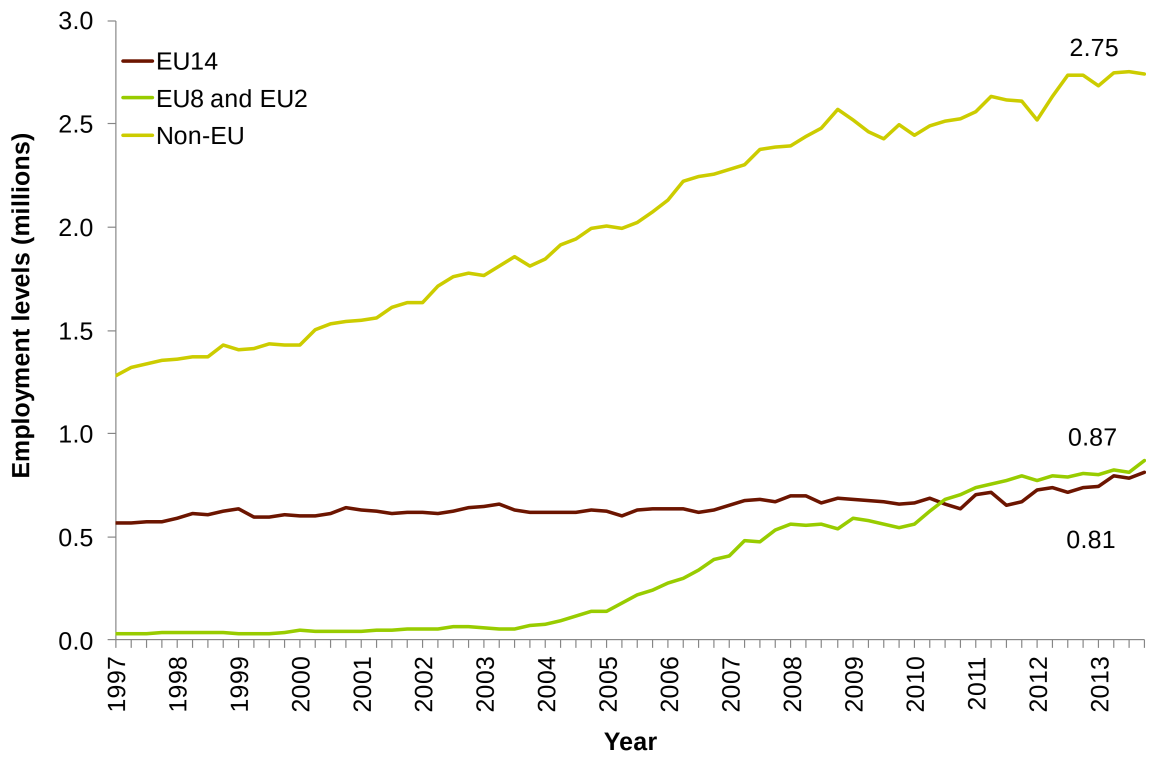
EU2[18] countries in employment in the UK was relatively low until 2004. In that year the UK did not impose transitional controls on the access of EU8 nationals to the UK labour market. Following accession to the EU, the number of people from these nationalities in employment in the UK rose sharply. Employment levels were 75,000 for those from EU8 and EU2 countries in 2004 Q1 and increased by over 7 times this level in three years to 530,000 in 2007 Q4.

4.18 To see the composition effect of the change in the EU8 and EU2 employment level, we split the employment levels of these two groups. The employment level of EU8 migrants has seen a ten-fold increase since the accession in 2004. The employment level of migrants from EU2 countries has been increasing steadily since 2004, when fewer than 20,000 migrants from these two countries were employed, and in the three months to December 2013 this figure was around 144,000. Compared to the total number employed, these numbers are relatively small**.** EU8 migrants account for 2.3 per cent of total employment, compared to 0.2 per cent in 2004 and EU2 migrants 0.5 per cent compared to 0.04 per cent in 2004.

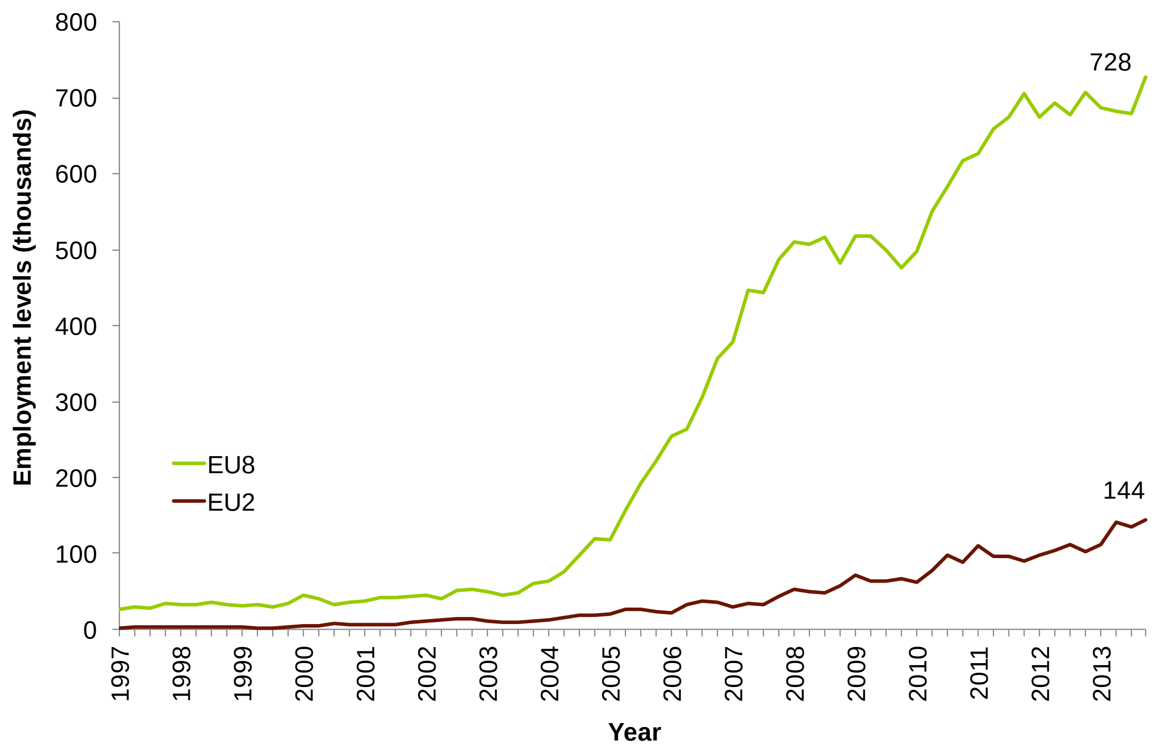
[18] EU8 consists of the Czech Republic, Estonia, Hungary, Poland, Latvia, Lithuania, Slovakia, Slovenia. EU2 consists of Bulgaria and Romania.

Figure 4.2: Employment levels by country of birth, 1997 to 2013

Employment levels of EU14, EU8 and EU2 and Non-EU



Employment levels of EU8 & EU2



Notes: Rolling 4-quarter average. EU is defined as all 28 EU member states including Croatia, Cyprus, Malta and the UK. Data includes all individuals aged 16 and over.
Source: Office for National Statistics (2014i)

4.3 The absolute and relative performance of the UK low-skilled labour market

4.19 The total number of people employed in low-skilled occupations is roughly the same as it was in 1997, around 13.5 million. Considering that the total number in employment has risen with the population, this means that the share of total employment accounted for by low-skilled occupations has decreased.

4.20 While the number employed in low-skilled occupations is the same, there has been a change in the composition of this group with respect to country of birth. Table 4.1 shows that the number of migrants in employment in low-skilled occupations has more than doubled to 2.1 million since 1997. It also shows that a similar increase occurred in high-skill occupations, having increased from around 8 per cent to 13 per cent of the total number employed in those jobs.

4.21 The decline in low skilled employment among the UK-born was more than offset by a 2 million increase in high skilled working. High-skilled employment among migrants also expanded considerably from 1 million in 1997 to 2.3 million by 2013.

Table 4.1: Employment levels and shares by skill group (thousands and per cent), 1997 and 2013

Skill group	Country of birth	1997		2013	
		Level	Share	Level	Share
High-skilled	UK	12,000	92	14,000	86
	Non-UK	1,000	8	2,300	14
	Total	13,000	100	16,300	100
Low-skilled	UK	12,500	93	11,400	84
	Non-UK	1,000	7	2,100	16
	Total	13,500	100	13,400	100

Notes: Data are based on those aged 16 plus. Figures are a four quarter average.
Source: Labour Force Survey

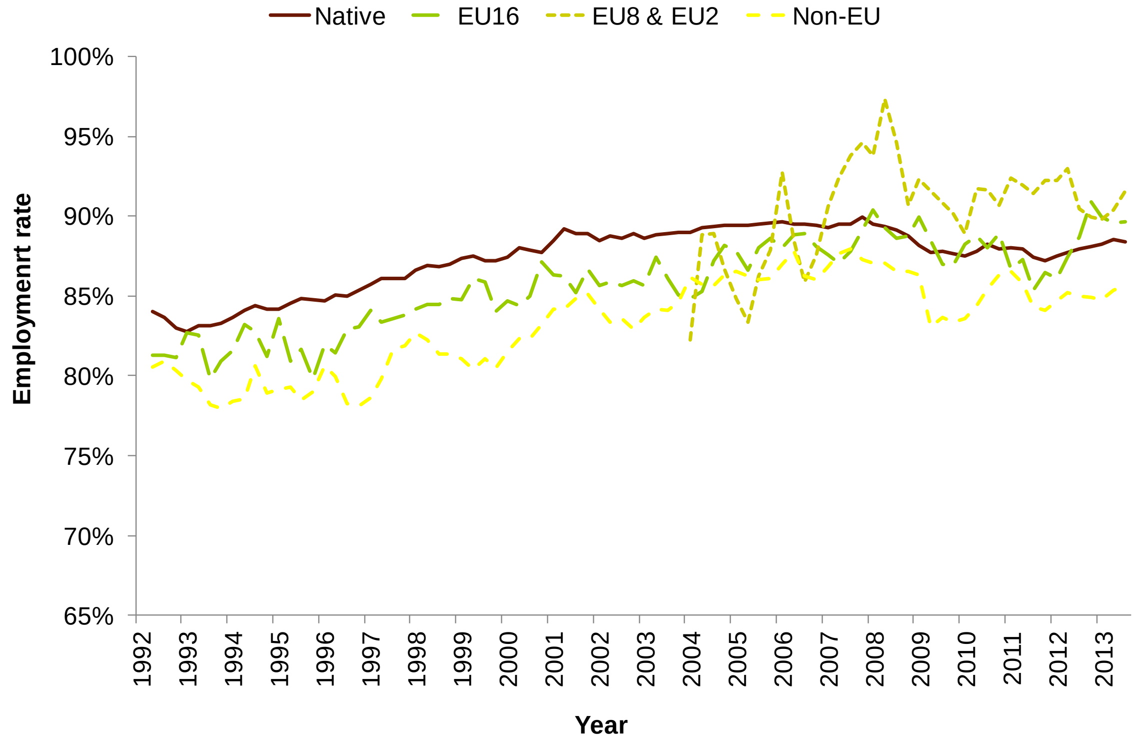
4.22 Given these changes in employment and its composition, it is important to consider how different groups have fared as a result. We begin by looking at how employment rates have changed over time with respect to different skill and country of birth groups.

4.23 Using the ONS SOC skill classification definition of low-skilled, there are clear differences between employment rates for high- and low-skilled occupations, and within these for different country of birth groups. Figure 4.3 shows that the employment rate within high-skill occupations is approximately 10 percentage points higher than it is for low-skill occupations, and this is roughly true across country of birth groups. Since 1992, the employment rate of natives has tended to be higher than for EU (excluding EU8 and EU2) or non-EU migrants in both high- and low-skill occupations, although in recent years there has been little difference between them. The greatest changes over this time period have been in the employment rates of EU8 and EU2 workers, in both high- and low-

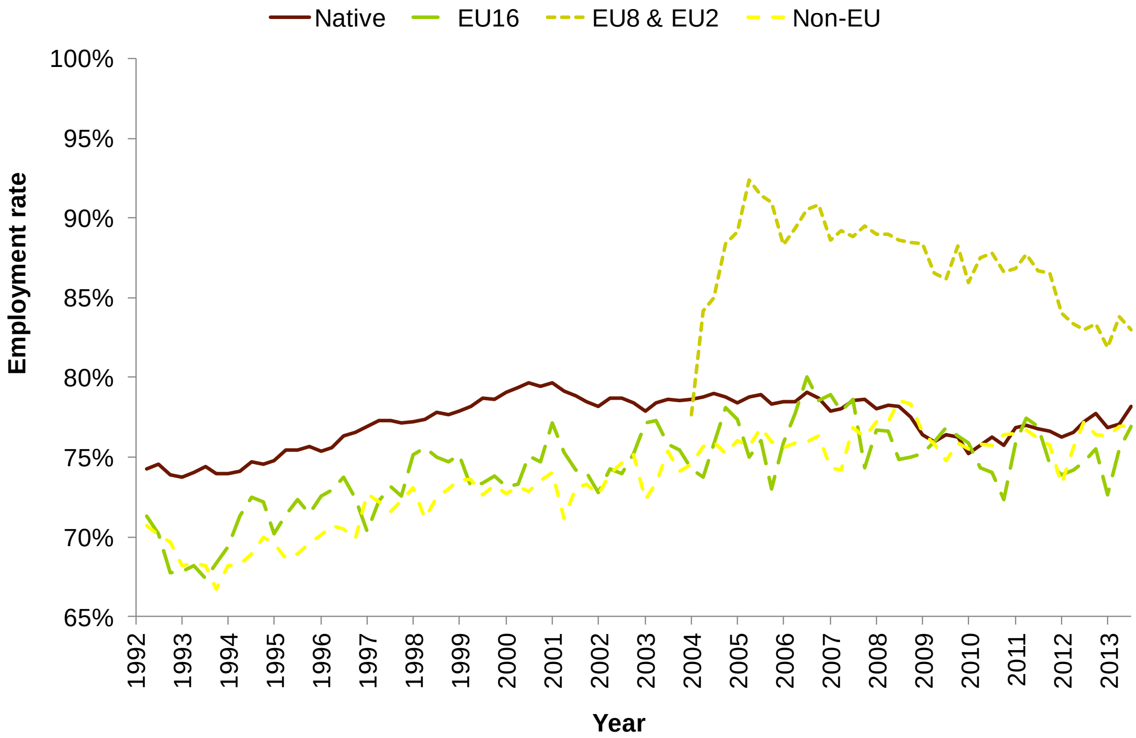
skilled occupations. After the accession in 2004, the EU8 and EU2 employment rate became consistently higher than for other country of birth groups. However, the disparity between this rate and other country of birth groups was much greater in the case of low-skilled occupations than for high-skilled occupations. Although for both skill levels, the size of this disparity has been shrinking in recent years.

Figure 4.3: Employment rates for high- and low-skilled natives and migrants, 1992 to 2013

Employment rates for high-skilled natives and for high-skilled migrants by country of birth



Employment rates for low-skilled natives and low-skilled migrants by country of birth



Notes: For individuals aged 16 to 64. Not seasonally adjusted. If an individual is employed and their current occupation is defined as low-skilled according to the ONS SOC skills classification we classify them as low-skilled. If an individual is unemployed or inactive and their previous occupation is defined as low-skilled according to the ONS SOC skills classification, we classify them as low-skilled. Therefore those who can not be allocated a SOC code, for example recent school leavers, are not included in this analysis. EU16 comprises the EU14 and Malta.
Source: Labour Force Survey, micro data, analysis by Dr J. Smith, Warwick University (2014)

4.4 Change in composition of employment at occupational level

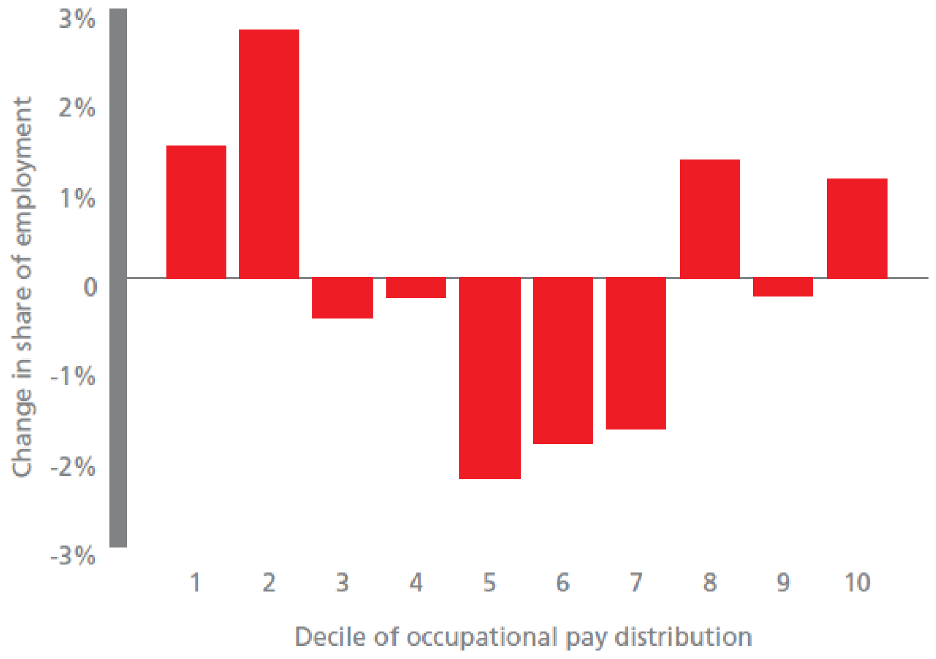
4.24 Aside from simply distinguishing between high- and low-skilled jobs, it is also important to consider changes at the occupational level. Within high- and low-skill work, the type of work can vary considerably. Distinctions between manufacturing and service jobs, or social carers and taxi drivers are unlikely to be trivial and therefore we now consider changes in employment at the occupational level.

Hollowing out

4.25 Over the last 20 years there have been changes in the composition of employment among occupations. One of the main aspects of these changes has been the alteration in “middle-jobs” or hollowing out.

4.26 Hollowing out refers to changes in the distribution of jobs between two points in time, based on the wage distribution at the initial point. For example, Goos and Manning (2007) looked at the change in employment shares between 1979 and 1999 based on the wage distribution in 1979. Manning (2013) updates this analysis for the period 2002 to 2010, Holmes and Mayhew (2012) for 1981-2008 and Plunkett and Pessoa (2013) for 1993-2012. These analyses show that the occupational structure has changed markedly: *“There has been rapid growth in the employment share of high wage occupations, such as managers and professionals, and more modest but still positive growth in the share of low wage occupations such as shop assistants and care workers. But there have been significant falls in the employment share of clerical and manufacturing jobs in the middle of the income distribution”* (Manning 2013 p. 2). These changes are described in Figure 4.4.

Figure 4.4: Job polarisation in Britain, 2002 to 2010



Source: Manning (2013)

4.27 The favoured explanation for such polarisation is technical progress. Machines replace people in routine tasks for which a software programme can be written to perform the task. For example, the task of many skilled craft workers in manufacturing are precise but repetitive so a machine can replicate them. Likewise, computers can do arithmetic faster and more accurately than bank clerks. So the demand for both types of job has fallen. By contrast, computers cannot manage and motivate other workers or undertake tasks like cleaning which require human dexterity, so demand for both managerial and certain types of low-skilled jobs has been less affected.

4.28 A second explanation is offshoring. Jobs that are most likely to go offshore are ones which require labour-intensive production where cheap and abundant labour is available abroad and businesses benefit from lower wage costs. Therefore, the types of jobs likely to be outsourced are low-level production occupations (either fully or part produced goods) or administrative jobs such as information/assistance providing services. Offshoring helps to explain the decline in middle-jobs because many low-paid jobs, such as customer facing sales assistants, are still necessary to carry out tasks in person, so cannot be offshored. And low labour cost countries do not have an advantage in the provision of skills for high-paid jobs.

4.29 What were middle-pay jobs, e.g. skilled crafts and bank clerks, have declined in volume but they have been replaced, partially at least, by other mid-pay jobs (Butcher (2013)). These replacement jobs are of two sorts: (i) jobs in occupations previously high-paid and in some cases previously low-paid – the relative occupation wage structure alters over time; (ii) new

occupations emerging. There has also been a substantial change in the type of jobs within each level: a shift away from skilled trades and administrative jobs and a growth in professional and managerial jobs, technicians and associate professionals and in social care.

4.30 The hollowing out evidence from Manning, shown in Figure 4.4, describes changes in the distribution of jobs between 2002 and 2010 based on the wage distribution at the initial point. A slightly different picture emerges if we focus on occupations rather than pay. Employment by occupation group for the period 1990 to 2010 is set out in Table 4.2. The share of employment in the top three groups - managers, professional occupations and associate professionals - rose by eight percentage points. The share of administrative and skilled trades occupations fell correspondingly by eight percentage points. But at the bottom of the occupation distribution two groups - process, plant and machine operatives and elementary occupations - lost jobs though this was offset by increases in caring, leisure and other services and sales and customer service.

Table 4.2: Employment levels and shares by occupational group 1990 and 2010 (thousands and per cent)

Occupation Group	1990		2010		Change 1990 to 2010	
	Level	Share	Level	Share	Level	Share
1. Managers	2,300	8	3,000	10	700	2
2. Professional occupations	4,200	15	5,800	19	1,600	4
3. Associate professional / technical	3,100	11	3,900	13	800	2
4.Administrative / secretarial	**4,400**	**15**	**3,700**	**12**	**-700**	**-3**
5. Skilled trades	4,700	16	3,500	12	-1,200	-5
6. Caring, leisure and other services	**1,400**	**5**	**2,700**	**9**	**1,300**	**4**
7. Sales and customer service	**2,300**	**8**	**2,600**	**9**	**300**	**1**
8. Process, plant and machine operatives	**2,800**	**10**	**2,000**	**7**	**-800**	**-3**
9. Elementary occupations	**3,500**	**12**	**3,200**	**11**	**-300**	**-2**
Total	**28,700**	**100**	**30,400**	**100**	**1,700**	**0**
16 to 64 Population	*36,300*		*40,000*		*3,700*	
Employment rate	*0.79*		*0.76*		*-0.03*	

Note: Occupations which are classified as low-skilled according to the ONS SOC skill classification are in bold.
Source: Adapted from McIntosh (2013a) and Wilson and Homenidou (2012). Labour Force Survey

Implication of changes in the composition of employment for job seekers and policy

4.31 In considering what changes in the composition of employment mean for job seekers, Butcher (2013) identifies three main groups of interest and related questions to answer:

- are young people entering the labour market at a similar range of levels over time? How does this match their level of education and skills? Are some groups doing worse than previously – not getting jobs or taking lower level jobs?

- do those with low school achievement progress as well, or better, than previously, or have the changes in the labour market worsened their chances?

- are opportunities for older adults seeking a job (e.g. because of being recently displaced) getting better or worse, given their level of education and experience?

4.32 Butcher states that there is little direct evidence on the issues raised by the questions above. At the aggregate level the range of opportunities *“seems no worse, and could be better than previously”*. Thus, routine administration tasks, some skilled manufacturing trades and coal miners have disappeared but have been replaced by, for example, care assistant, education and hospital assistants and associate professionals and technicians. Consequently, there is still a need to develop and maintain intermediate education and skills but to take into account the changed composition of such jobs.

4.33 One area of concern is the contraction of manufacturing and other production jobs. This sector traditionally provided training for young people entering the labour market and routes for progression for those with the requisite ability. McIntosh (2013) states that progression up the skill ladder is more likely in construction, manufacturing, transportation and health services than it is in many of the expanding low wages service sector, such as care and hospitality. Lloyd and Mayhew (2010) confirm this lack of progress via detailed case studies of seven jobs: call centre agent, hotel room assistant, check-out operative, sales assistant, hospital cleaner, healthcare assistant and food processing operative. All but the last of these jobs are in the service sector.

4.34 Alteration in the composition of jobs has also important implications for the gender balance in the labour market. Many of the caring and personal service occupations have a mostly female labour force. At least three quarters of the workforce in the following occupations are women: receptionists, hairdressers, nurses, care assistants, primary teachers, retail cashiers, cleaners, sales assistants and waiters/waitresses. By contrast men in low wage services tend to be employed in a narrow range of jobs in distribution, transport and security. The declining middle of production jobs coincided with growing inactivity among men.

Changes in occupational employment by country of birth

4.35 Changes in the composition of employment include different changes for natives and migrants, and for higher- and low-skilled occupations. Figure 4.5 shows the change in total employment by 2-digit occupation between 1997 and 2013. Over this period, total employment increased by

approximately 3.3 million (12 per cent), one-quarter of which was accounted for by an increase in native employment and three-quarters of which was accounted for by an increase in migrant employment.

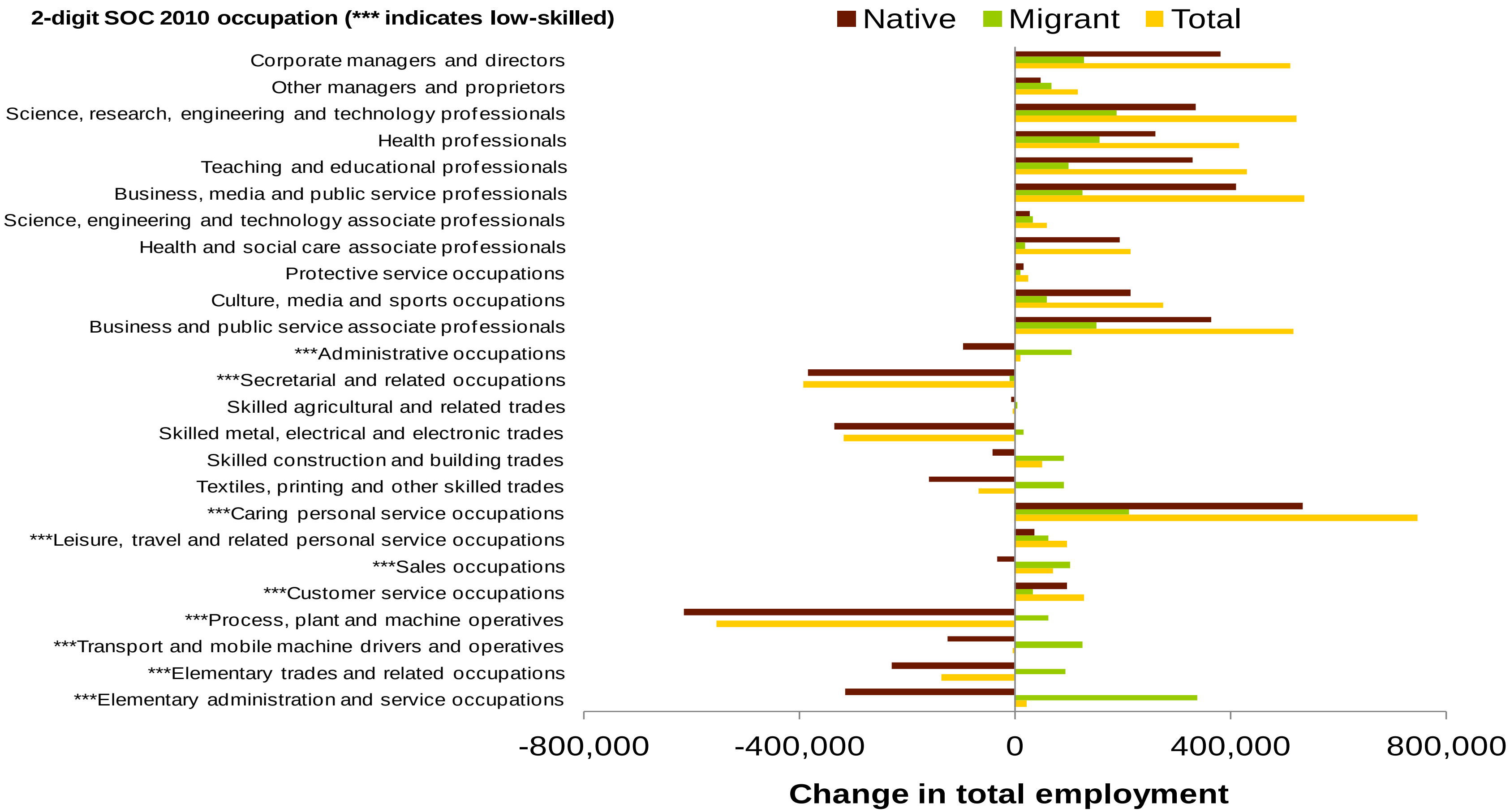
4.36 Employment increased in all managerial, professional and associate professional and technician 2-digit occupations over this period. Together, these 11 occupations accounted for an increase in employment of 3.6 million over this period. 1.9 million of this increase was accounted for by the four professional occupations (science and technology professionals, health professionals, teaching and research professionals, business and public service professionals), of which 30 per cent was due to increases in migrant employment.

4.37 In contrast to other higher-skilled occupations, employment in skilled trades decreased. Employment in skilled trades fell by 340,000, although this was comprised of a 540,000 decrease in native employment and a 200,000 increase in migrant employment.

4.38 Overall employment in low-skilled occupations remained roughly the same between 1997 and 2013 at around 13.5 million. A 1.1 million decrease in native employment was offset by a 1.1 million increase in migrant employment.

4.39 However, changes in employment varied among low-skilled occupations. Employment in process, plant and machine operatives decreased by 550,000, the largest decrease for any 2-digit occupation. This was entirely due to a decrease in native employment, as migrant employment slightly increased. Employment in caring and personal service occupations increased by 750,000, the largest increase for any 2-digit occupation, 72 per cent of which was due to increased employment of natives. Employment in elementary administration and service occupations remained approximately the same. However, this overall change hides different changes for natives and migrants. Native employment decreased by 320,000 while migrant employment increased by 340,000.

Figure 4.5: Change in total employment by occupation and country of birth, 1997 to 2013



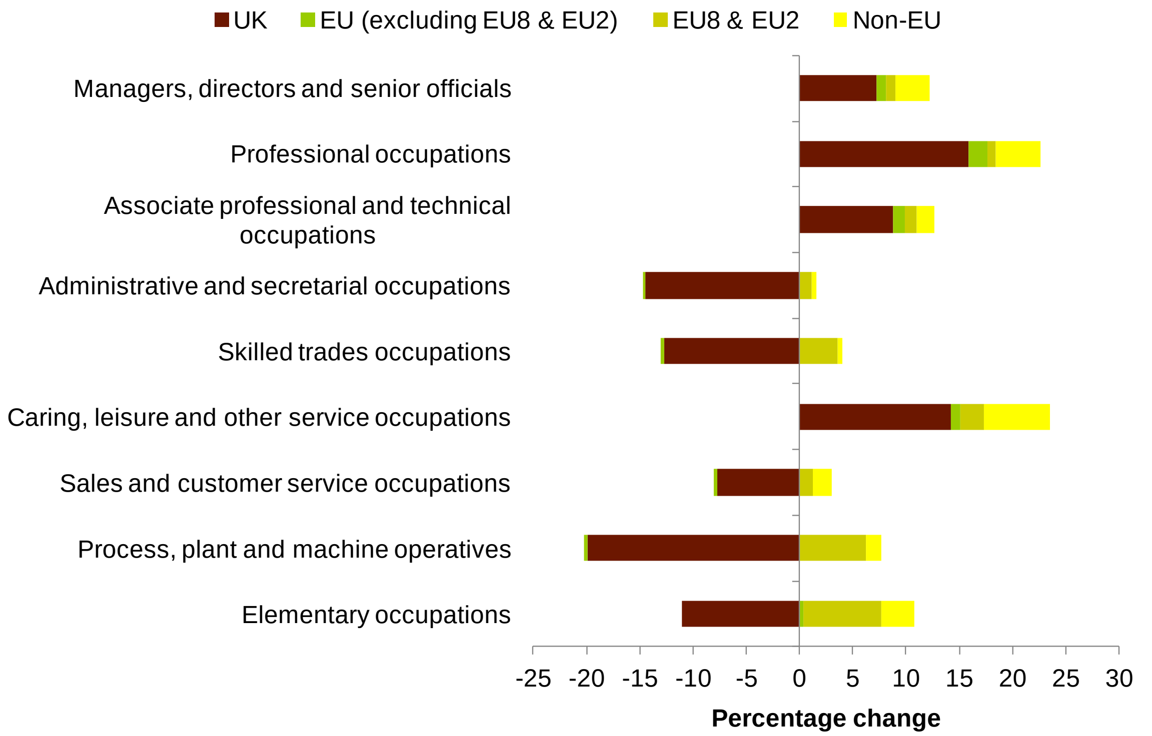
Notes: Figures are a four quarter average. Occupations are classified according to the Standard Occupational Classification (SOC) 2010 at the 2 digit level. This analysis uses data based on two different versions of the SOC. Data for 1997 are based on SOC90 and data for 2013 are based on SOC2010. Using proportional mapping, data for 1997 were first converted to SOC2000, and then converted again to SOC2010 in order to compare with the data for 2013.
Source: Labour Force Survey

Migrants in low-skilled work

4.40 Increases in migrant employment were driven by different groups of migrants. Figure 4.6 shows the percentage change in employment from 2004 to 2013, and the proportion of this change accounted for by different country of birth groups. For example, since 2004 there has been a 24 per cent increase in employment in caring, leisure and other service occupations. Of this, 14 percentage points was UK workers, 6 percentage points was non-EU workers and 3 percentage points all other EU workers[19].

4.41 Although EU8 and EU2 workers account for only a small fraction of employment, EU8 and EU2 workers are responsible for much larger increases in employment in certain low-skilled occupations than non-EU workers. EU8 and EU2 workers accounted for the majority of the increase in employment of migrants in both process, plant and machine operatives and in elementary occupations.

Figure 4.6: Percentage change in employment in 1 digit occupations, by country of birth, 2004 to 2013



Notes: Figures are a four quarter average. Occupations are classified according to the Standard Occupational Classification (SOC) at the 1-digit level. This analysis uses data based on two different versions of the SOC. Data for 2004 are based on SOC2000 and data for 2013 are based on SOC2010. Using proportional mapping, data for 2004 were converted to SOC2010 in order to compare with the data for 2013.
Source: Labour Force Survey

[19] Decomposition of change by country of birth group do not sum to total change due to rounding.

4.5 Changes in UK-born labour supply

4.42 Having identified increases in the employment of migrants in low-skilled jobs, we now turn our attention to who among the UK-born is doing these low-skilled jobs and how this has changed over time. Figure 4.7 sets out the change in composition of high- and low-skilled jobs by broad age group and gender for UK-born individuals aged from 16 to 64 between 1997 and 2013.

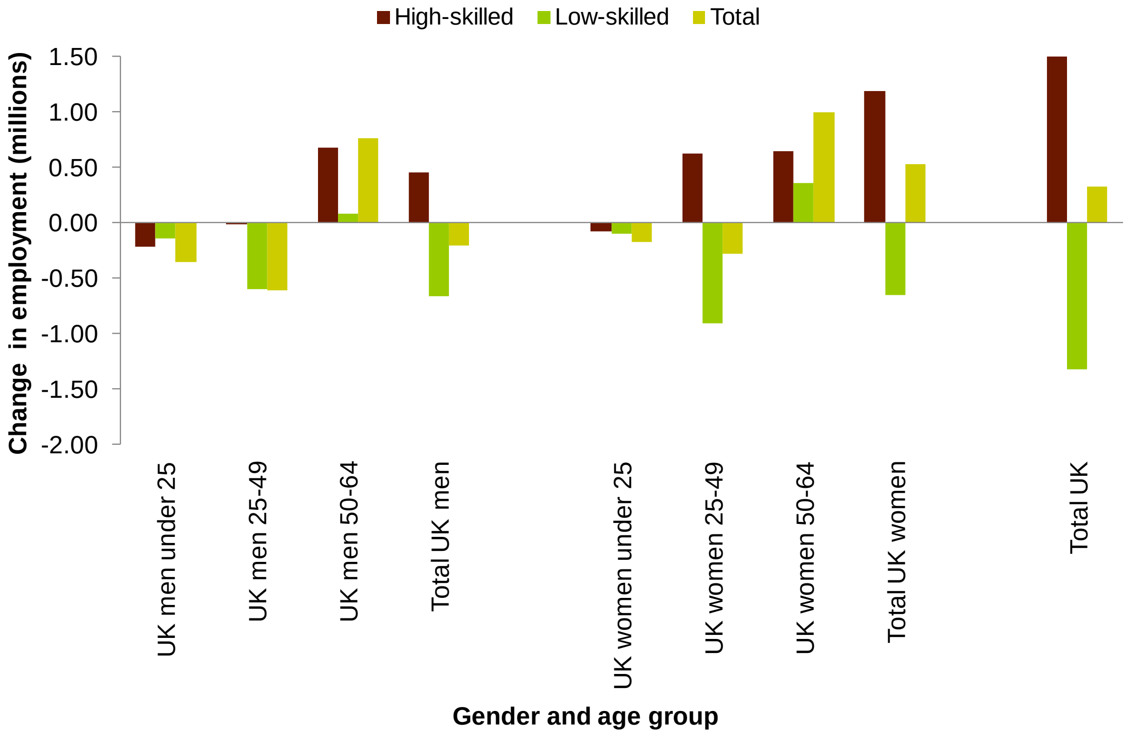
4.43 The number of UK-born individuals aged 16 to 64 in employment increased by 0.3 million. A 0.2 million decrease in employment of men was offset by a 0.5 million increase in employment of women. UK-born employment in high-skilled occupations increased by 1.6 million, nearly 80 per cent of which was accounted for by employment of women. UK-born employment in low-skilled occupations decreased by 1.3 million, which was evenly split between men and women.

4.44 It is important to account for participation in education and the change in population size when looking at changes in employment for the under 25 age group. The decrease in employment of under 25s may be in part due to increases in the number staying on in education. We address this in more detail later in the chapter.

4.45 For men, the only age group for which employment increased over this period was the 50 to 64 age group. Employment for this group increased by 0.8 million, and this increase was almost entirely concentrated in high-skilled occupations. In contrast, employment of men aged 25 to 49 decreased by 0.6 million, and the majority of this was due to decreases in employment in low-skilled occupations. Employment of men aged under 25 fell by 0.4 million, which was evenly split between high- and low-skilled jobs.

4.46 Like men, the only age group for which employment of UK-born women increased between 1997 and 2013 was the 50 to 64 age group, although for women, some of this increase was in low-skilled jobs. Employment of women aged 25 to 49 decreased by 0.3 million, made up of 0.6 million increase in employment in high-skilled jobs and a decrease of 0.9 million in employment in low-skilled jobs. Employment of women aged 25 and under fell by 0.2 million.

Figure 4.7: Change in composition of high- and low-skilled jobs by age group and gender for UK-born aged from 16 to 64 (millions), 1997 and 2013



Note: Figures are a four quarter average. Occupations are classified according to the Standard Occupational Classification 2010. This analysis uses data based on two different versions of the Standard Occupational Classification (SOC). Data for 1997 are based on SOC90 and data for 2013 are based on SOC2010. Using proportional mapping, data for 1997 were first converted to SOC2000, and then converted again to SOC2010 in order to compare with the data for 2013.
Source: Labour Force Survey

4.47 The changes identified above vary among low-skilled occupations. Figure 4.8 sets out the change in the UK-born composition of 2-digit low-skilled occupations between 1997 and 2013.

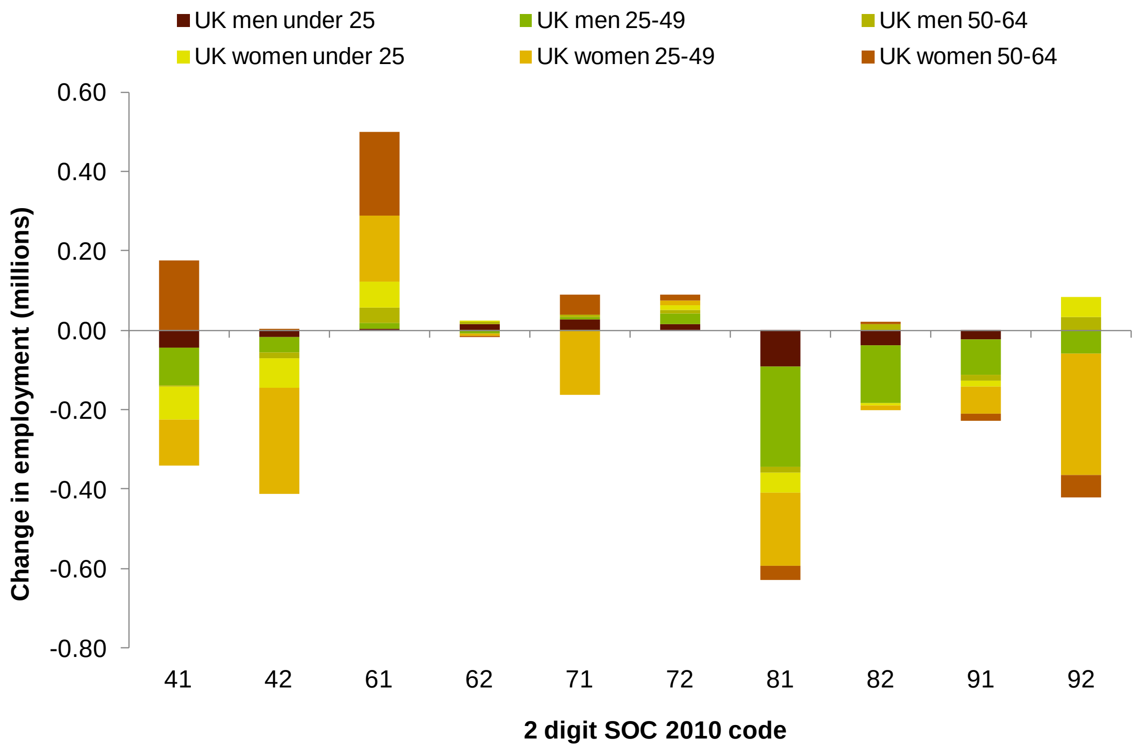
4.48 For women aged 50 to 64, the increase in employment in low-skilled jobs was concentrated in administrative occupations and caring and personal service occupations. For men aged 50 to 64, the increase in employment in low-skilled jobs was more evenly dispersed.

4.49 Employment of women aged 25 to 49 decreased in nearly all low-skilled occupations with the only exception being caring and personal service occupations. Mirroring the lower variation for men than women in the 50 to 64 age group, there was less variation in changes in the employment of men aged 25 to 49 in low-skilled jobs than for women. Employment decreased the most in administrative occupations and in secretarial and related occupations.

4.50 Changes in employment for men aged 25 and under tended to be small whether increasing or decreasing for specific low-skilled occupations. Similarly, the direction of changes in employment for women 25 and under varied a lot among low-skilled occupations. There were some larger shifts

than for men, particularly in elementary, administrative and service occupations and caring and personal service occupations.

Figure 4.8: Change in UK-born aged from 16 to 64 composition of 2-digit low-skilled occupations, 1997 and 2013 (millions)



Notes: Figures are a four quarter average. Data are for individuals aged 16 to 64. Occupations are classified according to the Standard Occupational Classification 2010 at the 2 digit level. This analysis uses data based on two different versions of the Standard Occupational Classification (SOC). Data for 1997 are based on SOC90 and data for 2013 are based on SOC2010. Using proportional mapping, data for 1997 were first converted to SOC2000, and then converted again to SOC2010 in order to compare with the data for 2013.
41=Administrative occupations, 42= Secretarial and related occupations, 61=Caring and personal service occupations, 62=Leisure and other personal service occupations, 71=Sales occupations, 72=Customer service occupations, 81=Process, plant and machine operatives, 82=Transport and mobile machine drivers and operatives, 91=Elementary trades, plant and storage related occupations and 92=Elementary administration and service occupations.
Source: Labour Force Survey

4.51 Seeing the decline in employment of UK natives in low-skilled jobs, particularly the under 25 age group, an obvious question is whether this was associated with greater unemployment or inactivity. To properly address this question, it is necessary to incorporate changes in population. For example, if the population of 50 to 64 year olds increases we would expect the number of 50 to 64 year olds in employment to also increase. Figure 4.9 incorporates changes in population by considering the percentage point change in employment rates for UK-born men and women by broad age between 1997 and 2013.

4.52 For some age groups changes are in line with overall population change. This was the case for men aged 25 to 49. Despite employment of this group decreasing more than for other age groups, the decreases in

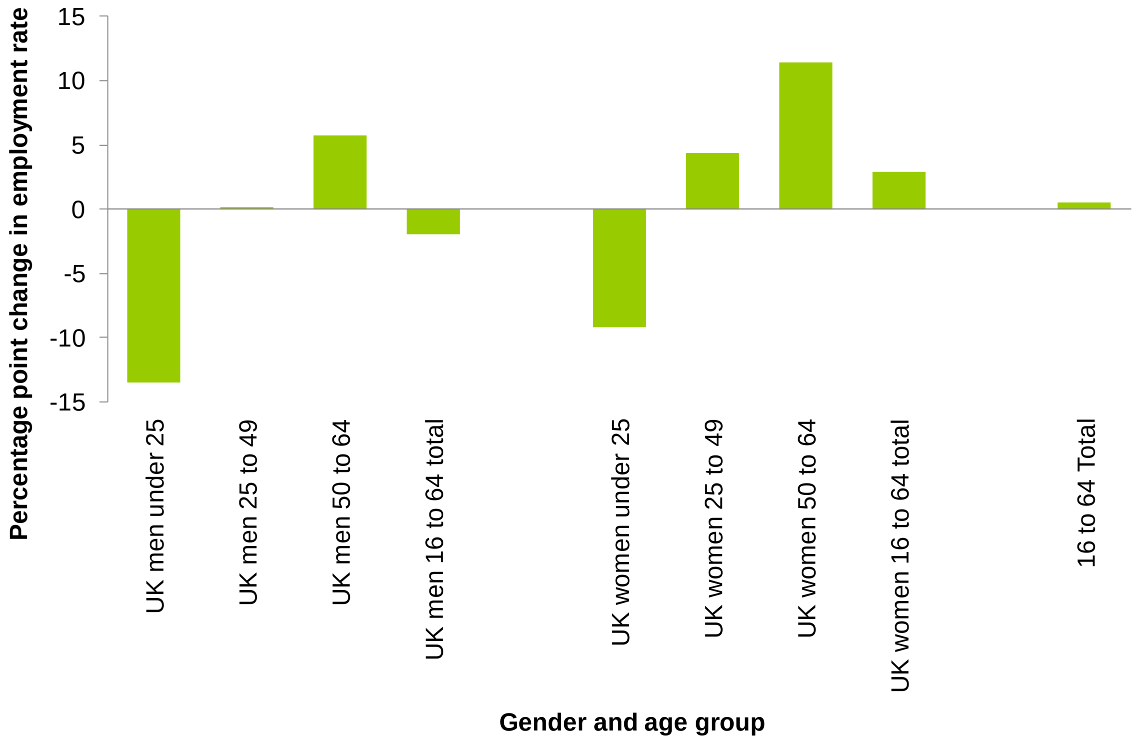
population were such that employment rate for men was almost the same in 2013 as it was in 1997.

4.53 The greatest increase in employment rates was for those aged 50 to 64. Including men and women together, employment rates for those aged 50 to 64 increased by nine percentage points between 1997 and 2013. This was because employment increased by more than the growth in population for these age groups.

4.54 In contrast to the older age group, while employment of men and women aged under 25 has decreased, their population has increased. This results in large decreases in their employment rates of 14 percentage points for men aged under 25 and nine percentage points for women aged under 25. We explore reasons for these changes, such as greater participation in tertiary education, just below in section 4.6.

4.55 Overall, between 1997 and 2013 the employment rate for the 16 to 64 UK-born population has increased by half a percentage point and this would have been affected by the recession post-2008. Changes in population and participation rates by gender and age have been largely offsetting such that overall the UK-born employment rate appears to have been relatively unaffected during the period of significant and rapid migration to the UK. However, although the overall measure has hardly changed, there have been some important shifts by gender and age, where employment has increased for some groups and decreased for others.

Figure 4.9: Percentage point change in employment rates for UK-born men and women aged 16 to 64 by broad age, 1997 to 2013



Note: Figures are a four quarter average.
Source: Labour Force Survey

4.6 Youth unemployment and NEETs

4.56 From the analysis on changes in employment above it is clear that the group most affected by changes in the UK labour market since the late 1990s has been the under 25 age group. However, a large proportion of the under 25 population are currently in full-time education (FTE). This subset of the under 25 age group are improving their long-term employment prospects, and therefore the present employment status of this subset is not concerning. Table 4.3 decomposes the 16 to 24 year old population by their education and labour market status for the year 2013.

4.57 In 2013 there were 7.2 million people in the UK between the ages of 16 and 24. 3 million or 42 per cent of this group were in FTE, of which nearly two-thirds were economically inactive and just over a quarter were in employment. Clegg (2012) defines the economically inactive as *"those who are not in employment but are not counted as unemployed either because they have not been looking for work in the last four weeks or because they are unable to start work within the next two weeks"*. Therefore, not all full-time students are economically inactive. A full-time student with a part-time job will be recorded in employment figures. Students who have been looking for a job within the last four weeks and who would be able to start work within the next two weeks are counted as unemployed, even if they are only looking for part-time work.

4.58 The majority of 16 to 24 year olds not in FTE were in employment. 2.9 million (69 per cent) of 16 to 24 year olds not in FTE were employed. Of the remaining 1.3 million[20], 0.6 million were unemployed and 0.7 million were economically inactive. **It is this group of 1.3 million 16 to 24 year olds which should be the focus of concern when considering the outcomes of young people in the labour market.**

Table 4.3 Decomposition of 16 to 24 year old population (millions), 2013

Total Population	Full-time education (FTE) status		Labour market status	
7.2	In FTE	3.0	Employed	0.8
			Unemployed	0.3
			Inactive	1.9
	Not in FTE	4.2	Employed	2.9
			Unemployed	0.6
			Inactive	0.7

Source: Office for National Statistics (2014k)

4.59 Young people's performance in the labour market is typically measured by either the youth unemployment rate or the rate of 16 to 24 year olds not in employment, education or training, otherwise known as the NEET rate. Box 4.1 sets out the basic calculations for unemployment and NEET rates. The key difference is that the youth unemployment rate is based only on those young people who are in or seeking work rather than the total youth population. Therefore it does not take into account the many young people who are in full time education (FTE) or training and not currently seeking work. This is in part why the youth unemployment rate is so much higher than unemployment rates for other age groups, and why it is also much higher than the NEET rate.

[20] This figure is higher than the 1.04 million who are classified as NEET. This is because some of the 1.3 million will be participating in part-time education or training. Within the ONS estimate (Office for National Statistics, 2014k), a person is considered to be in education or training if they: are doing an apprenticeship; are on a Government employment or training programme; are working or studying towards a qualification; have had job-related training or education in the last four weeks; or are enrolled on an education course and are still attending or waiting for term to (re)start.

Box 4.1: Calculation of unemployment and NEET rates

$$\text{Unemployment rate} =$$

$$\frac{\textit{Number of unemployed}}{\textit{Number of unemployed} + \textit{Number of employed}}$$

$$\text{Not in Education, Employment or Training (NEET) rate} =$$

$$\frac{\text{Number not in education, employment or training}}{\textit{Number of unemployed} + \textit{Number employed} + \textit{Number Inactive} = \textit{Total youth population}}$$

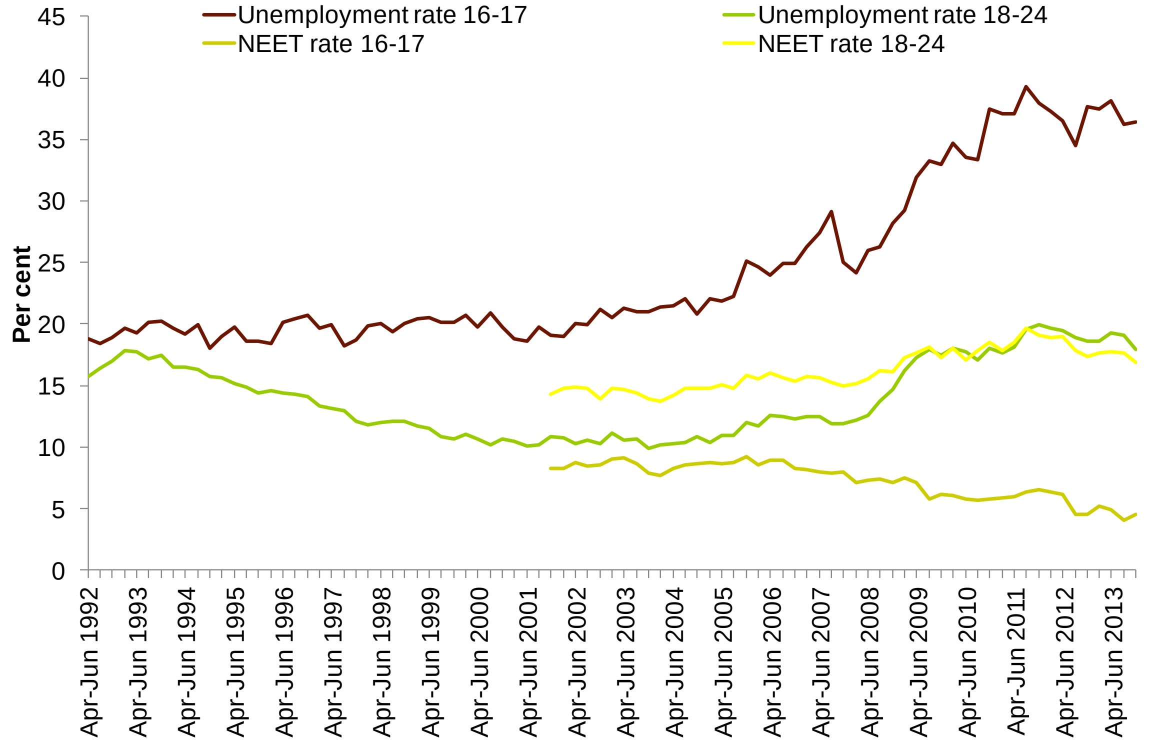
Note: There can be variations in the NEET rate itself due to how education, employment and training are defined.
Source: Labour Force Survey

4.60 Because of the way in which youth unemployment is measured, changes in participation in education must be considered alongside changes in youth unemployment. Figure 4.10 sets out changes in the youth unemployment and NEET rates for 16 to 17 and 18 to 24 year olds separately, between 1992 Q2 and 2013 Q2.

4.61 For 16 to 17 year olds the unemployment rate had already been increasing during the mid-2000s before the recession in 2008, but after this point the increase became more dramatic. At the end of 2013 Q2 the rate was still high at 38 per cent when compared to 21 per cent at the end of the year 2000. For 18 to 24 year olds this rate followed a similar path although at lower levels. The unemployment rate for 18 to 24 year olds reached 18 per cent at the end of 2013, compared to 11 per cent at the end of the year 2000.

4.62 Between 1992 and 2013, the NEET rate increased for 18 to 24 year olds but decreased for 16 to 17 year olds. The NEET rate for 16 to 17 year olds fell from 8 per cent at the end of 2001 to 5 per cent at the end of 2013. However, for 18 to 24 year olds it increased from 14 per cent to 17 per cent over this same period.

Figure 4.10: Youth unemployment and NEET rates for 16 to 17 and 18 to 24 year olds, 1992 Q2 to 2013 Q2



Sources: Office for National Statistics (2014i) and Office for National Statistics (2014p)

4.63 It is possible that a contributing factor to the changes in youth unemployment and NEET rates is the increase in migration to the UK during the mid-2000s. This is particularly relevant for low-skilled employment, since as Office for National Statistics (2014k) points out, young people are more likely to work in the lowest skilled jobs, particularly elementary occupations and sales and customer service occupations. Young people could, therefore, experience greater competition for such jobs, due to the increase in migrants also looking for work in these areas.

4.64 However, at national level the youth unemployment rate has been at similar levels before, during a time of much lower migration. The unemployment rate for 16 to 24 year olds was the same in 1984 as it was in 2013 (Office for National Statistics (2014k)). In fact, the proportion of the total population of 16 to 24 year olds who are unemployed is lower in 2013 than it was in 1984, 13 per cent compared to 15 per cent.

4.65 The state of the economy and associated level of demand also play a major role in how the 16 to 24 age group and especially the 18 to 24 year old age group do in the labour market. Figure 4.11 and Figure 4.12 show trends by labour market and education status for 16 to 17 and 18 to 24 year olds respectively from 1992 to 2013.

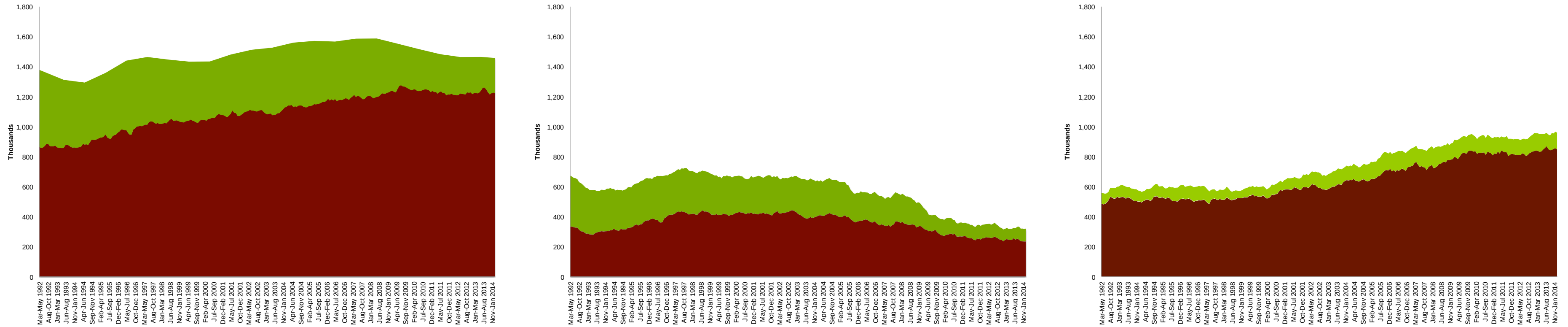
4.66 Fewer **16 to 17 year olds** are in employment because more are participating in FTE. While unemployment rates for this group are high, the unemployment to population ratio was lower at the end of 2013 than at any point since 1992. This is because the unemployment to population ratio takes account of the economically inactive and therefore those in FTE.

4.67 Over the period 1992 and 2013, the variation in the labour market status of the **18 to 24 year old** group comes from unemployment. The numbers who are in employment or inactivity have been relatively stable between 1992 and 2013. In contrast, the numbers of unemployed have fluctuated, largely because of the economic cycle. The unemployment to population ratio started increasing in the mid-2000s and this increase became more pronounced due to the recession in 2008. The trends for 18 to 24 year old NEETs follow broadly the same pattern as for unemployment (Goujard *et al.* (2011)).

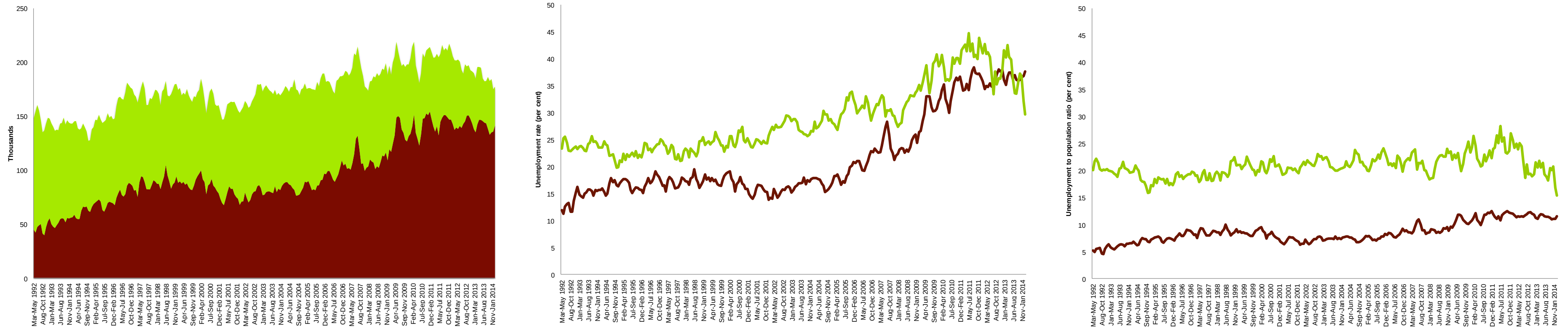
4.68 As Goujard *et al*. (2011) point out, it is true that *"young people have fared badly during the recession, with larger increases in their unemployment rates than for adults. However, young people always do worse in downturns... There is no evidence that young people are doing relatively worse in this recession than in previous recessions"* As the economy expands we might expect unemployment levels and rates for 16 to 24 year olds to decrease.

Figure 4.11: Trends for 16 to 17 year olds by labour market and full-time education (FTE) status, 1992 to 2013

In FTE		Not in FTE
In FTE and Not in FTE (thousands)	In employment by FTE status (thousands)	Inactivity by FTE Status (thousands)



Unemployed by FTE status (thousands)	Unemployment rate by FTE status (per cent)	Unemployment to population ratio by FTE status (per cent)

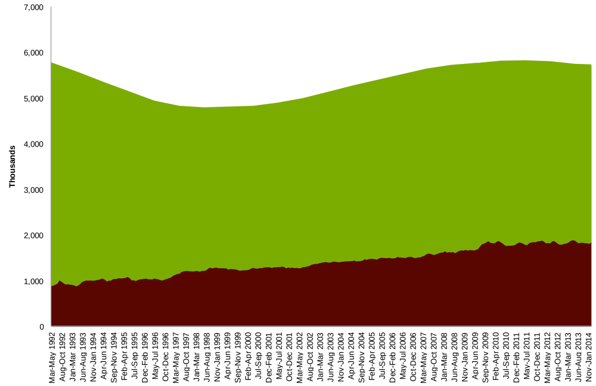


Source: Office for National Statistics (2014i)

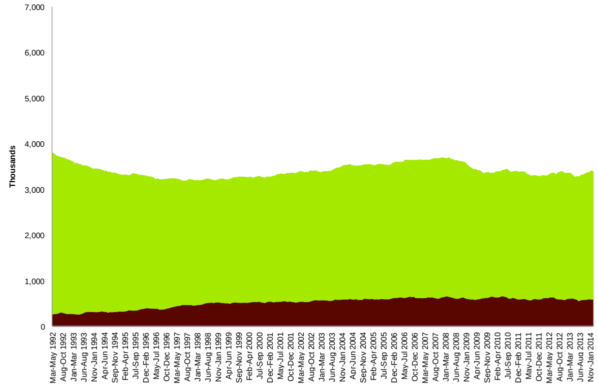
Figure 4.12: Trends for 18 to 24 year olds by labour market and full-time education (FTE) status, 1992 to 2013

In full-time education (FTE) | **Not in full-time education**

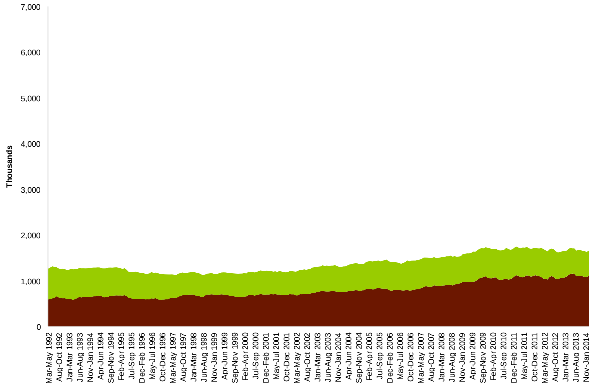
In FTE and Not in FTE (thousands)



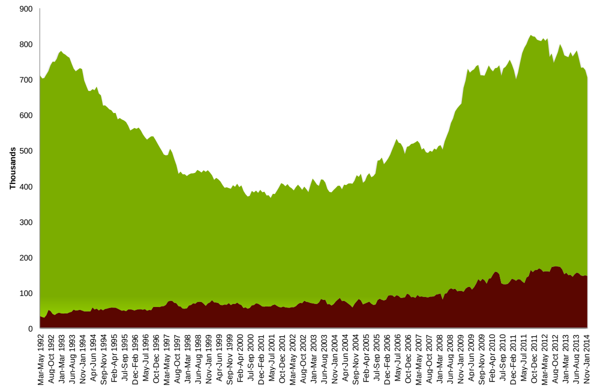
In employment by FTE status (thousands)



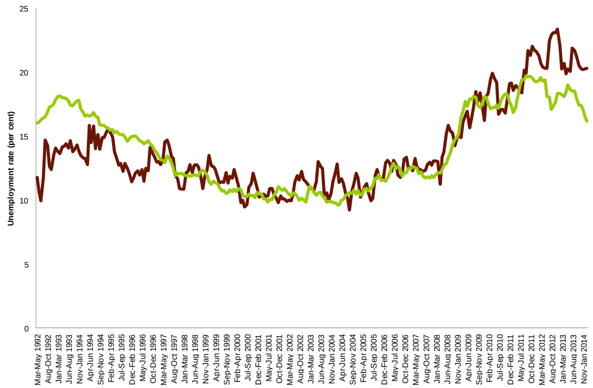
Inactivity by FTE Status (thousands)



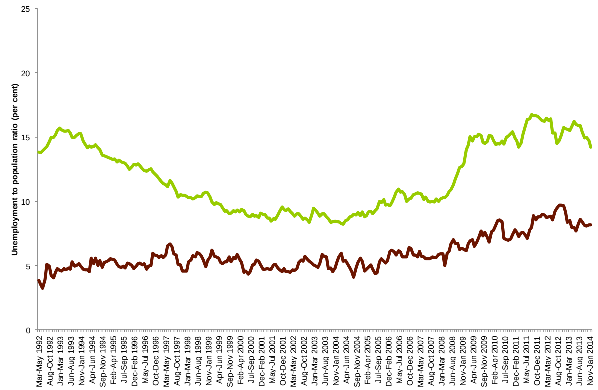
Unemployed by FTE status (thousands)



Unemployment rate by FTE status (per cent)



Unemployment to population ratio by FTE status (per cent)



Source: Office for National Statistics (2014i)

4.69 Because of the way in which youth unemployment is measured, changes in participation in education need to be considered alongside changes in youth unemployment. Between 1984 and the end of 2013, the number of 16 to 24 year olds in FTE increased from 1.4 to 3 million or from 17 per cent of the relevant population to 42 per cent (Office for National Statistics, 2014k). However, most of this increase occurred before the 2000s. In 1998, 37 per cent of 16 to 24 year olds were in FTE.

4.70 Those 16 to 24 year olds who decide to work alongside being in FTE are more likely to be employed in low-skilled jobs than other work. In 2013, almost 73 per cent of young people in FTE who worked were in elementary and customer service occupations which contain jobs such as kitchen/catering assistants and waiters/waitresses (Office for National Statistics (2014k)). However, since 2000, the share of young people undertaking work alongside full-time study has been falling (Office for National Statistics, (2014k)). The share of full-time students aged 16 to 24 who were also working in 2013 was 27 per cent, down from 41 per cent in 2000, with much of this happening from 2005 onwards. At the beginning of the year 2000 there were 926,000 16 to 24 year olds in FTE and in employment and at the end of the year 2013 there were 813,000. The reasons for this decrease are not clear. It could be that migrants have pushed students out of the labour market, although the percentage of students in work in 2013 was similar to the mid-1980s when there was far less migration.

4.7 Characteristics of NEETs

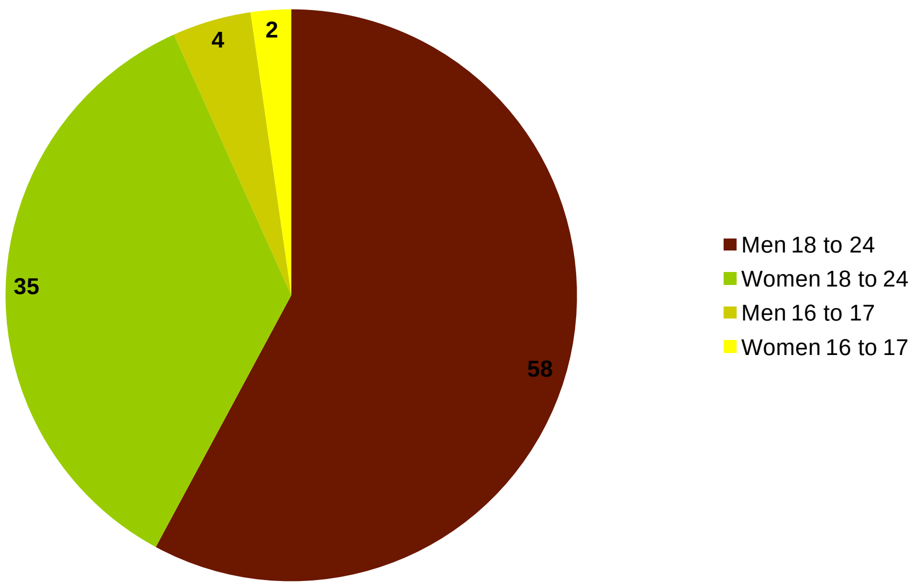
4.71 From the analysis and discussion above it is evident that the group of young people to be particularly concerned about are those who are unemployed or inactive and are not participating in some form of education or training. While the economy emerging from recession will likely improve the situation to some extent, it is still the case that there are hundreds of thousands of young people who are NEET and this issue does need to be confronted.

4.72 In the three months to December 2013, there were 1.04 million 16 to 24 year olds who were classified as NEET, representing 14.4 per cent of all young people in this age group. Figure 4.13 shows how this group was comprised in terms of gender and labour market status. 568,000 or 55 per cent of NEETs were unemployed. Men accounted for 62 per cent of unemployed NEETS, while women accounted for 68 per cent of inactive NEETs. 66,000 or 6 per cent of all NEETs were between the ages of 16 and 17.

Figure 4.13: NEETs by labour market status and gender (as a percentage of total NEETs)

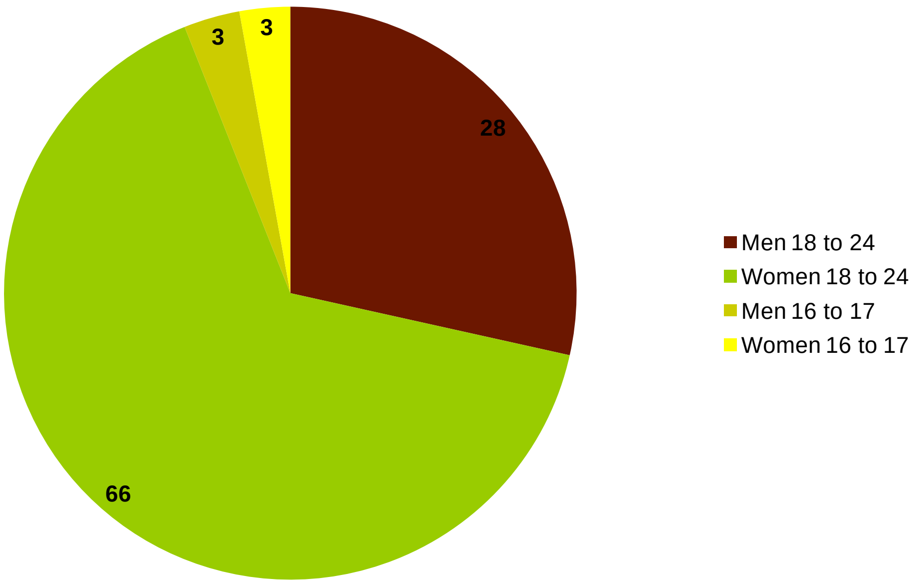
Unemployed

Total unemployed NEETs = 568,000



Inactive

Total inactive NEETs = 467,000



Source: Office for National Statistics, (2014p)

4.73 In the evidence we received from the Department for Education (DfE), they highlighted how the term NEET encompasses individuals with a broad range of circumstances. Using the Connexions' Client Caseload

Information Systems (CCIS) data for 2010, DfE classify the NEET group into 3 broad categories:

- **Category 1 (Out of scope)**: covers those young people undertaking an activity not formally counted as education, employment or training. For example, gap year students;
- **Category 2 (Identifiable barrier)**: includes those with children or with a serious illness/disability;
- **Category 3 (No identifiable barrier)**: all other NEETs.

4.74 DfE estimates that approximately one-third of all NEETs are accounted for by categories one and two. Therefore, there is a large proportion of NEETS for whom we should be less concerned that they are not participating in some form of education, employment or training. Only 6 per cent of young men have an identified barrier to participation compared to 35 per cent of young women. DfE concludes that this is largely explained by young women who are pregnant or have a child. The proportion with no identifiable barrier varies according to gender. 77 per cent of 16 to 18 year old men who are NEET have no identified barrier to participation, while this figure is 51 per cent for women.

4.75 Research by Spielhofer *et al.* (2009) classifies NEETs according to their access or willingness to participate in learning. Spielhofer *et al.* (2009) identified 1,600 people who were NEET using the Youth Cohort Study and then split this sample into three categories based upon their responses:

- **Open to learning** NEETs made up approximately two-fifths of the sample. They are more likely to have achieved higher educational attainment, had a positive experience of school, to be more optimistic and are more likely to return to education or training in the short-term than other NEETs.
- **Sustained** NEETs make up approximately two-fifths of the sample. They tend to have had negative experiences at school, such as having truanted or been excluded, to have left school with few or no qualifications and more likely to have parents who are unemployed.
- **Undecided** NEETs make up approximately one-fifth of the sample. They have achieved some qualifications at school, but less than those in the open to learning NEETs category, and do not face significant personal barriers from participating in learning. However, they are dissatisfied with the opportunities available to them, and do not believe they can access the jobs or courses available to them.

4.76 DfE state unambiguously that prior educational attainment is the most important predictor of whether a young person becomes NEET. **Just 1 in 40 young people who achieve five or more General Certificates of Secondary Education (GCSEs) at A*-C at school are NEET at age 17.**

This compares with one in six who did not. Furthermore, of those who complete year 11, the final year of secondary school, with no qualifications, 30 per cent are NEET at age 18 and half spend a year or more NEET. It should be emphasised that there will also be underlying causes which affect both a person's likelihood to achieve well at school and their likelihood of becoming NEET.

4.8 Reasons why young people may struggle in the labour market

4.77 Having identified the characteristics of those 16 to 24 year olds whose participation in the labour market should be of greatest concern, we now review reasons why they, and young people in general, may struggle in today's labour market. The interaction between these factors should be considered, rather than just viewing them in isolation.

Literacy and numeracy skills

4.78 Based on the discussion above and from evidence we have received from partners, poor academic performance, particularly failing to get even basic levels of literacy and numeracy, increases the risk of a young person becoming NEET and can create significant barriers to employment.

4.79 This is not to say that the rises in NEET rates and youth unemployment are necessarily the result of declining academic performance. Evidence we received from DfE showed how there had been an increase in GCSE attainment over the period 2004/05 to 2011/12. The percentage of pupils obtaining at least 5 GCSEs graded A* to C rose by 25 percentage points over the period and by 15 percentage points for those achieving 5 A* to C including English and mathematics. Although, the percentage of pupils achieving two or more passes of A level equivalent size has fallen year on year to 93.6 per cent in 2011/12.

4.80 International research highlighted concerns about the literacy and numeracy skills of young people in England and Northern Ireland. In 2013 the OECD published the results of an international survey of adult skills, part of its Programme for the International Assessment of Adult Skills (PIAAC). Compared to other countries in the study, the England and Northern Ireland adult population (aged from 16 to 65) was around average in terms of literacy proficiency, but below average in terms of numeracy proficiency.

4.81 However, for the young adult population (aged from 16-24) the proficiency distribution was much less positive. The survey found that England and Northern Ireland's youngest adults are amongst the lowest performers across all 24 participating countries in both literacy and numeracy. England and Northern Ireland were (joint) second from bottom in both cases.

4.82 The most striking finding was that England was the only country in which the youngest adults without upper secondary qualifications have lower skill levels than older adults (without upper secondary qualifications). 16 to 24

year olds perform very similarly in terms of literacy to 55 to 65 year olds in England and Northern Ireland. Young people are *"entering a much more demanding labour market, they are not much better equipped with literacy and numeracy skills than those who are retiring."* (OECD (2013a)) As DfE recognise, this places our young people with low academic qualifications at a relative labour market disadvantage.

4.83 Aghion *et al.* (2013) find that, for the UK, there is a particularly strong correlation between disadvantage and poor educational attainment. The authors state that one of the key reasons for this is that schools face weak incentives to focus on their performance. To improve the performance of disadvantaged pupils, Aghion *et al.* (2013) recommend that measuring school performance should move away from *"undifferentiated average performance targets (such as the current target, which requires 40 per cent of A* to C passes at GCSE level)"* as such targets *"distort schools' incentives to target resources and support towards those children who can be more readily expected to reach the predefined threshold."*

4.84 From partner responses to our call for evidence, there are also concerns regarding the literacy and numeracy skills of UK adults in general.

"The Skills for Life survey showed that 15 per cent of [UK] adults have poor English skills, either at or below the level expected of a 9 to 11 year old; 24 per cent have the numeracy skills of a 7 to 9 year old."

Department for Business, Innovation and Skills response to MAC call for evidence

4.85 Employers are also concerned about levels of basic literacy and numeracy, even in sectors such as manufacturing, where there are roles which may not require them.

"Whilst positions within manufacturing defined as low skilled are those that require no or little training, employers do however expect that all workers have basic numeracy and literacy skills, and this is an area of great concern. Many new employees enter into the labour market without a basic qualification (i.e. Level 2) in English and maths. Whilst some of the job roles ... may not require Level 2 qualifications in English and maths to successfully fill the role, it is important not to simply abandon the need for such workers to have basic numeracy and literacy."

EEF (the manufacturers' organisation) response to MAC call for evidence

Vocational education and work experience

4.86 Many 16 to 24 year olds will not want to pursue further academic study. It is important for this group that they are able to gain requisite skills through vocational education and work experience. Wolf (2011)'s comprehensive

review of vocational education in England *"found conclusive evidence of serious problems in current provision: problems which impact directly on young people and their futures,"* and came to the damning conclusion that *"too many of our young people are being short-changed."*

4.87 Wolf (2011)'s conclusion is based on a range of factors including;

- Large numbers of young people taking vocational qualifications which the labour market does not reward in any way.
- Established vocational qualifications which are recognised, valued and indeed critical to key industries being denied accreditation and funding by government agencies.
- Young people encouraged to take qualifications at age 14 to 16 which will block their progression to many valuable post-16 options and for reasons which have nothing to do with the pupils' own best interests.
- High drop-out rates and 'churning' as 16 to 18 year olds try to find appropriate pathways.
- Funding and performance management systems which have actively deterred schools from providing substantial maths and English courses post-16 to those without good GCSEs.
- A significant and marked decline, over the last 25 years, in the average returns to post-16 vocational education for those who move from it straight into the labour market.

4.88 Callanan *et al.* (2009) show that poor GCSE attainment restricts access to many courses and/or makes it difficult to keep up academically with post-16 courses. This then exacerbates the problems that those with poor academic attainment face in entering the labour market.

4.89 The government has acknowledged Wolf (2011)'s 27 recommendations through a formal response and published its latest '*Wolf recommendations progress report*' in November 2013.

4.90 Evidence we received from the Department for Business, Innovation and Skills (BIS) highlighted a lack of work experience as a disadvantage young people face when they seek work. The number of under 25s who have never had paid work has been rising since the beginning of 2001, increasing from 400,000 or 6 per cent of the under 25 population to a peak in 2012 Q1 of 747,000 or 10 per cent of the under 25 population, with most

of this increase occurring before 2010. This suggests that young people are generally taking longer to move from education to employment[21].

4.91 However, the outflow rates from the claimant count for 18-24 year olds are higher than for older Job Seeker's Allowance (JSA) claimants and are improving. This might suggest that any structural deterioration in labour market prospects for young people is amongst people who are either on 'inactive' benefits or not on benefits at all.

4.92 In 2013 Q3, the level of under 25 year olds who have never held a paid job was 721,000[22], representing approximately 10 per cent of the under 25 population and a fall of 21,000 on a year earlier. BIS states that *"despite this recent improvement, there are still indications of growing structural worklessness problems for young people in this group in making the transition from education to work. Furthermore, this upwards trend in young workless people who have never had a paid job appears in people at most qualification levels."*

4.93 Evidence from partners also highlighted the importance of vocational education and work experience.

> *"For young people, the solution lies in reforming the education system so that all young people leave compulsory education with sufficient numeracy and literacy skills; improving careers advice and education to help overcome the mismatch between what young people want to do and what jobs are available; and improve links between schools and business to expose young people to the world of work from an early age."*
>
> Federation of small businesses response to MAC call for evidence

4.94 We were told in **Newham** that EU migrants work in jobs that previously native 16-19 year olds would have taken, particularly in the retail and hospitality sectors and are preferred by employers due to their previous experience. This potentially creates a disadvantage for young adults in the area who have fewer opportunities to get work experience than they would have had previously.

4.95 In **Scotland** we were told that schools and employers need to work together to identify areas of need so that young people can be given better career advice, and opportunities to gain relevant work experience and that there should also be an increased role for apprenticeships and vocational education, and these should be highlighted as an option for young people earlier in their education. Courses at local colleges in cooking etc. could

[21] This figure may be affected by rising participation in education as it means that at any one time there will be more recent leavers from education who have not had a long period in the labour market.
[22] Four quarter rolling average

give them a start in a sector such as hospitality. We were told that the young apprentice scheme has not had as big an effect as hoped, and job centres may need more resources.

4.96 Partners emphasised the importance of good careers advice for young people. This would help them to make better choices and identify courses or opportunities which hold genuine value in the labour market.

"Over half of the career ambitions of teenagers aged 13-14 or 15-16 (52 per cent in both cases) lie in just three of the 25 broad occupational areas assessed (culture, media and sports occupations; health professionals; business, media and public service professionals). Young people with unrealistic career aspirations are more likely to become NEET."

Department for Business, Innovation and Skills response to MAC call for evidence

Skills and attitudes to work

4.97 Employers' views of the quality of labour supply, especially among the younger population, suggest there are issues to overcome, not just in terms of basic literacy and numeracy skills, but regarding softer skills and attitudes to, and motivations for, work.

4.98 Analysing the results from the UK Commission for Employment and Skills' (UKCES) Employer Skills Survey 2013, Winterbotham *et al*. (2014) found that across the UK one quarter of businesses recruited education leavers in the past 2-3 years. Most of these found education leavers well prepared for work but over 33 per cent reported issues with school leavers. Table 4.4 sets out the reasons that employers gave for being dissatisfied with school leavers, and the percentage of relevant employers stating each reason. The two key issues were experience of the world of work and poor attitude/personality/motivation.

Table 4.4: Percentage of establishments recruiting education leavers who said these leavers were poorly prepared for work by reason, 2013

Reason	School leavers	Further education college leavers	University / higher education leavers
Lack of working world, life experience or maturity	22	13	7
Poor attitude, personality or lack of motivation	18	10	4
Lack of required skills or competencies	10	7	5
Lack of common sense	5	3	2
Literacy / numeracy skills	4	2	1
Poor educational attainment	3	1	1

Note: Where establishments had signalled that their new recruits were poorly prepared for work, employers were asked to indicate what specific skills or attributes their education leavers were lacking.
Source: UK Commission on Employment and Skills, 2014

4.99 This was echoed in the Confederation of British Industry (CBI)/Pearson education and skills survey 2013, which found that 55 per cent of employers were unsatisfied with the number of young people leaving school without work experience, or having developed personal qualities like self-management (54 per cent) and attitude to work (35 per cent). The CBI survey indicated that about a third of employers report they are not satisfied with the basic literacy or numeracy skills of school or college leavers. The CBI survey also revealed that when recruiting school and college leavers, employers rank attitudes to work, general aptitudes, and literacy and numeracy, well ahead of academic results alone.

"With regard to concerns that migrant labour displaces domestic labour and, in particular, makes it harder for young people to enter the jobs market, the FSB believes that the real barriers lie elsewhere. In particular, our members regularly cite a lack of functional and soft skills among young people."

Federation of Small Businesses response to MAC call for evidence

4.100 Research by the Warwick Institute for Employment Research (2014) identified similar issues for young people trying to enter the care and retail sectors. *"Some of these issues relate to a particular lack of understanding of how to apply for work and others to how to act and dress in interview. However, it is also the case that employers in the care sector, as well as in some parts of the retail sector, make certain a priori assumptions about the suitability of young people for work. Negative views about the attitude and work ethic of young people as a group dissuaded employers from employing particular young people, and this, coupled with fears that elderly people, in particular, would react negatively to young people who were so different to themselves, resulted in a high level of exclusion of young people from social care."*

4.101 Linking this to the debate around low-skilled migration, evidence from a range of sources – both anecdotal and research - suggests that one of the motivations behind recruitment of migrant workers is a perceived superiority in their work ethic and general employability skills. For example, a recent Chartered Institute of Personnel and Development (CIPD) study (CIPD (2013a)) asked employers why they recruit EU migrants. Whilst many reported that these migrants had better job-specific or practical skills (56 per cent) or better qualifications (23 per cent), a reasonable proportion said they were better prepared for work (26 per cent) or had a better work ethic (34 per cent).

4.102 Thus addressing basic skills and employability are key to helping low-skilled workers find jobs, particularly when set against the backdrop that the above survey reported a continuing trend of more employers expecting to decrease the number of low-skilled employees over the next few years. Competition for these roles will increase among the low-skilled (65 per cent of employers were confident there will be enough people available to fill their low-skilled vacancies) whereas for higher skilled roles employers were less confident about meeting future demand in this changing skills landscape.

4.9 Low-skilled occupations in the future

4.103 The UKCES recently published *Working Futures 2012-2022* (Wilson *et al.* (2014)), the fifth since 2002 in a series of assessments of UK labour market prospects. Their projections of the UK labour market in the future use Cambridge Econometrics' macroeconomic forecasts, and also factor in historic data from the Labour Force Survey (LFS) and government public spending measures and other official policy statements which may indicate the latest stance of government policy. We expand on these issues in Chapter 5.

4.104 Like all projections, they are sensitive to the assumptions on which they are based. For example, in *Working Futures 2010-2020,* based on the ONS population projections Wilson and Homenidou (2012) assume that there will be *"net immigration of 200 thousand in 2010, falling to 175 thousand by 2020"* and forecasts in Wilson *et al.* (2014) suggest that between 2012 and 2022 there will be a *"slow but steady recovery from recession."* As Wilson *et al.* note, these projections *"should not be regarded as precise forecasts of what will happen"*, and alternative futures may occur if *"policies and patterns of behaviour are changed."*

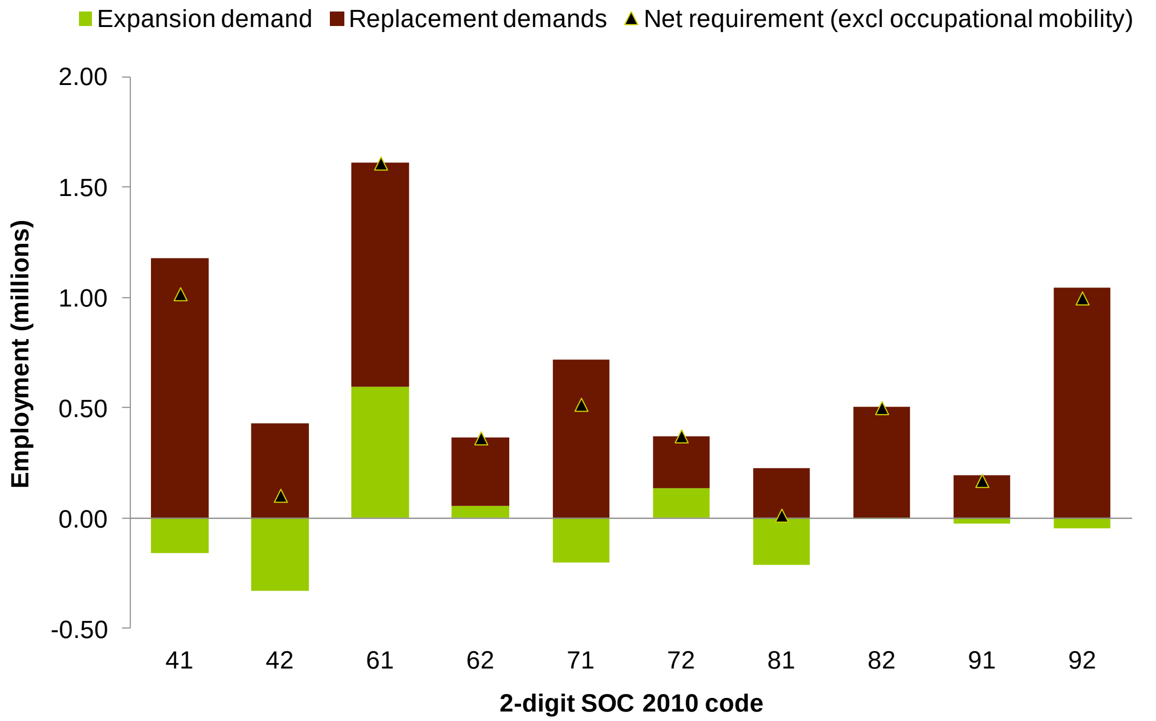
4.105 Wilson *et al.* (2014) estimate that between 2012 and 2022 overall employment may increase by 1.9 million. This forecast will be driven by an increase of almost 2.1 million in employment in high-skilled occupations. Employment in low-skilled occupations is forecast to contract by 0.2 million.

4.106 However, this *expansion demand* explains only a small part of the story for the future labour requirements by occupation. Because of retirements and mortality, Wilson *et al.* also estimate that *replacement demand* will amount

to 12.5 million persons, 5.9 million of whom will be required in low-skilled occupations.

4.107 That said, it is still the case that only three of the ten 2-digit occupations are forecast by Wilson *et al.* to experience expansion by 2022. Figure 4.14 sets out expansion and replacement demand by low-skilled occupation over the period 2012 to 2022. Mostly this expansion is in *caring and personal service occupations* (SOC 61). Administrative and secretarial occupations (SOC 41 and 42) will contract significantly, as will sales occupations (SOC 71) and process, plant and machine operators (SOC 81).

Figure 4.14: Expansion and replacement demand by low-skilled occupation (millions), 2012 to 2022



Note: Notes: Occupations are classified according to the Standard Occupational Classification 2010 at the 2 digit level. 41=Administrative occupations, 42= Secretarial and related occupations, 61=Caring and personal service occupations, 62=Leisure and other personal service occupations, 71=Sales occupations, 72=Customer service occupations, 81=Process, plant and machine operatives, 82=Transport and mobile machine drivers and operatives, 91=Elementary trades, plant and storage related occupations and 92=Elementary administration and service occupations
Source: Wilson *et al.* (2014), Table 4.5

4.10 Summary and conclusions

4.108 The current number of people in low-skilled jobs is very similar to what it was in 1997. This is due to a decrease of 1.1 million in the number of UK-born workers in low-skilled jobs which was offset by an increase of 1.1 million in the number of migrant workers in low-skilled jobs between 1997 and 2013.

4.109 Changes in employment during the same period varied among low-skilled occupations. In some low-skilled occupations, for example, elementary service and administration occupations, the increase in employment of migrants was of similar size to the decrease in employment of natives. Different migrant groups were responsible for the increases in different occupations. Non-EU migrants accounted for most of the increase in migrant employment in caring, leisure and other service occupations, whereas EU8 and EU2 migrants accounted for the majority of the increase in process, plant and machine operatives.

4.110 It might be considered that the decline in employment for the under 25 age group is primarily due to greater competition with migrants for low-skilled jobs. While this is possible we note that the youth unemployment rate is comparable to 30 years ago when there was far less migration and that the state of the economy and level of demand play important roles in labour market outcomes for 16 to 24 year olds. In addition, academic attainment, work experience and soft skills all play a role in determining a young person's access to employment and training opportunities. Basic qualifications, especially English and mathematics, are incredibly important for their employment prospects. There is evidence to suggest that the skills of young people in these areas are placing them at a disadvantage in today's labour market.

4.111 We explore potential solutions (as well as current Government policy responses) to some of these issues in chapter 10.

Chapter 5

The role of institutions and public policies in shaping recruitment and employment practices in low-skilled sectors

5.1 Introduction: the issues

5.1 The aim of this chapter is to get a better understanding of why employers recruit migrant workers and the means by which they recruit such staff, especially into low-skilled jobs. The UK's use of migrant workers has grown very rapidly over the past two decades. The share of foreign-born workers in total employment in the UK more than doubled from below 7 per cent in the early 1990s to 16 per cent in 2013. This growth has been fastest in low-skilled jobs. For instance, as discussed in Chapter 7, foreign-born workers constitute just under a fifth of the workforce among process operatives, such as workers employed in food processing. This represents a nearly two-fold increase since 2004**.** The main questions this chapter addresses are:

- Have some employers developed a preference for recruiting migrants over UK workers?
- To what extent is the increasing reliance on migrant workers in certain sectors and occupations a process that is supply-driven?
- What is the role of labour providers, including recruiting agencies, in influencing employers' recruitment decisions for work in low-skilled occupations?
- How are employers' recruitment decisions and practices influenced by institutions and public policies?

5.2 Some of the existing literature on labour immigration has suggested that employers in a number of low-wage sectors in the UK prefer to employ migrants over UK workers (see, for example, Ruhs and Anderson, (2012); and Waldinger and Lichter, (2003) for the US). This preference is typically expressed in terms of migrants' alleged superior "work ethic" – an ambiguous term that can include a wide range of different factors. Having an appreciation of employers' perceptions and how these influence their recruitment decisions is an important part of understanding why so many

low-wage sectors in the UK have experienced a rapidly growing reliance on migrant labour.

5.3 The chapter also explores how employer demand for migrant labour is related to characteristics of labour supply, i.e. to what extent is the increasing reliance on migrant workers in certain sectors and occupations a process that is supply-driven? Our starting point here is that the skills and qualities employers are looking for in their workers depend, at least partly, on what employers think they can get from the various pools of available labour (Ruhs and Anderson, (2012)). The potential workforce is highly diverse (i.e. differentiated by gender, ethnicity, nationality, age, family status and so on), has different frames of reference, and is differently constrained or motivated to participate in the labour market. For example, migrant workers from a low-income country may well have very different expectations about wages and employment conditions than low-skilled workers born in the UK. Some migrants, especially those arriving without families, are more geographically mobile and willing to take up low-skilled jobs in remote areas than UK workers. These differences can play a role in shaping the expectations that employers have about their employees, and affect the choices employers make in deciding who to recruit.

5.4 A related third issue is the role of recruitment or employment agencies in influencing employers' recruitment decisions in low-waged sectors and occupations. We know from the Labour Force Survey (LFS) that migrants, and especially recent migrants from the EU8 and EU2 countries, are overrepresented among agency workers in the UK.

5.5 The relevant institutions and policies that impact on employers' recruitment decisions and practices are wide-ranging and include labour market regulations (including the level and enforcement of the minimum wage), welfare policies, education and training, housing policies, and the regulation of recruitment agencies. Employers do not make their recruitment decisions in a vacuum and the institutional and policy framework can play an important role in influencing and shaping employer demand for labour in general, and for migrant workers in particular.

5.6 Our analysis pays close attention to variations and differences across sectors and occupations. The characteristics of labour demand and supply, and the institutional and policy framework (e.g. the existence of training systems for domestic workers and the nature of labour market regulation) can be expected to vary across different sectors and occupations. We will therefore need to consider drivers of employer demand for migrant labour that are specific to a particular sector or occupation.

5.7 Our evidence on these issues comes from the written and oral responses from our partners to our call for evidence, our visits to workplaces, meetings with our partners, analysis of relevant labour market data and a review of the research literature on immigration and the labour market, with a focus on employer demand for migrant labour and recruitment

practices. Much of the evidence analysed in this chapter is qualitative rather than quantitative. This means that some of the specific information and cases we discuss may not be representative of wider trends throughout the economy and population.

5.8 Our analysis is divided into three sections. We begin in section 5.2 with a discussion of the characteristics of employer demand and labour supply in low-skilled labour markets in the UK. What skills, qualifications and attributes are employers looking for in low-skilled sectors? What do we know about the diversity of labour supply? How do the characteristics of UK-born workers compare to those of different groups of migrants? We critically discuss the range of employer demands and the wide range of hard and soft skills that employers say they need. We also use data from the LFS to highlight key differences in the characteristics and employment experiences between different groups of workers and discuss the ways in which these groups may be differentially constrained (e.g. in terms of geographic mobility) and motivated (e.g. in terms of wage expectation and eligibility for benefits).

5.9 Having discussed the general characteristics of employer demand and labour supply across low-wage jobs**,** Section 5.3 analyses why and how employers demand and recruit migrant workers. We first discuss a range of factors that may drive employer demand for migrant labour and analyse whether there is any evidence that some employers have developed a preference for recruiting migrant workers over UK workers. Do some employers operate a hiring queue whereby workers are ranked by their nationality? If so, why? The second part of this section looks at whether and how employers' recruitment methods impact on whom they recruit, with a special focus on the role of recruitment/employment agencies in providing employers with the workers they say they need, and thereby potentially influencing the composition of employment in certain sectors and occupations.

5.10 Section 5.4 discusses the role of institutions and public policies in influencing labour demand and labour supply as well as employers' recruitment decisions and employment practices. We discuss the role of labour market regulations and compliance with them (including the level and enforcement of the minimum wage and the regulation of recruitment agencies), welfare policies, education and training policies, and housing policies. Compliance and enforcement issues will be discussed where relevant. More detailed discussion and analysis of enforcement will be presented in the next chapter.

5.2 Characteristics of employer demand and labour supply in low-skilled jobs

Characteristics of employer demand in low-skilled jobs

5.11 To understand the drivers of employer demand for migrant labour, it is important to first appreciate what employers want from their workers. A

key insight from the vast research literature on industrial and labour relations – and from our own conversations with employers - is that employer demand for labour is multi-dimensional in the sense that employers typically demand a range of different skills and attributes from their workers with important variations across sectors and occupations. We briefly highlight three different aspects of employer demand for labour: demand for skills (which in itself covers numerous different competencies and attributes); the need for flexibility and retention; and control of labour costs.

5.12 We discuss these aspects of employer demand because they reflect what employers say and do in practice. At this stage of the analysis it is not our aim to support or criticise employers' demands and practices. Our conclusions and their implications for how to respond to employers' demands are discussed in Chapter 10.

The demand for skills

5.13 Employer demand for labour is often expressed in terms of skills needs or skills shortages. Although commonly used in academic and policy debates, the term skills has become very vague. It is important to recognise that, in practice, skills can refer to a wide range of qualifications, competencies and attributes.

5.14 The UK Commission for Employment and Skills' Employer Skills Survey 2013 (ESS) distinguishes between 13 different types of skill: technical, practical or job specific skills; oral communication skills; planning and organisation skills; customer handling skills; written communication skills; problem solving skills; literacy skills; team working skills; strategic management skills; numeracy skills; advanced IT or software skills; foreign language skills; and basic computer literacy.

5.15 Table 5.1, taken from the ESS (2014), shows the share of employers saying that each of these different types of skills are lacking in the UK, by occupation. 55 per cent of skill-shortage vacancies reported by employers in low-skilled occupations were due to technical, practical or job specific skills. Table 5.1 shows considerable variation in the reported skills shortages across different low-skilled occupations. For example, only 28 per cent of employers experiencing skill-shortage vacancies in machine operatives occupations reported that these vacancies were due to oral communication skills, compared to 49 per cent for low-skilled occupations overall. Similarly, 39 per cent of employers experiencing skill-shortage vacancies in administrative/clerical staff occupations reported that these vacancies were due to advanced IT and software skills, compared to 17 per cent for low-skilled occupations overall. Surprisingly, employers experiencing skill-shortage vacancies in elementary occupations report 22 per cent of these vacancies are due to a shortage of foreign language skills (the highest percentage among all occupations) perhaps because it is considered a requirement to deal with a non-English speaking workforce or customers.

Table 5.1: Percentage of skill shortage within each occupation reported by employers experiencing skill-shortage vacancies

	Overall	Managers	Professionals	Associate Professionals	Administrative/ clerical staff	Skilled trades occupations	Caring, leisure and other services	Sales and customer services	Machine operatives	Elementary staff	Low-skilled occupations
Base	**4869**	**269**	**1030**	**860**	**374**	**1026**	**664**	**407**	**294**	**452**	**2191**
Percentage of low-skilled base	**x**	**x**	**x**	**x**	**17**	**x**	**30**	**19**	**13**	**21**	**100**
Technical, practical or job specific skills	63	59	67	72	65	72	46	56	69	51	55
Oral communication skills	41	33	29	43	46	35	43	57	28	65	49
Planning and Organisation skills	41	53	26	43	58	41	39	56	30	56	48
Customer handling skills	40	40	27	44	49	30	44	62	41	52	49
Written communication skills	38	31	25	40	49	37	45	46	32	36	42
Problem solving skills	37	47	23	34	51	40	39	50	31	43	43
Literacy skills	34	21	23	31	46	35	42	42	33	40	41
Team working skills	33	34	22	31	40	29	37	44	30	52	41
Strategic Management skills	30	48	35	33	44	28	21	34	24	22	28
Numeracy skills	26	26	14	25	45	28	28	36	33	31	34
Advanced IT or software skills	22	32	31	22	39	18	14	19	12	7	17
Foreign language skills	17	19	14	17	16	19	18	21	15	22	19
Basic computer literacy / using IT	16	22	10	15	23	17	19	26	19	13	20
No skills difficulty reported	4	1	4	3	2	3	9	2	6	4	5

Note: Base: All establishments with skill-shortage vacancies. Percentages are based on all skill-shortage vacancies, rather than all establishments with skill-shortage vacancies; proportions therefore show the percentage of skill-shortage vacancies within each occupation caused by lack of each skill. Column percentages exceed 100 per cent because of multiple responses; skill-shortage vacancies unable to be coded to an occupational group have been included in the "Overall" figures, though have not been included in the more detailed breakdown. 'Low-skilled occupations' is an additional column added by the MAC which uses the Office for National Statistics Standard Occupational Classification definition of low-skill.
Source: UK Commission on Employment and Skills (2014) – UK Commissions's Employers Skills Survey 2013: UK results page 123

5.16 Table 5.1 illustrates that the skills demanded by employers include both hard skills that can be credentialised and measured (e.g. through National Vocational Qualifications, professional qualifications, and apprenticeships) and soft skills that are generally not captured through formal qualifications. Soft skills cover a broad range of competencies, transferable across occupations (rather than being specialised) from problem solving to team-working and customer-handling skills. Soft skills are often said to be particularly important in sectors where social relations with customers,

clients, and/or service users are important to the delivery and quality of the work (Ruhs and Anderson, (2012)). For example, in Table 5.1 customer handling skills are most lacking in occupations within sales and customer services.

5.17 In some sectors, soft skills may be more important than hard skills. For example, the quality of care delivered in both health and social care sectors is clearly affected by the soft skills of those providing care. Research has shown that some care service users actively express a preference for personal qualities over formal qualifications (e.g. Bach (2012); Moriarty, (2012) in Ruhs and Anderson, (2012)).

5.18 For some employers in some sectors and occupations, skills can also be used to refer to attributes and characteristics that are related to employer control over the workforce. A demand for soft skills can easily shade into a demand for employees with specific personal characteristics and behaviour (Payne, (2000)). Employers may find certain qualities and attitudes desirable because they suggest workers will be compliant, easy to discipline, and co-operative.

5.19 Research has shown that some employers consider having a good attitude more important than having particular hard skills (see e.g. Matthews and Ruhs, (2007), for analysis of employer demand for migrants in the hospitality sector). The meaning of, and demand for, good worker attitude varies across occupations but they typically relate to effort and reliability. Responses to our call for evidence highlighted the importance of good attitude among employees in different sectors.

"The biggest skill need for most staff is customer service. 88 per cent of employers believe this is the most important skill currently required. Most employers will recruit based on the personality of the individual and develop their skills whilst they are on the job….An issue identified in the 2007 Sector Skills Assessment was that employers did not feel that young UK nationals seeking work in the sector had the necessary communication and employability skills to build on."

People 1st response to MAC call for evidence

> *"Whilst positions within manufacturing defined as low skilled are those that require no or little training, employers do however expect that all workers have basic numeracy and literacy skills, and this is an area of great concern. Many new employees enter into the labour market without a basic qualification (i.e. Level 2) in English and maths…What are often termed "employability skills" are also important. Communication for example is a basic skill that is required in most jobs including those in low-skilled positions. Manufactures look for such skills in addition to academic and vocational skills when recruiting for vacancies."*
>
> EEF (the manufacturers' organisation) response to MAC call for evidence

The need for flexibility and retention

5.20 Depending on the sector, control over the period of employment can be an important factor in employer demand for labour. While workers often seek to balance labour mobility with job security, employers typically demand a workforce that is both flexible but that can also be retained for longer periods of employment when necessary.

5.21 The demand for flexible workers can relate to different types of flexibility relating to time, place and conditions of employment more generally. For example, in sectors where the demand for labour is seasonal and/or changes unexpectedly, employers need to be able to adjust the size of their workforce relatively quickly, resulting in a demand for labour that can be hired and laid-off without too much delay. Certain jobs require workers to do shift work and be prepared to work at unsociable hours. Flexibility with regard to place means a demand for workers who are geographically mobile and will, for example, take up work in areas that are relatively remote. It may also involve a demand for workers who are willing to frequently change their workplace by, for example, moving from one farm to another (see Warwick IER, (2013) and (2014))

> *"Workers need to be prepared to work flexibly which is essential when harvesting in unpredictable conditions and where the demand for staff fluctuates in response to customer orders, which can vary throughout the day."*
>
> GS Fresh response to MAC call for evidence

5.22 One expression of the requirement for increased flexibility is the upward trend in the use of zero-hours contracts, one form of atypical working alongside low-hours contracts, casual contracts and agency staff. Although there are still questions around the reliability of the data on the numbers of these contracts, it is clear that there has been an increase in the use of zero-hours contracts in recent years (Pennycook *et al.*, (2013)).

5.23 Box 5.1 sets out the issues around the definition of zero-hours contracts and the estimation of their use in the UK economy.

Box 5.1: Definition and estimation of zero-hours contracts

There is no legal definition of zero-hours contracts. Consequently, different groups and bodies will have different perceptions of what should be included as zero-hours contracts. Significantly, the perceptions of employers and employees on what constitutes a particular type of contract will differ. Also, estimates of the numbers of such contracts from both employers and employees will be influenced by their level of awareness.

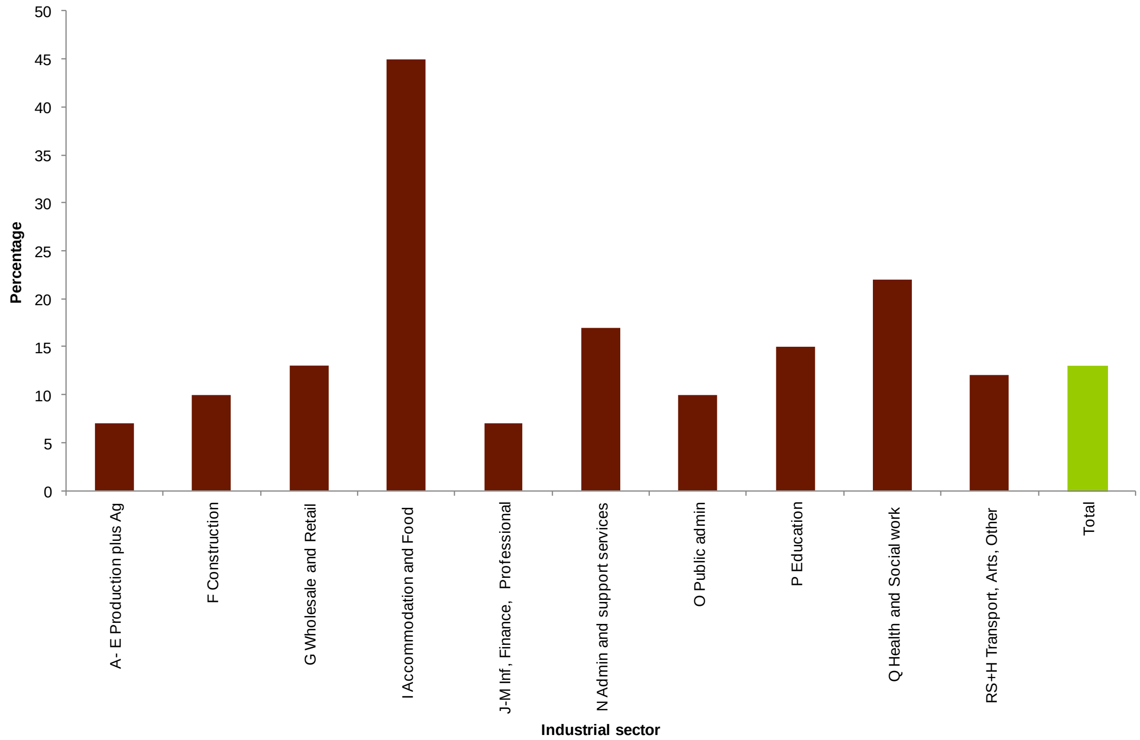
However, as Section 2 of the Government's consultation on zero-hours contracts sets out: *"In general terms, a zero-hours contract is an employment contract in which an employer does not guarantee the individual any work and the individual is not obliged to accept any work offered"* (BIS, 2013b). So although various bodies and surveys use slightly different definitions, there is the common factor of a lack of a guaranteed minimum number of hours of work.

The Labour Force Survey (LFS) is the main source of statistics on zero-hours contracts. However, the LFS is thought to under-estimate the scale of zero-hours contracts because it relies on self-declaration and not all workers realise the terms on which they are employed. Given strong evidence suggesting a more extensive use of this contract (for example, a recent CIPD Survey in 2013 and a recent estimate of 150,000 domiciliary care-workers alone employed on zero-hours contracts (Bessa *et al*., 2013), the ONS recently completed a survey of 5,000 business which indicated that in January to February 2014 there were around 1.4 million employee contracts that do not guarantee a minimum number of hours). This estimate is far larger than that from the LFS for October to December 2013 of 583,000. ONS point out that these estimates are based on the perceptions of two different groups and that *"Employers may be more aware of formal contractual arrangements than their employees. In addition, one person can hold more than one contract and/or there may be people working on such a contract in addition to their primary employment and/or their working patterns may mean they do not consider themselves to be covered by such a contract. However, even if it were possible to take account of all these factors, it remains unlikely that the two estimates would be the same."* (ONS, 2014c).

Figure 5.1 shows the proportion of workers on zero-hours contracts by industry from the ONS business survey and from the LFS. Where there are differences in the distributions, this will be partly due to how people are classified in the two surveys. In the LFS people are self-classified to an industry. Businesses are allocated to the industry where most of their employees work. This means that many local authorities are classified to Education (section P of the SIC), while their employees will cover other areas such as social work (section Q), public administration (section O) and recreation (section R). Similarly, employment agencies are classified to Administration & Support Services (Section N), while people employed by them, but placed at another employer, may give a different answer in the LFS. The distribution may also be affected by the business survey including second jobs.

Source: Office for National Statistics (2014a)

Figure 5.1 Proportion of businesses using zero hours contracts by industrial sector



Source: Office for National Statistics (2014c)

5.24 Although the prolonged economic downturn can partially explain the increased use of zero-hours contracts over the last five years, flexibility lies at the heart of the employer rationale for using this type of contract, according to a recent CIPD employers survey. CIPD (2013) found that the most common reason for using zero-hours contracts among respondents was that these arrangements provided employers with the flexibility to manage fluctuations in demand. Providing flexibility for individuals and managing costs (through cost-efficiency and reduced recruitiment and employment agency fees) were also common reasons cited across the sectors that have experienced increased use of zero-hours contracts mainly to resource low-skilled roles such as care workers, cleaners, call centre workers, hotel, catering and leisure staff.

5.25 According to a recent Resolution Foundation report (Alakeson and D'Arcy (2014)), there is some evidence to suggest that this increase is in part structural and not exclusively cyclical. The use of zero-hours contracts is part of a long term workforce strategy for almost half of the employers surveyed by CIPD. Nearly two-thirds of those employed on zero-hours contracts are over the age of 25, indicating that these atypical contracts are not simply a route for young people or a stepping stone to better terms and conditions. According to Pennycook *et al.* (2013), nearly half of people on zero-hours contracts have been with the same employer for at least two years and 25 per cent for five years or longer.

5.26 Warwick IER (2014) noted that, for some jobs, the requirement for flexibility was built into the role. Their case studies highlight the prevalence of low hours and zero-hours contracts in both the retailing and social care sectors. Zero-hours contracts were more common in social care, particularly in domicilary care, than in retailing. Low-hours contracts were a feature of low-skilled roles in retail: one large retail employer, for example, reported that contracts with its employees varied between a minimum of four hours and a maximum of 16 hours per week. The rational given for this arrangement was to increase flexibility within the store. Workers also reported that the numbers of hours under this type of contract could vary markedly.

Employers' reliance on self-employed migrants

5.27 Based on LFS estimates, migrants working in low-skilled jobs are more likely to be self-employed than British UK workers. The estimate in Table 5.2 for Central and Eastern European workers is likely to be inflated by the transitional restrictions in place for EU2 nationals until the end of 2013. Nevertheless, it is evident that EU8 and EU2 are much more likely to score as self-employed than British workers.

5.28 Warwick IER researchers noted in their report (2013) that self-employment was quite common in the construction sector. They found evidence that some workers who declared themselves to be self-employed, were *de facto* treated like employees by their employers who found work for them, provided training and equipment and, to a greater or lesser degree, guaranteed their wages. Some interviewees noted that the use of sub-contractors instead of direct employees allowed businesses to reduce costs. Sub-contractors were perceived to work harder and quicker than direct employees because they get paid per job and the quicker they finish, the quicker they can take on more jobs. Therefore, sub-contracting (to self-employed workers) is another tool employers use to achieve their required level of flexibility**.**

Table 5.2: Percentage of low-skilled workers in self-employment by country of birth, 2013

	UK	EU (exc EU8 & EU2)	EU8 & EU2	Non-EU
Self-employed (reported)	7	7	15	11

Source: Labour Force Survey

"Bogus self employment has also been a significant feature of employment of Bulgarian and Romanian workers in low-skill occupations - owing to restrictions on their access to the labour market imposed by transitional measures. This places workers in a very vulnerable position with no ability to claim the National Minimum Wage or claim many employment rights. Bogus self-employment has particularly been reported in the construction industry and in cleaning jobs, for example in the transport sector."

TUC response to MAC call for evidence

Control of labour costs

5.29 Labour demand and employers' recruitment decisions are critically influenced by the price of labour. The control of labour costs is a key factor shaping employer demand for labour, especially in labour-intensive occupations. Some employers may deploy a strategy based on low labour costs and substitutability of workers to maintain a competitive advantage. An employer survey conducted by CIPD (2005), focusing on reasons for recruiting migrants and attitudes towards migrants, highlighted that five times as many employers recruiting low-skilled migrant workers were using these workers to reduce labour costs than employers recruiting highly skilled migrants (Warwick IER, 2013). Forde and McKenzie (2009) suggested that a business model based on low labour costs is dominant amongst employers using low-skilled migrant workers. Fitzgerald (2007), a study focusing on Polish migrant workers in the construction sector in northern England, found that some employers were being undercut by firms pursuing low cost competitive strategies reliant upon heavy use of migrant workers as a reserve army of cheap labour, with low wages and poor working conditions. May *et al*. (2007) found similar business models underlying a migrant division of labour in London, with employers capitalising on a high volume and heterogeneity of migrants to segment labour forces.

"The high rate of attrition amongst UK-born workers...also means that focusing attention on recruitment from this resource would have significant cost implications – not just in recruitment fees, but also the costs of induction training and materials. These increasing costs would need to be passed on to the customer – often local authorities."

Energy & Utility Skills response to MAC call for evidence

Characteristics and segmentation of labour supply for low-skilled jobs

5.30 The composition of the labour supply for low-skilled jobs is very diverse; with differences in characteristics among workers from different country of birth groups. In Chapter 4 we describe in detail the recent change in composition and characteristic of the workforce in low-skilled jobs. Table

5.3, which is illustrative rather than comprehensive, compares the percentage of low-skilled workers by gender and broad age group for different country of birth groups. About 60 per cent of UK and “old” EU workers in low-skilled occupations were women, compared to 49 per cent of non-EU workers in low-skilled occupations. Workers in low-skilled occupations from EU8 and EU2 countries were more likely to be aged between 25 and 49. 80 per cent of EU8 and EU2 workers in low-skilled occupations were in this age group, compared to 51 per cent of UK workers.

Table 5.3: Comparing age and gender of low-skilled workers by country of birth (percentages), 2013

	UK	EU (exc EU8 & EU2)	EU8 & EU2	Non-EU
Low-skilled as a percentage of total employment	45	36	67	46
Gender				
Men	40	38	45	51
Women	60	62	55	49
Age				
16 to 24	21	13	13	8
25 to 49	51	61	80	70
50 to 64	28	25	7	22

Source: Labour Force Survey

Differences in job search methods

5.31 Migrants, like UK workers, use various methods to search for jobs: social networks, direct applications, agencies, and adverts. However, migrants are more likely to rely on social networks as a main tool for searching for jobs than UK workers. Informal job searches can be cheaper than other methods and may provide information that is more relevant to the job seeker than more formal methods. It may also be the case that migrants may find formal recruitment challenging for several reasons. Language barriers, for example, may make the formal route less accessible or less successful. Recent migrants in particular may lack knowledge of the local labour market and their qualifications may not be easily recognised by UK employers or they may not be aware of how to get them translated into the UK equivalent.

5.32 The Warwick IER (2014) research found that, while several UK job seekers reported that they had found previous jobs through informal methods, most of the migrants interviewed (especially EU migrants) had used informal job search methods, often via well-developed migrant networks, to secure a job. And with the diffusion of cheap mobile phone and social media (including blogs, mailing lists and Twitter) it was apparent that informal networks had been extended beyond literal word of

mouth communication via electronic updates to a wider audience about job openings and opportunities.

5.33 Research from Battu *et al.* (2011) confirms those born outside the UK were more likely to make use of personal networks, and further indicate that, over time, assimilation helps the migrants to access more formal methods of job search activity. In particular, both the UK-born and those migrants who are more established in the UK rely more heavily on advertising methods (advertise yourself, answer adverts, situations vacant) than newly-arrived migrants. As such, these findings support the notion that a lower degree of assimilation amongst migrants results in a greater reliance on friends and family as a job search method. Migrant workers who have obtained their jobs informally in this way are more likely to be concentrated in low-skilled work. This is because, according to Pellizzari (2004), employers in low-skilled sectors mostly rely on informal recruitment

5.34 Giulietti *et al.* (2013) found that there are substantial differences among migrant groups in terms of their incidence of social network use and success rate in securing employment through personal networks. Another study, IPPR (2009), found that Polish migrants were more likely than UK workers to have obtained their job informally. During the period studied, 2004-2007, the use of networks by Polish workers increased steadily by approximately 40 per cent (from 26 per cent in 2004 to 36 per cent in 2007).

5.35 Recent migrants, in particular from Central and Eastern Europe, have also been increasingly reliant on labour providers to find employment in the UK. For example, the TUC's Commission on Vulnerable Employment (TUC, (2007)) showed that EU8 workers were six times more likely to be recruited through an employment agency than the general UK workforce and where the type of work they do is more likely to be classified as low-skilled than an equivalent job on a full time contract. The role of labour providers in recruiting migrant workers is covered in section 5.4.

5.3 Why and how do employers recruit migrant workers?

5.36 In this section we analyse factors identified in recent research, including the sectoral research we commissioned from Warwick IER (Warwick IER (2013) and (2014)), which may drive employer demand for migrant workers. Respondents to our call for evidence have highlighted the type of skills and qualities they look for when recruiting for low-skilled jobs. Although most of them emphasised that they do not intentionally target migrant workers, many suggested that migrant workers were meeting their requirements while British workers do not or would not apply for the job in the first place.

> *"We would not say we actively choose to recruit migrant workers as we advertise locally only, but do find many apply for jobs as carers as there is a greater demand for staff than supply available from UK born workers...Many UK born workers who may apply are not willing to work full time and are only willing to work part time or less than 16 hours as not to affect their benefit or lose housing benefit - council tax benefit in particular…such applicants if employed do not have the same work ethic of migrant workers who are more willing to work hard and wish to work many shifts and extra hours to earn as much as they can..."*
>
> A care home provider response to MAC call for evidence

5.37 However, in agriculture and food-processing we encountered employers and recruiting agencies that actively targeted migrant workers on the basis that they would not meet their demand needs by trying to recruit locally. For example, ADS Recruitment, which supplies temporary workers mainly in the food-processing sector in the Southampton area, told us that they started recruiting directly from Poland in 2004, although they ended this practice in 2010 when they found they could recruit sufficient migrants locally. Before the EU expansion, ADS Recruitment met their clients' labour demand by also actively recruiting in Portugal. They told us that the kind of work they offer, temporary, with unsociable shifts and unpredictable hours, compounded with the relative generous welfare system, is very unattractive to UK workers.

5.38 Evidence from research shows that employers of migrant workers, in particular of Central and Eastern European workers, perceived them to work harder and be more reliable than UK workers. These positive attributes may derive from the different frame of reference and consequent willingness to accommodate employers' demands and to accept pay and working conditions that would not be acceptable to local UK workers (see McCollum and Findlay, (2012) and (2011), and McCollum *et al.* (2013))

> *"It appears to be the case that migrants are prepared to work hard and in difficult conditions with a good work ethic. They are prepared to do this for the wages on offer - sometimes minimum wage - and are comfortable with the other benefits conditions of the role e.g. the staff accommodation provided etc."*
>
> Green Close Hotels response to MAC call for evidence

5.39 For each of the factors discussed below, we illustrate the employers' explanations as to why they use migrant workers, and why migrants are perceived to meet the required criteria better than UK workers.

UK workers' skills versus overqualified migrants

5.40 Employers reported to us that one of the major issues with UK workers applying for low-skilled jobs was the lack of basic numeracy and literacy skills (see section 4.10 for a discussion of lack of skills among young and adult UK workers). For example, a major retail distribution operation we visited told us that one of reasons why they employ a relatively high number of migrants in their distribution section is because UK-born applicants do not pass the required tests in the recruitment process. The recruitment process abroad uses the exact same testing process as recruitment in the UK and the standards expected are the same.

5.41 Migrants, especially newly arrived migrants, may be prepared to accept jobs whose skills requirements are below their actual skills and qualifications. The majority of migrant workers interviewed by Warwick IER researchers had higher level qualifications than their lower-skilled jobs required. Some migrants saw their current job as a short-term option only, others were trying to work their way towards their longer-term aspirations, and others were only using it as an opportunity to improve their English language skills. Employers seemed unconcerned by this under-utilisation of their workforce's skills. In the retail sector, for example, skills over and above the minimum required were regarded as irrelevant by employers, or relevant only to the extent that migrants were generally brighter. In fact, the recent UKCES Employer Skills Survey (2013) reported that the incidence and density of skill under-use were greatest in the Hotels and Restaurants sector, a sector characterised by lower skills requirement though employing relatively large numbers of people with higher-level qualifications. And in the social care sector it was common to have overqualified migrants, with qualifications not recognised in the UK, working at the same pay rates as unqualified British workers.

"Some migrant workers have acquired a higher level qualification in their country but as long as they do not have the UK level 2 qualification they are paid the unqualified rate."

Social care employer response to the Warwick IER survey

5.42 Data from the LFS also suggest that migrant workers in low-skilled jobs may be over-qualified for their current position. The proportion of migrant workers in low-skilled jobs who left full-time education at age 21 or greater is higher than for UK workers. Table 5.4 shows that around one-third of non-EU and EU8 and EU2 workers in low-skilled jobs left full-time education at age 21 or greater, while this is true for only 10 per cent of UK workers in low-skilled jobs.

Table 5.4: Percentages of low-skilled workers by age at which left full-time education, by country of birth, 2013

Age at which left full-time education	UK	EU (excluding EU8 & EU2)	EU8 & EU2	Non-EU
<16	11	12	4	11
16 to 20	73	61	62	54
21+	10	24	32	32
Still in FT education	6	3	2	3

Source: Labour Force Survey

Soft skills

5.43 As discussed above, employers' requirements of workers can include formal qualifications, but also attributes and characteristics usually known as soft skills. Such skills include flexibility, reliability, team-working, continuous improvement, but also confidence are particularly important in the service sector. Several studies have shown that for less-skilled roles employers tend to place more emphasis on soft skills, giving little or no weight to formal qualification. In theory, this should make it easier for workers with few or no qualifications to find employment. However, some employers may be reluctant to recruit long-term unemployed people, using duration of unemployment as an indicator of lack of motivation and desire to work (Warwick IER, (2013)).

5.44 Several employers we met with told us that, based on their experience, they believe migrants in general, and Central and Eastern European workers in particular, possess and display better soft skills than British workers.

> *"The anecdotal experience of many of our members when A8 workers offered themselves for employment was that many had academic qualifications (often at degree level) and interpersonal skills which were not always available from young people in the domestic market."*
>
> British Hospitality Association response to MAC call for evidence

> *"We can teach and train the majority of skills for specific roles, what we require from people is the following: good work ethic, punctual, reliable, hard working, efficient, bright and able to learn, able to communicate."*
>
> Greenclose Hotel Ltd response to MAC call for evidence

5.45 When asked by Warwick researchers what that they thought of migrants, employers consistently identified the same characteristics. Migrants, especially those from Central and Eastern Europe, worked very hard, were flexible in their hours of work, were polite, pro-active, punctual and reliable.

5.46 There was little direct evidence that employers were choosing to employ migrants because they assumed they would have these positive characteristics. However, some employers did demonstrate an *a priori* assumption that one group would not make suitable employees: young British workers. There was a widespread concern among employers, particularly in the construction sector, about the attitude of young British workers towards low-skilled work (Warwick IER (2013)).

"Migrants have a very strong attitude towards work. For them it's not all about the money. If I asked them to work extra hours with no notice, they will say yes and do it happily with no complaints. They are very loyal given the chance…Of course, some British can be like this. Take [employee], he's a good example of that same kind of mentality – he's a good person and loyal. But he's an older worker, the younger ones don't seem to be the same."

From interviewees' response to Warwick IER survey

Work ethic

5.47 Many employers in a number of low-skilled sectors perceived migrants to have a better work ethic. As discussed above, the term work ethic can encapsulate a range of factors related to employers' specific needs and job requirements. If the work on offer is temporary, or seasonal, or unpleasant and with unsociable hours, some employers reported to us that UK workers were seen as less reliable than migrants, unable to sustain the pace of work required, less willing to work unsociable shifts, and had very high attrition rates. Research found that the migrants' supposed better work ethic was most commonly mentioned by employers in low-skilled sectors such as agriculture, food processing, social care and hospitality. Some researchers have identified the belief among employers that migrants are less likely to be trade union members as an explanation for attributing to migrants a better work ethic. Others have highlighted the migrants' willingness to live on-site or work long-hours or anti-social shifts. Occasionally, employers' assessment is based on perceived cultural traits and characteristics. For example, in the social care sector, Moriarty (in Rhus and Anderson, (2012)) noted that some migrants are perceived to have a more caring ethos than other migrants.

5.48 A major retailer told us that, in London at least, migrant workers were prepared to catch a night bus to arrive at the outlet by 6am to begin work while British workers were less prepared to do this. Consequently, in London, only 10 per cent of their applicants are British, mirrored in the one-to-10 British workers among London employees.

"I do find European people hard working. I just find they are really hard working when they are in, they are committed, they want to get a job done. They are reliable, they are committed. You know, they send money home or they do whatever with it. Some of the Asian people I have employed, their background, they can be really hard working as well, but more the Europeans more than anything."

Retail employer response to the Warwick IER survey

5.49 Migrants are perceived to have a better work ethic not only by their employers but also sometimes by their British colleagues. Employees interviewed by Warwick IER researchers spoke favourably of their migrant worker colleagues and several expressed the view that migrant workers were more deserving of employment than some British people precisely because of their hard work.

"…employers often point to a lack of demand and motivation among the domestic population to work such jobs…Furthermore, employers in these sectors [agriculture and hospitality] often state that their migrant workers tend to be more committed, hard-working and productive; hence their decision to hire them is directly related to business performance."

Federation of Small Business response to MAC call for evidence

Geographic mobility

5.50 Geographic mobility is an important feature of the UK labour market. Migrant workers are more willing to move accommodation and to be accommodated on site, when required, than the UK workforce which tends to be tied to particular geographical locations. This is particularly prominent among low-skilled workers. Social housing policy and housing markets are likely to play a role in shaping internal labour mobility and regional/local labour markets.

"…the demands of the various horticultural/agricultural businesses are in areas of relatively high employment and so the net result is that workers need to travel and/or stay on-farm in any event which is something that in our experience a large part of the domestic workforce is not prepared to do."

50 Club response to MAC call for evidence

5.51 Data from the LFS suggest that migrants were more likely to have recently moved to their current address. Table 5.5 sets out the number and percentage of 16 to 64 year olds who had been living at their current address for less than 12 months in 2013. In the case of migrants, this

analysis is restricted to those individuals who arrived in the UK before 2012.

5.52 10 per cent of UK-born individuals between the ages of 16 and 64 had been living at their current address for less than 12 months. This is at least 4 percentage points lower than the equivalent figure for migrants. EU8 and EU2 migrants were more likely than other migrant groups to have recently moved address. 22 per cent of EU8 and EU2 migrants aged between 16 and 64 had been living at their current address for less than 12 months.

5.53 Migrants were also more likely to have recently moved to their current address when taking into account their age. For the 16 to 24, 25 to 49 and 50 to 64 age groups, migrants were more likely to have lived at their current address for less than 12 months. 18 per cent of UK-born 16 to 24 year olds had been living at their current address for less than 12 months compared to 33 per cent of EU8 and EU2-born 16 to 24 year olds.

Table 5.5: Individuals aged 16 to 64 whose length of time at their current address was less than 12 months by country of birth, 2007 and 2013

2007								
	UK		**EU (excluding EU8 & EU2)**		**EU8 & EU2**		**Non-EU**	
Level (thousands)	3,563		126		140		510	
As a percentage of relevant population*	10		14		41		16	
Level and percentage of each age and country of birth group who have been at their address for less than 12 months								
Age	**Level** (thousands)	**%**	**Level** (thousands)	**%**	**Level** (thousands)	**%**	**Level** (thousands)	**%**
16 to 24	1,190	18	30	30	40	53	110	28
25 to 49	1,991	11	85	16	96	39	365	17
50 to 64	383	4	11	4	4	18	35	5
2013								
	UK		**EU (excluding EU8 & EU2)**		**EU8 & EU2**		**Non-EU**	
Level (thousands)	3,325		145		215		538	
As a percentage of relevant population*	10		15		22		14	
Level and percentage of each age and country of birth group who have been at their address for less than 12 months								
Age	**Level** (thousands)	**%**	**Level** (thousands)	**%**	**Level** (thousands)	**%**	**Level** (thousands)	**%**
16 to 24	1,118	18	30	30	41	33	116	25
25 to 49	1,856	11	104	17	164	21	383	15
50 to 64	351	3	12	5	10	13	39	4

Note: *Relevant population means all individuals aged 16 to 64 who arrived in the UK before 2006 for the 2007 analysis and before 2012 for the 2013 analysis.
Source: Annual Population Survey

5.54 The Recruitment & Employment Confederation (REC) also told us that migrants are generally more mobile than the UK workforce. Central and Eastern European workers will move roles for an additional 50p per hour and, particularly those that are young and single, do not mind moving around the UK, even a few times per year, if the work is there. A recent study by Trevena *et al.* (2013) looking at internal mobility among Polish migrants in the UK found that those arriving via recruitment agencies and with no children were the most mobile, and these internal moves were often interspersed with short-term return migration. Those who arrived via personal networks and with (especially school-age) children were least likely to move internally once in the UK. The authors noted that the propensity to move internally declined over time, and that this was associated with the migrants' ability to secure permanent employment and stable accommodation.

5.55 Warwick IER researchers also found that migrants had a greater propensity for internal mobility than UK workers. Both in the construction and hotel and food sectors, Warwick IER (2013) found that low-skilled UK workers were generally relatively geographically immobile – in terms of how far and where they would commute to work and with regard to residential moves. Lack of private transport meant that many job seekers were constrained to some extent by the availability of public transport (particularly bus services) and that this impacted on their willingness to take up employment opportunities involving unsocial hours or shift work. While those migrant workers reliant on public transport faced the same difficulties, they were willing to seek work across a larger geographical area. In the care sector, the requirement for access to a car was highlighted by several domiciliary care employers and stakeholders as essential for carers to travel between appointments.

5.56 However, some interviewees noted that *"lots of people put up their own barriers to get into work"* by unnecessarily constraining their geographical job search area (Warwick IER, (2013)).

"People from the Black country will not travel to Birmingham even if it is not that far."

"The Jobseekers Agreement says they must be able to travel 90 minutes. The chances of placing people that far are zero. People want their local area – the end of the road...Often they have very fixed ideas about what they can and can't do."

From interviewees' response to Warwick IER survey

5.57 Although there was some recognition among job seekers that increased spatial mobility would help in accessing employment, there were also constraints in travelling far for low paid, especially part-time work. Interviews with migrant workers showed their willingness to be more mobile within the UK. Migrants' mobility is also eased by their accommodation being in the private rented sector (as opposed to being in the social rented sector or in owner-occupation).

"A recently arrived migrant is likely to be more mobile because they are less likely to be established in the housing market than a UK-born worker. Many migrants may also arrive in the UK without the economic and social attachments to a particular location that is usual to someone who is UK-born. Consequently they are more mobile and are likely to be attracted to areas with skill/labour shortages."

GS Fresh response to MAC call for evidence

Migrants in low-skilled work

5.58 People in Britain move around less than they used to. Research by Champion and Shuttleworth (2014), reported recently in The Economist, *"shows that 49% of unskilled workers changed address between 1971 and 1981. Just 36% did so between 2001 and 2011"*. Most of Britain's big cities are less reliant on certain types of industry than they were 20 years ago, and now have mixed economies, reducing the need to move to find work. The biggest factor in this is the housing market. More people own their own home, so moving is *"far costlier and more time-consuming"*, than if a higher proportion were renting. Commuting is also easier which means there is less need for *"short moves"*. *"Flows into university towns and the south are largely constant...flows out of London depend on how many people are buying or selling homes."* Since the onset of the financial crisis, it has been more difficult to get a mortgage *"leaving many stuck in the capital"*.

5.59 These differences in responsiveness among workers with varying demographics and education levels also play an important role in determining the degree to which local shocks impact on local outcomes for particular work groups. For the reasons illustrated above, low-skilled workers are much less likely than high-skilled workers to respond to local labour market conditions and to move across labour markets as local conditions deteriorate. Recent research in the US has shown that there is also a difference in the response between low-skilled migrants and native workers to demand-driven shocks in the local labour markets. For example, Cadona and Kovak (2013) found that between 2007 and 2009 demand-sensitive migration by Mexican-born migrants reduced considerably the geographic variability of labour market outcomes across the entire low-skilled population. While low-skilled native workers were nearly non-responsive to demand conditions, the reallocation of Mexican-born, low-skilled workers across cities weakened the relationship between local demand shocks and local employment rates among natives by almost 40 per cent. The presence of highly responsive migrants increased the overall geographical elasticity of the less skilled labour force and partially alleviated the very negative labour market consequences that otherwise would have been faced by less skilled native workers in depressed local markets. This was true not only for newly arrived migrants but also for return migrants and internal migration.

Willingness to accept poor pay and working conditions

5.60 We looked to see whether it is really the case that migrants consider low-wage jobs in the UK as opportunities to move up the socio-economic ladder. Migrants, especially those intending to stay for a limited period, may have a different frame of reference from UK workers. There is a body of literature that looks at the link between migration and mobility: migrants appear to be willing to take a job less commensurate with their level of skills because they are prepared to experience a short-term decline in occupational status, if not income, by moving abroad in the hope of securing longer-term career path advancement. This dual frame of reference allows them to engage in consumption back home or to send

remittances to family left behind (Scott, 2013). It may also explain why they are more willing than UK workers to accept lower rates of pay.

> *"We would like to place on the record our firm belief that the attraction of the UK to migrant workers is the result of poorly regulated employer rather than individual behaviour. Migrant workers are over represented in certain industries because they are less likely to be covered by collective bargaining rights, prepared to accept lower rates of pay and are less likely to seek career progression – in short, these workers are closer to the edge of existence and are therefore more easily exploited by large companies to increase their profits."*
>
> RMT response to MAC call for evidence

5.61 Few employers openly acknowledged during our consultation that the wages and employment conditions they offer for low-skilled work are not considered acceptable by UK workers.

> *"The main advantage of migrant workers, as described by the agency and industry experts we contacted, is their willingness to do the kind of physical and often unpleasant work entailed in these roles. It may be because, in many cases, the migrant does not perceive the work to be a permanent job or career, and may in fact anticipate working in the UK only for a matter of months at a time, or for a year or two rather than a lifetime. This relatively short term commitment may be a key reason why migrant workers appear to be more open to different types of work they are willing to undertake, and more positive in their attitudes towards it. Anecdotally, when companies have specifically attempted to recruit from the indigenous workforce, this has not been particularly rewarding, with low levels of response to advertised vacancies…The high proportion of migrant workers in low-skilled occupations in the industry is due mainly to an extremely low appetite for this type of work (and the related working conditions) amongst UK-born workers, and also to high levels of turnover amongst these applicants."*
>
> Energy & Utility Skills response to MAC call for evidence

5.62 In their response to our call for evidence, People 1st (the Sector Skills Council for the hospitality, travel, passenger transport and tourism sector) identified three main reasons why the sector they cover has experienced recruitment difficulties for low-skilled jobs while relying on migrant workers:

- Transient recruitment. The hospitality sector has heavily relied on students and international workers to deal with periods of peak demand. This, in turn, has contributed to the perception of the sector only offering low-skilled, transient jobs with no progression or career opportunities.

- Less attractive packages compared to other sectors. People 1st estimated that 48 per cent of the sector workforce is part-time, compared to 28 per cent across the economy as a whole, with an estimated 20 per cent of the workforce on zero hours contracts. The sector's requirement for flexible working has a great impact on who is willing to take these jobs. UK job seekers are generally looking for stable, full-time work and are resistant to uncertainty in their employment. This is combined with relatively low pay in the sector: for certain occupations in the tourism industry, it is really difficult to attract appropriate and committed staff because of the poor level of pay on offer. Between 2010 and 2011, there was an 11 per cent increase in people working in the sector as a second job.

- Poor careers advice. Employers across the sector are really concerned about the quality of information and advice being offered in schools and to adults and which does not reflect the true diversity of the sector and the various opportunities available. A careers portal (www.hospitalityguild.co.uk) has recently been created for the hospitality and tourism sector in an attempt to address this issue.

5.63 The London Chamber of Commerce and Industry (LCCI) made a similar point to us. According to a recent survey they conducted, London's retail, hospitality, leisure and tourism sectors are growing but not enough UK workers are interested in joining these sectors as a career. LCCI said that these sectors had a poor image and prospective UK applicants did not believe they offered clear opportunities for career progression.

Immigration status

5.64 In the UK, similar to other high-income countries, immigration policies determine a variety of different rights and restrictions in the labour market. The restrictions on employment that accompany the immigration status of students, employer-sponsored workers, family dependents, dependents of a sponsored migrant worker can contribute to a specific employer demand for a particular type of worker. This is especially the case when employers find it difficult to retain workers. For some low-skilled jobs, for example in agriculture, employers may prefer workers who are tied to the job (e.g. non-EU migrants tied to the employer by their work permits) rather than workers with free choice of employment. To some employers, employment restrictions attached to immigration status can make migrant workers more attractive to employers than UK or EU workers with the right to free choice of employment. For example, farmers employing migrant seasonal workers during the picking season expressed a clear preference for those migrants employed through the Seasonal Agricultural Worker Scheme (SAWS) because that scheme, which closed in January 2014, provided a source of labour tied to the farm for the harvest period.

Flexibility

5.65 Flexibility is a recurring theme in the literature on employers' requirements in relation to low-skilled jobs. Atkinson (1984) developed a typology of

flexibility which outlines the various types of flexibility sought by employers:

- internal numerical flexibility – allowing adjustments to the input of existing workers, for example by adjustments to working time;
- external numerical flexibility – allowing adjustments to the size of the labour intake, or the number of workers from the external market, for example by employing workers on a temporary basis or on fixed term contracts;
- functional flexibility – the extent to which employees can be transferred to different activities and tasks within the firm; and
- financial or wage flexibility - a situation in which wage levels are not decided on a collective basis, so that differences in wages among workers and in other employment costs reflect the supply of, and demand for, labour.

5.66 Table 5.6 sets out the numbers and percentages of LFS respondents who reported doing shift work most of the time or occasionally. About 60 per cent of those doing shift work most of the time were in low-skilled jobs. In both high and low-skilled jobs, workers from EU8 and EU2 and non-EU countries were more likely to be doing shift work than UK workers.

Table 5.6: Number (thousands) and percentage of workers who do shift work in their main job by skill and country of birth, 2013

	High-skill				Low-skill			
Shift Work	**UK**	**EU (excluding EU8 & EU2)**	**EU8 & EU2**	**Non-EU**	**UK**	**EU (excluding EU8 & EU2)**	**EU8 & EU2**	**Non-EU**
Most of the time	1,085	36	24	148	1,769	45	119	248
	9%	8%	11%	12%	19%	17%	26%	24%
Occasionally	360	8	5	42	263	5	11	41
	3%	2%	3%	3%	3%	2%	2%	4%

Source: Labour Force Survey

5.67 Workers from EU8 and EU2 countries in low-skilled jobs are also more likely to be employed full-time. Table 5.7 shows that approximately three-quarters of EU8 and EU2 workers are employed full-time in low-skilled jobs, whereas for other country of birth groups this figure is closer to 60 per cent.

Table 5.7: Percentage of low-skill workers in full-time and part-time work by country of birth, 2013

	UK	EU (excluding EU8 & EU2)	EU8 & EU2	Non-EU
Full-time	60	61	76	61
Part-time	40	39	24	39

Source: Labour Force Survey

5.68 In both the retail and social care sectors, Warwick IER researchers found that employers appreciated migrants' flexibility both in the type of the work they did and in the hours they worked. This was particularly the case for small businesses where role flexibility and a willingness to help out when required were characteristics particularly associated with migrant employees.

5.69 However, some migrants reported the feeling that they were being asked to do things that their UK-born co-workers were not, and often received little reward for their effort.

> *"I got fed up, people expect you to do all the jobs and change my hours to suit them –and not me, I don't mind helping, but in the end they left me to do all the cleaning and food preparation too".*
>
> Migrant [working in the retail sector] response to Warwick IER research

5.70 In sectors subject to seasonality and cyclical influence, employers expressed a need for a temporary workforce employed and deployed on an as and when needed basis. This is where the least desired and most insecure forms of employment are usually concentrated. The extensive use of agency workers in the food processing sector and the widespread reliance on zero-hours contracts in the social care sector are examples of how employers obtain maximum flexibility from their workforce. In Box 5.2 we describe how a large distribution company we visited meets its changing demand through the use of a flexible workforce.

BOX 5.2 CASE STUDY: A DISTRIBUTION OPERATION

A large distribution operation based in a former mining area (chosen for its ready workforce and good infrastructure links) needs to have flexibility in staff numbers and in staff working patterns to cope with seasonal variation in demand.

The business model of the operation includes guaranteed delivery to customers within a very short timescale. There are predictable peak periods of demand, such as at Christmas and at seasonal sales times whereby the workforce may increase by 10 per cent, lasting for a short number of weeks. The workers employed in this operation are mostly warehouse operatives and there is union recognition with healthy union membership.

The amount of orders being received by the distribution centre is monitored throughout the day and decisions can be taken at short notice to bring in additional staff. Changes to working patterns have meant moving to increased use of 24/7 working.

The operators of the distribution centre found that locally employed staff were reluctant to change their shifts to more flexible working and were also not willing or able to accept work on a limited period basis. Therefore, the operators of the centre recruited migrant staff that are more willing to cover less traditional work patterns and will accept short-term employment to cope with peak demand.

The distribution operation uses a recruitment agency abroad to bring workers in for short periods, which helps recruit and train staff at their busiest times. There is a requirement for all staff in the distribution centre to be able to pack a certain number of items per hour and there is an individualised bonus scheme to incentivise this. The recruitment process abroad uses the exact same testing process as recruitment in the UK and the standards expected are the same.

The migrant workers are paid via the recruitment agency, which takes a percentage from their wage. Therefore, although the costs to the operator are the same, the migrant workers earn slightly less per hour than the local staff. However, the bonus payment is the same. The total pay for the warehouse operatives can be around £2 above the national minimum wage. A number of agency workers stay on longer term within the workforce on employed contracts with some going on to achieve promotion as Trainers and Managers.

Hiring queue

5.71 Hiring queues refer to the way in which employers order and rank different but competing groups of workers according to their perceived employability and suitability for the job. Hiring queues are a way of translating employers' preferences and prejudices into recruitment practices. For example, in their analysis of employers' recruitment practices in California, Waldinger and Lichter (2003) found that employers have a "cognitive map" that includes a variable hiring queue which orders job candidates by racial and ethnic origin.

5.72 According to Ruhs and Anderson (2012), there is evidence that some employers in low-waged labour markets in the UK operate hiring queues based on the nationality of the workers. The sort of factors we have identified in this chapter, which are overlapping and interconnected, may

encourage employers to engage in national stereotyping when recruiting workers. They may develop ordered, though variable, preferences for particular groups of workers based on their nationality or their immigration status. For example, in the food industry Scott (2013a) found a very clear low-wage hiring queue divide between migrants, especially Central and Eastern European, and UK workers. That study, based on interview and survey evidence, identified a strong preference among labour-intensive horticultural employers for migrants and strong prejudice against UK workers. Employers interviewed emphasised what they saw as the added value that migrants brought to the work. The available literature suggests this added value is due to migrants' human capital, youth, and expectations of upward mobility.

5.73 Therefore, hiring queues do not reflect innate and immutable differences between groups of workers. They reflect differences between the actual versus the aspirational value of low-skilled work: the same low-skilled job can mean different things to different people depending on where they have come from and where they believe they are headed, both socially and geographically (Scott, (2013a)).

5.74 The existence of such hiring queues can translate into recruitment practices. In their responses to our call for evidence, most employers stressed that they do not discriminate on the basis of nationality.

"There is no preference to recruit workers from the EEA or non-EEA for low skilled jobs but simply to recruit the best person for the job, and from a cohort of applicants that apply for the job in the first instance. It is worth noting that nearly a half of manufacturers say their recruitment problems stem from a lack of applicants."

EEF (the manufacturers' organisation) response to MAC call for evidence

"Assuming that all job applicants have the right to work in the UK, we do not discriminate on the basis of nationality or ethnic background. We recruit people with the skills, aptitude and motivation for the job when applied to the selection criteria."

GS Fresh response to MAC call for evidence

5.75 However, in meetings and discussions with employers we did encounter some anecdotal evidence that, in some sectors, employers have developed preferences for particular groups of workers. For example, as mentioned in section 5.3, a recruiting agency we visited in Southampton told us that they would directly recruit from Central and Eastern European countries (and from Portugal prior to 2004) to supply temporary and seasonal workers to the food processing sector because local UK-born workers were not willing to take up this kind of work. When we visited

farmers last year to assess the impact of closing the Seasonal Agriculture Worker Scheme we were repeatedly told that the seasonal work was completely reliant on Central and Eastern European migrants employed either through the scheme or directly recruited in their own countries. In section 5.4 we will look at the role of labour providers in drawing on and repeating assumptions about the qualities associated with different group of workers.

Recruitment practices

5.76 Employers typically use a range of recruitment channels. Warwick IER researchers reported that, based on the UKCES' Employer Perspectives Survey (2012), employers tend to make most use of private recruitment services which do not incur costs (including their organisation's own resources and networks). The most common channel employers used to find candidates to fill vacant posts was word of mouth (29 per cent of recruiting employers); and they used this more commonly than they did in 2010 (24 per cent of recruiting employers). Around a half of employers who used word of mouth to recruit did not use any other recruitment channel.

"We advertise directly rather than using recruitment agencies…there are specific roles however, where we will know from experience we will do better by focussing our effort in certain areas, i.e. when recruiting for a chef for a Thai restaurant it makes sense to additionally advertise in a Thai publication…In addition to this I would emphasize that migrant workers often recommend their friends to work with us and this "word of mouth" option is often extremely successful."

Greenclose Hotel Ltd response to MAC call for evidence

5.77 Word of mouth relies on employers using their existing workforce or similar networks to find candidates to fill vacancies. This was reported as being particularly cost effective for small businesses. Several employers reported to Warwick IER researchers that informal recruitment often resulted in the best quality recruits. A social care employer reported that incentivising current employees to recommend friends by making a payment to the referee once the new employee had completed 100 hours of work.

"Jobs are advertised on a noticeboard at one of the entrances to the store – it is near the customer service desk so people can see it. Lots of vacancies are filled by word of mouth. There is no shortage of people coming forward. A lot of customers ask every week – a lot of people ask for their children."

Retail employer response to Warwick IER research

5.78 The Warwick research asked jobholders how they had obtained their current job. Central and Eastern European migrants were more likely than UK workers to have obtained work through word of mouth and through employment agencies. As shown in Table 5.8, 17 per cent of EU8 and EU2 workers who found work in the previous three months did so through an employment agency while only 7 per cent of UK workers did so. Most of the migrants interviewed by Warwick IER researchers used informal job search methods, often via well-developed migrant networks, to obtain work. The research identified that migrant networks were used for both advising migrant workers on UK employment opportunities and for providing accommodation in the UK for individuals while they endeavoured to find work.

Table 5.8: If current job was obtained within the last 3 months, how was it obtained? By country of birth (per cent), 2007 and 2013

How current job was obtained*	2007				2013			
	UK	Other EU**	EU8 & EU2	non-EU	UK	Other EU**	EU8 & EU2	non-EU
Reply to advertisement	27	28	12	22	30	29	22	24
Job Centre	7	7	13	9	6	6	8	6
Private employment agency, business	9	11	21	14	7	7	17	10
Hearing from someone who worked there	27	23	31	25	24	20	29	28
Direct application	18	17	12	18	20	23	13	19
Some other way***	12	14	11	13	13	14	11	12
Total	100	100	100	100	100	100	100	100
Total (thousands)	4,174	142	198	468	3,489	144	165	406

Note: * Possible responses to this question differed for 2007 and 2013. 2007 = Jobcentre, jobmarket etc, 2013 = Jobcentre/jobmarket or Training & Employment Agency Office. 2007 = Careers office, 2013 = Careers office/Connexions Office. **Excluding EU8 and EU2 countries. ***Some other way also includes the response “Careers Office”.
Source: Annual Population Survey

5.79 It may be that employers that recruit migrants can access a self-sustaining labour supply by using migrant networks to control and regulate the flow of labour.

5.80 Employers with a demand for a flexible workforce can call on employment agencies or gangmaster labour. Since employment agencies and gangmasters often have a significant numbers of migrant workers on their books, these labour intermediaries can have an important role in shaping the national compositions of the workforce as we explore in more detail in section 5.4.

5.4 The role of labour providers, recruitment agencies and gangmasters, in driving employers' use of migrant workers

5.81 Labour providers, which include recruiting and private employment agencies and gangmasters, play a pivotal role at multiple stages in the migration process. Those based in the sending countries can operate in three different ways:

- in partnership with an agency based in the UK;
- as part of an international agency with offices also based in the UK; and
- by providing labour directly to UK-based employers.

Box 5.3: Type of strategies used by employers to engage with migrant labour

McCollum and Findlay (2012), based on interview data, built a typology which shows the various means through which Central and Eastern European migrant labour to the UK is recruited, employed and managed in the hospitality, food production and processing sectors. They identified four main channels:

1. **Gangmaster dominated regimes** where workers are sourced, paid and managed by the labour provider (gangmaster). The gangmaster is responsible for managing migrants on a day-to-day basis and, thus, has to be present at the sites of production. This situation was most common in large food processing plants where someone from at least one (usually large) recruitment agency was always present to instruct and manage their supplied workers. In some cases the gangmaster recruited, paid and managed all of the migrant labour force working on a particular form of agribusiness in return for set fees. This relationship involved a great deal of cooperation and liaison between the gangmaster and the local producer.

2. **Gangmaster-employer collaborative system.** The most common labour channel encountered during the research was the situation where labour providers sourced and supplied workers to businesses on a temporary or fixed term basis and paid their wages. Unlike the previous regime labour was managed by the local food producer or processor on a day-to-day basis. Food producers used this arrangement as a means of getting extra workers during planting or harvesting seasons and food processing firms used it in response to frequent and significant fluctuations in demand for their products (and thus in the requirement for labour).

3. The **conventional recruitment agency system** involved labour being sourced and supplied by a labour provider to an employer, who then employed them directly on a temporary or fixed term basis. This proved cost effective for some employers as they were only paying the worker and not the worker plus the agency for every hour worked. This arrangement involved the employers paying the agency a set one-off fee for the 'delivery' of the worker and was found common amongst farmers who paid an agency a fee to source core staff for a season.

4. **Employer-led recruitment of temporary and permanent staff.** Many of the employers interviewed recruited workers directly and without external assistance. In some cases they took on staff on a fixed term or seasonal basis. This type of recruitment was more common in the hospitality sector interviews, where hotels and restaurants would employ workers directly on a short-term basis on fixed term or zero-hour contracts to cover holiday seasons. In agribusiness, when employers took on workers themselves on a short-term basis it tended to be smaller firms using often well-established informal networks to recruit relatively small quantities of labour for a planting or harvesting period. This mode of operation was found to be rare. The vast majority of those interviewed who belonged to this type of recruiter/employer regime stated that they placed a greater premium on attitude and work ethic than on particular skills and qualifications. For this reason many contended that they preferred to take on staff on a temporary basis and 'try them out' for a few months before making a commitment to them by offering a permanent employment. Another reason offered for the aversion to hiring workers on a permanent basis was the fluctuations in demand for labour that most interviewees experienced, resulting in a discourse that it made better 'financial sense' to use agency labour or to offer temporary contracts than to recruit employees on a permanent basis only to 'have to' make them redundant again soon afterwards.

Source: McCollum & Findlay, (2012)

5.82 Labour providers sometimes provide migrant workers with other services such as information, assistance, and logistical support. They can provide accommodation and transport to work, for example. Often they do so prior to departure, while abroad, and even upon return. They can even help pay

up front for certification, placement and travel. However, it is mostly through these additional services that migrants find themselves in debt and exploited. Many labour providers employ the migrants they recruit which may be potentially advantageous for migrants but open to abuse by unscrupulous operators who seek to profit by exploiting their migrant clientele (MPI Policy Brief, (2013), and Scott, (2013b)). Another consequence of using agency workers is the increasing distancing between workers and management in the workplace: it is nearly impossible for agency workers to organise collectively, and the more agency labour is used the less unions appear able to establish a presence in a given workplace (Scott, (2013b)).

5.83 Employers requiring flexibility in their workforce may make considerable use of labour providers (Warwick IER, 2014). The Migrants' Rights Network noted in its response to our call for evidence that recruiting through employment agencies, gangmasters and similar bodies will be the preferred model when the following factors are present:

- the range of skills required, including soft skills, is very limited;
- the industry generates a high staff turnover; and
- the industry requires large numbers of temporary, casual workers to be managed on a just-in-time basis.

5.84 A typical example where all these factors are present is seasonal fieldwork in agriculture which is almost entirely reliant on migrant workers, mainly from Central and Eastern Europe.

5.85 All the above factors help explain why migrant workers, especially those from Central and Eastern Europe, are relatively more likely to find employment through labour providers.

5.86 According to Findlay *et al.* (2012), the *raison d'être* of recruitment agencies is to supply a desirable product (the good worker) to their clients. In their study, based on 87 interviews with employers and recruitment agencies in both the UK and Latvia (with a focus on hospitality, food production and processing sectors), they found that recruitment agencies are engaged by employers not only to find workers with the appropriate skills but are also charged with selecting motivated workers who fit with an employer's "national and racialised" stereotypes.

5.87 It appears, therefore, that these agencies play a key part in shaping migration geographies both in the UK and abroad. Recruiting agencies select migrants based on the social and cultural norms that they have identified as significant to their clients. As a result, the supply of the good worker is a mutual conditioning process in which the profiles of migrant workers and the presumptions of those who select and recruit them are interlinked and difficult to differentiate from one another. For example, in Latvia rural areas and places near to the Russian border were characterised by recruiters as providing job seekers with less choice in the

kind of work they would accept. McCollum and Findlay (2012) found that some employers admitted that if possible they would only employ workers from Central and Eastern Europe and that labour providers reported that their clients had a clear preference for those workers over UK workers.

5.88 In another study of the Latvia labour migration experience, McCollum *et al.* (2013) found that recruitment agencies and informal social networks contribute to the pattern of economic migration by drawing on and reproducing assumptions about qualities associated with Latvian workers that make them attractive to foreign employers.

5.89 Some recent studies point out that there has been a diminishing use of recruiting agencies over time as migrant flows mature and as both migrants and employers shift to greater use of informal networks as recruitment channels (McCollum *et al.,* (2013); Ryan *et al.,* (2009); and Findlay and McCollum, (2013)). The evidence from our partners corroborates this finding. Warwick IER (2014) reported reluctance amongst some employers to use agencies, and that there was evidence of a decline in their use over recent years. The three key reasons provided for this decline were: greater ease of finding potential applicants for low-skilled work than in the past; dissatisfaction with the service provided by some recruitment agencies; and consideration of costs given the increased financial pressures in recent years. Data from the LFS, see Table 5.9, show a decline in the percentage of workers in low-skilled jobs who have found work through an employment agency from just over 10 per cent in 2000 to 7 per cent in 2013. However, migrants in low-skilled work, particularly from EU8 and EU2 countries, are still more likely than UK workers to have found work through agencies and to be overrepresented among agency workers.

Table 5.9: The use of employment or recruitment agencies for workers in low-skilled jobs by country of birth, 2013

	UK	EU (excluding EU8 & EU2)	EU8 & EU2	Non-EU	Total
The number/percentage of each country of birth group who answered yes to "Are you an agency worker?" was:					
	UK	**EU (excluding EU8 & EU2)**	**EU8 & EU2**	**Non-EU**	**Total**
Number	130,000	6,000	47,000	29,000	212,000
Percentage of relevant population*	1.3	2.5	11.3	3.0	1.9
The number/percentage of each country of birth group responding that they obtained their current job through a private employment agency or business was:					
	UK	**EU (excluding EU8 & EU2)**	**EU8 & EU2**	**Non-EU**	**Total**
Year 2000					
Number	106,000	5,000	1,000	13,000	126,000
Percentage of relevant population**	9.5	17.2	26.7	16.0	10.2
Year 2013					
Number	122,000	5,000	22,000	22,000	171,000
Percentage of relevant population***	5.8	7.7	19.9	10.0	6.9
The number/percentage of each country of birth group responding that they were paid a salary or wage by an employment agency was:					
	UK	**EU (excluding EU8 & EU2)**	**EU8 & EU2**	**Non-EU**	**Total**
Number	161,000	8,000	43,000	36,000	248,000
Percentage of relevant population****	12.2	22.4	32.5	17.0	14.6

Notes: For individuals for whom a SOC code and country of birth could be assigned. Relevant population refers to all Labour Force Survey respondents who were asked this question. This varies based on the criteria of each of the above questions. *this question applies to respondents who were employed in permanent low-skilled jobs. **this question applies to respondents who had been in their job for less than 12 months. ***this question applies to respondents who had been in their job for less than 12 months. ****this question applies to respondents who were self employed or not directly paid by their employers.
Source: Labour Force Survey

5.90 Warwick IER (2014) reported the perception among interviewees that agency work was mostly associated with migrant workers. Newly arrived migrants were found more likely to rely on labour providers to secure employment. Some migrants also reported seeing the agency as a fall back option while they were between other jobs.

5.91 We did not find hard evidence that employers favour the recruitment of migrants over UK workers. However, relying on workers' informal networks is likely to have an impact on the national compositions of their workforce.

"The agency [1] does no advertising, as it's simply not necessary. Personal networks – of UK workers but particularly among migrants – mean we can find the worker we need."

"The agency [2] recruits via word of mouth and some local advertising. The Eastern European communities tend to be close-knit, providing opportunities to find new staff through their networks.''

REC response to MAC call for evidence [recruiting agency case studies]

5.5 Institutions and public policies

5.92 The incentives and decisions of employers, workers and intermediaries (including labour providers) are critically influenced, and in many ways constrained, by the wider public infrastructure and operating environment, and associated institutional, policy and regulatory framework. This is determined by a range of public policies including, for example, economic development and industrial policies, labour market regulations, education and training, and welfare and housing policies. Indeed, these come together to create the conditions which enable, or inhibit different actors, including employers to act and therefore shape labour market opportunities and the resulting composition. Crucially too, there is also an important interplay between how these policies interact at a national and local level.

5.93 The remainder of this section considers key public policies and explains, in illustrative rather than comprehensive way, how these policies have contributed to growing recruitment and employment of migrants in certain sectors.

Education and training policies

5.94 Historically, economic policy has moved to a more market-based approach, which advocates individual empowerment, free enterprise, de-regulated, flexible labour markets. There has also been a substantial shift in the education and training system in the UK seeking greater market responsiveness to meet customer needs. The underpinning rationale has been to raise skills levels through Government led supply side initiatives as a means to achieve higher levels of employment and productivity.

5.95 Whilst current reforms underway (such as apprenticeships in England) seek to improve the skills system and in particular the range of high quality, employer-led vocational pathways on offer, some of the effects of these are yet to be fully realised, such as those being delivered through the current apprenticeship reform programme.

5.96 For example, in the construction sector the difficulty of finding suitably trained British workers is critically related to low levels of labour market regulation and the absence, for many years, of a comprehensive

vocational education and training system. The industry is highly fragmented. It relies on temporary, project-based labour, informal recruitment and casualised employment. These practices may have proved profitable in the short term, but they have eroded employers' incentives to invest in long-term training. Warwick IER (2013) also found some evidence of mismatches in relation to training in the construction sector. By contrast, many European states have well-developed training and apprenticeship programmes, producing workers with a wide range of transferable skills. It is possible, therefore, that the UK construction sector relies more on immigrant labour than it otherwise would do.

Underinvestment in some public sector occupations/services

5.97 Lack of investment can create an increased demand for migrant workers. For instance, two thirds of care assistants in London are migrants and we regularly receive evidence from this sector of the difficulties they experience in filling vacancies. Employers in the sector told us that shortages of social care workers and care assistants are largely due to low wages and poor working conditions. Most social care in the UK is publicly funded but provided by the private sector and voluntary organisations. Constraints on local authority budgets have resulted in under-investment in the sector. This has impacted on the wages that care providers are able to offer. In time, this reduces the numbers of workers willing to work in the sector and having fewer workers increases the pressure on those who do work in the sector. The result is a growing demand for low-waged, flexible workers. Employers in the care sector reported to Warwick IER researchers (2014) that downward pressures on costs and lack of money have prevented them from organising work differently and raising wages.

Housing policies

5.98 Geographic immobility and spatial mismatch are recognised features of the UK labour market. The housing market plays an important role in shaping internal labour mobility and regional labour markets: high house prices prevent movement if not accompanied by expected earnings growth. Availability of affordable housing can be a particular problem in rural areas and is acknowledged as an important factor in sourcing labour for the food processing, agriculture, and social care sectors (Ruhs and Anderson, (2012)). Lack of portability of social housing entitlements and limited availability of social housing can also impact on internal labour mobility and on the willingness of UK workers to accept low-skilled work.

"UK jobseekers have cited housing costs as a barrier to rural employment; migrants have the potential to earn many times more than would be available in their home country whilst living in low cost farm accommodation."

Department of Work and Pensions response to MAC call for evidence

Welfare policies

5.99 There is a mismatch between what job seekers need in order to be able to move from benefits into work, and what employers are prepared or able to offer. McCollum and Findlay (2012) found that amongst employers the difficulty in recruiting and retaining local staff was the most common reason cited for using migrant workers. The employment of Central and Eastern European migrants was seen by employers as a necessary response to the unwillingness of UK workers to take low-paid, physically demanding or insecure work. The welfare system was blamed for eroding the work ethic of claimants by not giving them an incentive to work. The complexity and risks associated with signing off benefits did not encourage claimants to take up temporary or seasonal work.

"UK-born workers who are willing and physically able to work in the fields do not want seasonal work. They are hardworking people who have mortgages or long term rental agreements and aspirations that mean that they want permanent employment. UK-born workers who are claiming benefits are reluctant to accept work in our industry because it is seasonal. The reason cited often relates to the bureaucracy and time required to re-enrol when the seasonal contract ends. Adapting the UK benefits system to allow those on benefits not to lose their entitlement while undertaking work on a daily call basis would reduce the financial disincentives to take on seasonal work. There is no difference between UK-born and migrant workers skill levels when completing "low skilled" work."

GS Fresh response to MAC call for evidence

5.100 Several job seekers reported to Warwick IER researchers that they would need to work a certain number of fixed hours to make it worthwhile to come off benefits. Another general view expressed was that the complexity of the benefit system was not helpful. Universal Credit, currently being rolled out, may address some of these issues by merging out-of-work benefit with in-work support but still does not provide enough incentives to encourage the level of flexibility employers are looking for. For example, a job seeker interviewed by Warwick IER noted that he would be willing to take a minimum wage job because with in-work tax credits it would become a liveable wage. However, he noted that this job would have to be full-time. Among those job seekers interviewed, there was a clear desire for a fixed income. However, while people claiming jobseeker's allowance were able without penalty to refuse to accept jobs that did not guarantee a fixed amount of hours, we understand that under Universal Credit claimants will have to accept casual contracts, including zero-hours contracts.

"The problem is if workers are seeking regular incomes and regular hours, we cannot always offer that to them".

Accommodation and Food Service employer response to Warwick IER research

Economic and industrial policies

5.101 Economic policy plays a fundamental role in shaping employer behaviour and labour market composition and, hence, in turn, shaping opportunities for migrant workers. The Government's objective to ensure macroeconomic and financial stability through a range of policy levers and product, labour and capital market regulation that supports competitiveness and growth has translated in a new programme of structural reforms aimed at stimulating business investment and innovation, and supporting performance improvements and economic recovery (see, for example, the *Growth Strategy*, BIS (2010)). These reforms have been wide ranging including: improving UK infrastructure; cutting red tape and maintaining a low level of labour market regulation to enhance flexibility; root and branch reform of the planning system; and boosting trade and inward investment.

5.102 Alongside developments to better align industrial and economic policies nationally, steps have also been taken to integrate national strategies with local action which has also affected employer behaviour and the operation of local labour markets. However, until some of these new reforms have time to take effect, and the new infrastructure can embed, problems in certain sectors and parts of the economy, where there has been a persistence of under-investment and low paid, low-skilled employment to date will continue.

Labour market regulations & regulation of recruitment practice

5.103 The growth of immigration to the UK for the purpose of work has followed deregulation of the UK labour market, with less collective bargaining and less influence from trade unions, towards a more flexible and individualised regime. The availability of migrant workers combined with the low level of labour market regulations has enabled some employers to maximize the advantages to them and, at the same time, allowed migrants to acquire a significant place in the UK labour market, particularly in low-skilled sectors.

5.104 The government exerts its influence over immigration by determining the numbers that can legitimately enter the UK, the qualities such migrants need to possess and the migrants' countries of origin. Regulatory bodies also impact on immigration by carrying out their legal duties in relation to regulating the intermediaries that migrants use to access employment. For example, the practices of recruiting agencies in the food production and processing sectors are regulated by the Gangmasters Licensing Authority

(GLA) and the use of seasonal migrant workers in agriculture was until recently regulated by the Seasonal Agriculture Workers Scheme.

5.105 The TUC's main concern about low-skilled employment is the lack of labour market protection found in low-skilled occupations. They told us that this encourages exploitation and undercutting. The TUC told us that the principal concern of the government in relation to low-skilled occupations should be to provide better protections to make sure employers cannot use agency or migrant workers to undercut other sections of the workforce.

5.106 Labour standards enforcement, as we discuss in Chapter 6, is currently divided between several agencies in the UK. The adequacy of the enforcement of labour standards, including statutory rights, employment contracts and health and safety norms, is particularly relevant to labour migration. This is because enforcement of labour market regulations is likely to be most relevant in low-skilled sectors, within which migrants are more likely to be employed. In addition, migrant workers may have greater need of an effective enforcement mechanism as they may lack sufficient knowledge and collective bargaining power to achieve redress.

5.6 Conclusions

5.107 How migrants have been and are being used by employers in low-skilled jobs varies by sector, occupations and over time (Warwick IER, (2014)). The vast majority of employers are focussed on the qualities of workers, with business naturally concerned about accessing the best quality workers at the lowest possible cost. Especially in labour-intensive industries, employers are often reluctant to raise wages and improve conditions because of concerns about profitability. However, it is unlikely employers will mention how migrants may actively be used to intensify workplace regimes as part of a conscious attempt to shift power from labour to capital and thereby reduce pay and conditions. Put simply, immigration may make it easier for employers to manage and control all workers. According to Ruhs and Anderson (2012) once a workforce includes a substantial share of migrants it may be difficult and costly for employers to switch to alternative responses thereby creating "path dependencies".

5.108 Migrants can provide additional numerical flexibility to meet a changing and, in some occupations, seasonal demand. The anecdotal evidence from what partners told us appear to confirm that employers in low-skilled sectors have found in migrants a readily available supply of labour that is highly flexible, mobile and reliable. Employers were adamant, in their response to our call for evidence, to stress they do not discriminate on the basis of nationality when recruiting. However, the migrants' characteristics (such as being more flexible and mobile, better qualified, with a better work ethic and a different frame of reference) and employers demands, as described in sections 5.2 and 5.3, suggest that employers have developed a preference for particular group of workers. Employers' reliance on employment agencies and gangmasters, and on informal networks and

word of mouth as main recruiting channels has contributed and shaped labour migration in low-skilled jobs. The evidence we have seen is mainly qualitative and anecdotal and does not allow us to assess the extent to which it indicates broader trends and patterns in the recruitment and use of migrant labour in low-skilled jobs. However, based on what we have seen and been told, we are concerned that the interaction of a flexible labour market with relatively unregulated labour providers (especially in the sectors such as construction, hospitality and care not covered by the GLA) is contributing to reduced compliance.

5.109 In public debates, labour immigration is often viewed as a discrete area of policy, and the relationships between immigration, labour demand and other public policy areas typically remain unexplored and poorly understood (Ruhs and Anderson, (2012)). The increasing demand for migrant workers in the UK is influenced by a broad range of institutions and public policies. Reducing the growth in this reliance will not happen without fundamental changes to the policies and the way these institutions operate. This may include greater labour market regulation in some sectors, more investment in education and training, better wages and conditions in some low waged public sector jobs, improved job status and career tracks, a decline in low waged agency work, and addressing the abuse of zero-hours contracts. The key policy question is whether the UK is really able and wants to make these kinds of changes in wider public policies in exchange for fewer new migrants.

Chapter 6 Compliance and enforcement

6.1 Introduction

6.1 In this chapter we look at the extent to which issues around compliance and enforcement of the relevant rules and regulations governing employment impact on the employment of migrants, including whether these issues compound or diminish the exploitation of migrant workers in low-skilled jobs.

6.2 First, we provide a brief overview of the UK legal framework within which employers and agencies operate. Then we consider the various bodies with significant responsibilities for enforcing the relevant legislation. Section 6.3 contains a detailed discussion of employers' compliance with the National Minimum Wage Act 1998 and section 6.4 considers whether the enforcement of the relevant legislation is effective. Section 6.5 looks at the evidence on the exploitation of migrants in low-skilled jobs and section 6.6 presents some initial conclusions about compliance and enforcement.

6.2 Employment regulations

Legislation

6.3 A body of legislation has been developed which sets out the rights of employees and workers within the workplace and an employer's responsibilities towards those employed. Key items of this legislation are summarised in Box 6.1.

Box 6.1: Employment laws and regulations

The **Employment Rights Act 1996 (the ERA)**, as amended, provides a large number of statutory rights for employees including the right: to a written statement of terms and conditions of employment; to an itemised pay slip; not to suffer unauthorised deductions from wages; not to be unfairly dismissed; to time off for public duties and ante-natal care; to maternity, adoption, parental and paternity leave; to request flexible working arrangements; not to suffer any detriment because of 'whistleblowing', raising health and safety concerns, taking maternity or paternity leave, or making an application for flexible working arrangements; to minimum periods of notice and to payments on redundancy.

The **Equality Act 2010** prohibits employers from discriminating because of age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, religion or belief, sex and sexual orientation in the arrangements made for deciding to whom to offer employment; as to the terms on which employment is offered; as to the terms of employment; as to the access afforded to those in employment to promotion, training or any other benefit; and in dismissing an employee or subjecting an employee to any other detriment, including harassment. It also provides that every contract of employment should contain a 'sex equality clause' which modifies any contractual term which may have an effect of discrimination on the basis of sex from not having that effect unless it can be shown to be because of a material factor which is not discriminatory on grounds of sex or is a proportionate means of achieving a legitimate aim.

Regulations also prohibit employers from subjecting to less favourable treatment **part-time workers** when compared to full time workers; and **workers engaged under a fixed term contract** when compared to permanent staff. Fixed-term workers if the necessary conditions are fulfilled have the right to become permanent employees after four years of employment under a single or a series of fixed term contracts;

The **Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE)** on business transfers or service provision changes affect the transfer of employment between employers and protect transferring employees from dismissal because of the transfer. The **Information and Consultation of Employees Regulations 2004** require employers to provide information to their employees and to consult with them about the operation of their business.

The **Trade Union and Labour Relations (Consolidation) Act 1992 (TULRCA)** sets out rights arising from membership of a trade union, including the right not to suffer any detriment in employment or to be dismissed, and to be given time off for carrying out trade union activities.

The **National Minimum Wage Act 1998 (NMWA)** creates a requirement for anyone who has a contract to work, who is working or ordinarily works in the UK, and has ceased to be of compulsory school age, to be paid a minimum wage.

The **Working Time Regulations 1998 (WTR)** gives workers the right to: a minimum number of paid days holiday each year; timely rest breaks; and restrictions on excessive night work. Workers also have the right to work no more than 48 hours a week, although they can choose to opt out of this requirement and agree to work longer hours if they wish.

Individual rights under these various pieces of legislation are determined by employment status, such as whether an individual is a worker, employee, or self-employed contractor.

Generally speaking, an individual is classed as an **employee** if he or she has an

Box 6.1: Employment laws and regulations

employment contract. This is usually the case if the individual undertakes personal service in return for remuneration, is subject to a high degree of control by the employer and there is an obligation on the part of the employer to provide work and on the part of the employee to do that work. Employees are usually entitled to the rights set out under the ERA (though the 1996 Act sets out some categories of excluded employees), TUPE and TULRCA.

A person is considered a **worker** if he or she has a contract of personal service in return for remuneration but does not have the same degree of control or mutuality of obligation which characterises a contract of employment. He or she is also not a worker if they are doing work on behalf of their business of which the 'employer' is a customer or client.

Workers are not entitled to the full range of protection rights that extend to employees, in particular most of the comprehensive rights under the ERA as set out above. Workers are entitled to: the national minimum wage (NMW); protection against unlawful deductions from wages; protection against detriment because of 'whistleblowing'; the rights under the WTR; the rights afforded to part-time workers and fixed-term workers; and usually the protection of the Equality Act 2010.

Individuals are usually classed as **self-employed** if they are in business for themselves, and particularly if they put in bids or give quotes to get work and are responsible for paying their own National Insurance contributions and tax. In addition, individuals may also be classed as self-employed if they do not receive holiday or sick pay.

Agency workers "sign up" with an **employment business** to work for one or more of their clients (or hirers). They often undertake specific pieces of work or are engaged for a fixed period; their work is therefore often temporary. Agency workers are often referred to as "temps" within the clients' workplaces to which they are assigned.

Under the **Agency Workers Regulations 2010**, agency workers are entitled to the same pay and other "basic working conditions" as equivalent permanent staff after a 12 week qualifying period, and access to collective facilities and to information about employment vacancies from day 1 of their assignment. Agency workers will be entitled to receive the national minimum wage either if they satisfy the definition of "worker" under section 54 of the NMWA, or under the specific agency work provisions in the NMWA. A similar approach is taken to agency workers in respect of their rights under the WTR.

The **Posting of Workers Directive** (PWD) (96/71/EC) provides that workers who are posted by their employers to perform temporary work in other member states should enjoy the protection of the same "floor of employment rights" available to other workers employed in the host country. The PWD refers to these as both "a nucleus of mandatory rules for minimum protection to be observed in the host country" and "a hard core" of clearly defined protective rules. This "hard core" includes such matters as maximum work periods, minimum paid holidays, minimum rates of pay, health and safety and hygiene at work, and protective measures for pregnant women or those who have recently given birth. The PWD does not confer workers posted to the UK with the right not to be unfairly dismissed.

6.4 Individuals who believe that they have been denied some aspect of their employment rights can make a claim to an employment tribunal. However, not all individuals are able to effectively enforce their rights. They may be unaware of their rights and/or they may have insufficient English language skills to make an effective complaint. Clark (2013) found that *"most*

research suggests that lack of English is associated with a greater likelihood of having working rights breached" and this point was also made to us in some of the responses to our call for evidence.

> *"There is evidence…that migrant workers may be more vulnerable than UK nationals to exploitation and forced labour because of their lack of English language skills and their unfamiliarity with the UK legal, policy and regulatory frameworks, for example."*
>
> Forced Labour Monitoring Group response to MAC call for evidence

The role of trade unions

6.5 Trade unions exist, in part, to protect workers. However, we note that over the period 1995 to 2012, the proportion of employees who are trade union members in the UK has decreased nearly 7 percentage points from 32.4 percent in 1995 to 25.6 per cent in 2013. The reduction in union membership since 1980 has led to a considerable decline in collective bargaining coverage, which has fallen to below 30 per cent (with sharp differences between the public and private sectors) from about 70 per cent in 1980. This more than halving of the number of workers sheltering under the collective bargaining umbrella makes enforcement of labour regulations much more problematic.

6.6 BIS highlights that employees are more likely to be union members if they are UK born; from a black ethnic group; disabled; highly educated; middle-income earners; in permanent and full-time jobs; or are employed in workplaces with 50 or more employees (Department for Business, Innovation and Skills (2014)). We note that BIS research has found that *"trade union recognition and industrial disputes tend to feature rather little among small firms since levels of union membership are lower"*.

6.7 The Trades Union Congress (TUC) told us about employment agencies that exploit migrant workers' lack of knowledge about their right to join a trade union. We were also provided with anecdotal evidence from the TUC about agencies that intimidate workers who try to exercise that right.

> *"Trade unions provide important protection for migrant workers to be covered by collective agreements which guarantee decent standards…Responsible employers must provide workers with information on their rights and work with trade unions to make sure workers are protected, and extending the scope and coverage of collective bargaining at a sectoral level could play a major role in addressing the problems of exploitation and undercutting."*
>
> TUC response to MAC call for evidence

6.8 The TUC suggested that migrants workers are *"closer to the edge of existence and are therefore more easily exploited by large companies to increase their profits."*

Enforcement bodies

6.9 Vulnerable workers should be able to get protection from those government bodies and agencies with responsibility for enforcing the UK's employment regulations. These include: HM Revenue and Customs (HMRC), which enforces the NMW; the Health and Safety Executive (HSE), which enforces aspects of the Working Time Directive; and the Gangmasters Licensing Authority (GLA), which enforces legislation regulating the conduct of licensed gangmasters supplying labour in the agriculture and food and drink processing sectors. Complaints about employment agencies and businesses that fail to be considered under the Employment Agencies Act 1973 are dealt with by the Employment Agencies Standards Inspectorate (EASI).

6.10 It is the role of these bodies to prevent contraventions of rules and regulations including such matters as unpaid wages, denial of contract, unfair dismissal, and excessive working hours. However, Clark (2013) suggests that their powers *"are of limited application and seldom used, while resources are restricted"*. Robinson (2014) supports Clark's point about the restricted resources available to enforcement bodies. She said the HSE, the independent watchdog for work-related health, safety and illness, *"has had its funding reduced by 35% and has reduced its proactive inspections by one third"*.

6.11 We were disappointed that HSE chose not to provide us with any evidence in relation to this report, either in writing or in response to our offer to meet with them. It would have been useful to have had their input on whether there are health and safety issues relating to the employment of migrants in low-skilled jobs. Nevertheless, we saw that research published by McKay *et al.* (2006), and which was commissioned by HSE to assess whether risk of injury or ill heath was greater for migrants, found that migrant workers may be experiencing higher levels of workplace accidents. McKay *et al.* (2006) reported migrants are more likely to work long hours, to work shifts and to have limited understanding of health and safety. The report also found that contributory factors included a lack of English language skills and that migrants are more likely to take up work in sectors that they have not been trained or had experience working in.

6.12 We set out below information about the roles of two main enforcement bodies.

The Gangmaster Licensing Authority

6.13 The Gangmaster Licensing Authority (GLA) regulates labour providers or gangmasters (as defined in Section 4 of the Gangmasters (Licensing) Act 2004) who provide workers to the agriculture, forestry, horticulture, shellfish-gathering, food processing and packaging sectors.

6.14 Firms in the above sectors need a licence from the GLA if they:

- supply labour for the licensed sectors in the UK;
- use workers to provide services in the licensed sectors;
- use workers to gather shellfish.

6.15 All workers in the relevant sectors, whether in temporary or permanent employment, are covered by the licensing scheme. Any supplier of labour into the licensed sectors requires a licence for any work carried out in the UK, even if the supplier is located overseas, and it is illegal for any employer to use an unlicensed gangmaster. The GLA public register lists the labour providers who are licensed, or who have applied for a licence. A licence will usually be valid for 12 months.

6.16 The maximum penalty for supplying labour without a licence is ten years in prison and a fine. In England and Wales the maximum penalty for using an unlicensed gangmaster is 51 weeks in prison and a fine. In Scotland and Northern Ireland it is six months in prison and a fine.

6.17 Robinson (2014) found that the enforcement of the GLA's licensing powers is *"undermined by light sentences awarded in many labour exploitation cases"*. This study said "*the GLA has found employers and gangmasters paying very little and housing workers in appalling conditions, yet when such cases are referred to court the offenders only receive small fines, convictions without punishment or suspended sentences"*. There are no sentencing guidelines for GLA license offences, and this could be a factor in exploitative employers and gangmasters escaping serious punishment.

Case Study: GLA ' disappointed' with dairy farmer sentencing decisions

In 2013, Christopher Blakeney, an unlicensed gangmaster, was found guilty of supplying between 60 and 70 Filipino workers to dairy farms across the UK.

The workers were subjected to serious exploitation – receiving up to £500 a month below the minimum wage, and housed in sub-standard farm accommodation. Workers were tied to the gangmaster through a debt bond, deducted from their wages.

Marden Management Ltd Director, Christopher Blakeney, was charged with four counts of acting as unlicensed gangmaster. On conviction he was handed a 12-month suspended sentence, and ordered to pay £45,000 in compensation over three years, despite having made over £700,000 through his exploitation of the workers.

15 farmers that the GLA argued were part of an 'exploitative enterprise' with Marden Management, receiving workers at suspiciously low rates, were charged with 'using the services of an unlicensed gangmaster.'

Whilst this resulted in convictions, all were released without further penalty. The GLA responded: 'This was by far the most serious example the authority has tackled…in terms of the intentional, well-organised and systematic financial exploitation of works, but the punishment does not fully reflect that.'

Source: Robinson (2014)

6.18 On 9 April 2014, the Home Office assumed responsibility for the GLA, previously under the umbrella of the Department of Environment, Food and Rural Affairs. The Government sees this change as a natural step in ensuring that the GLA works jointly with the National Crime Agency, the UK Trafficking Centre and local police forces to tackle the problems associated with modern slavery.

6.19 The GLA told us that this change has not and will not in the future diminish the civil regulatory powers that it exercises. We welcome this and note that the GLA believes that all its efforts will continue to be carried out in equal measure. When we met with the GLA they told us that what they needed were more resources and a wider remit to be able to address exploitation of workers in other sectors and to offer more in the way of victim support and dealing with forced labour. We have sympathy with this, but nevertheless we note Robinson (2014) worries that *"If the GLA ceases to be viewed as a labour inspectorate and is seen instead as an extended arm of law enforcement or border security, workers will no longer place trust in GLA officials, severely threatening its intelligence gathering function"*.

6.20 In its evidence to us, the TUC expressed its concern over the recent reduction in the scope of the GLA, following the removal of the forestry sector and vulnerable workers such as cleaners, volunteers and some apprentices from the GLA's remit. In addition, the TUC expressed serious concern at recent decisions to weaken the inspection system in the GLA.

6.21 The GLA is effective at identifying labour exploitation in the sectors in which it operates and there may well be a case for extending its operation into other sectors such as construction, care, cleaning and hospitality.

Robinson (2014) notes these are sectors with a high risk of labour exploitation because they have many of the following characteristics: subcontracting; agency labour; migrant labour; isolated working conditions; accommodation on site; flexible or insecure arrangements; seasonal work; low pay; limited worker power because of ease of replacement; and lack of unionisation.

The Employment Agencies Standards Inspectorate

6.22 The Employment Agencies Standards Inspectorate (EASI) is part of the Department for Business, Skills and Innovation (BIS). It works with employment agencies, employers and workers to ensure compliance with employment rights, particularly for vulnerable workers. The EASI is responsible for investigating complaints about employment agencies and employment businesses which fall within the Employment Agencies Act 1973, as amended, and the associated Conduct of Employment Agencies and Employment Business Regulations 2003, as amended. The Department of Employment and Learning in Belfast is responsible for enforcing employment agency legislation in Northern Ireland.

6.23 Where necessary, the EASI will issue warning letters to agencies and seek to ensure that corrective measures are put in place. The EASI also has the power to consider prosecution either in a magistrates' court, where a maximum fine of £5,000 can be awarded, or in a Crown Court which can award unlimited fine. The EASI can also prohibit individuals from running an employment agency for up to 10 years.

6.24 There are some 18,000 employment agencies in the UK. The EASI receives approximately 30 to 35 complaints each month about the conduct of agencies and/or employment businesses. They told us that around 80 to 90 per cent of these complaints were because individuals claimed they had not been paid and the remaining 10 to 20 per cent of cases were for a variety of reasons including workers incurring a fee for being found work, and being charged for pre-employment services such as preparation of a CV.

6.25 However, EASI estimates that only 8 to 9 per cent of complaints are from foreign nationals. We were told that the reason for this is partly due to the fact that many migrant workers are unaware of the service, but also because some migrants prefer to deal with these issues within their own communities or use others services such as the Citizens Advice Bureau, local law centres, and the Advisory, Conciliation and Arbitration Service (Acas).

6.26 Clark (2013) found that "*the EASI organised 407 'targeted inspections' in 2011-12" and that "since 2006, there has been a total of 14 prosecutions, 12 of which were successful*". Clark said BIS estimated that 16,000 agencies are covered by the 2003 regulations and calculated that "an agency could expect an inspection once every 39 years and a prosecution almost never".

6.27 We note that there has been a recent refocusing of the EASI enforcement regime while its resource level has been significantly reduced. BIS told us that in July 2013 the Government changed its recruitment sector enforcement strategy to focus on protecting the most vulnerable, low paid workers. The majority of the complaints received via the Pay and Work Rights Helpline concerned the NMW. Therefore, in November 2013 the Government announced the transfer of 9 of the 11 inspectors from the EASI to HMRC's NMW enforcement team. The EASI has therefore moved to a more risk-based approach to enforcement.

6.28 The EASI, now operating with much reduced resources, is also unable to widely share data with other agencies that could help to ensure effective enforcement. BIS told us that there are some legal gateways, such as the NMW Act 1998, which allows the EASI to share data, but that it is difficult for the EASI to do so with other enforcement bodies, such as the Home Office. We understand the need for confidentiality but we believe that it would be helpful if barriers to the sharing of data were removed to ensure effective enforcement measures.

6.3 The National Minimum Wage (NMW)

6.29 Almost all workers, excluding the self-employed, are entitled to be paid at least the NMW. The Low Pay Commission (LPC) is responsible for monitoring, evaluating and reviewing the levels of each of the different NMW rates, on a yearly basis, and for making recommendations on the levels that should apply. Currently, a full entitlement of £6.31 an hour applies to workers aged 21 and over, while 18 to 20 year-olds receive a lower minimum rate of £5.03. 16 and 17-year-old workers also qualify for a minimum wage, which is currently £3.72. The rate for an apprentice is £2.68.

6.30 The LPC estimates that there were 1.3 million minimum wage jobs in 2013, approximately 5.1 per cent of all jobs in the UK economy. Table 6.1 shows that of these 1.3 million jobs, three-quarters were in low-paying sectors, based on the LPC definition of a low-paid worker. Half of minimum wage jobs are in the hospitality, retail or cleaning sectors and minimum wage jobs accounted for a relatively high proportion, around 20 to 30 per cent, of total jobs in the hospitality, cleaning and hairdressing sectors.

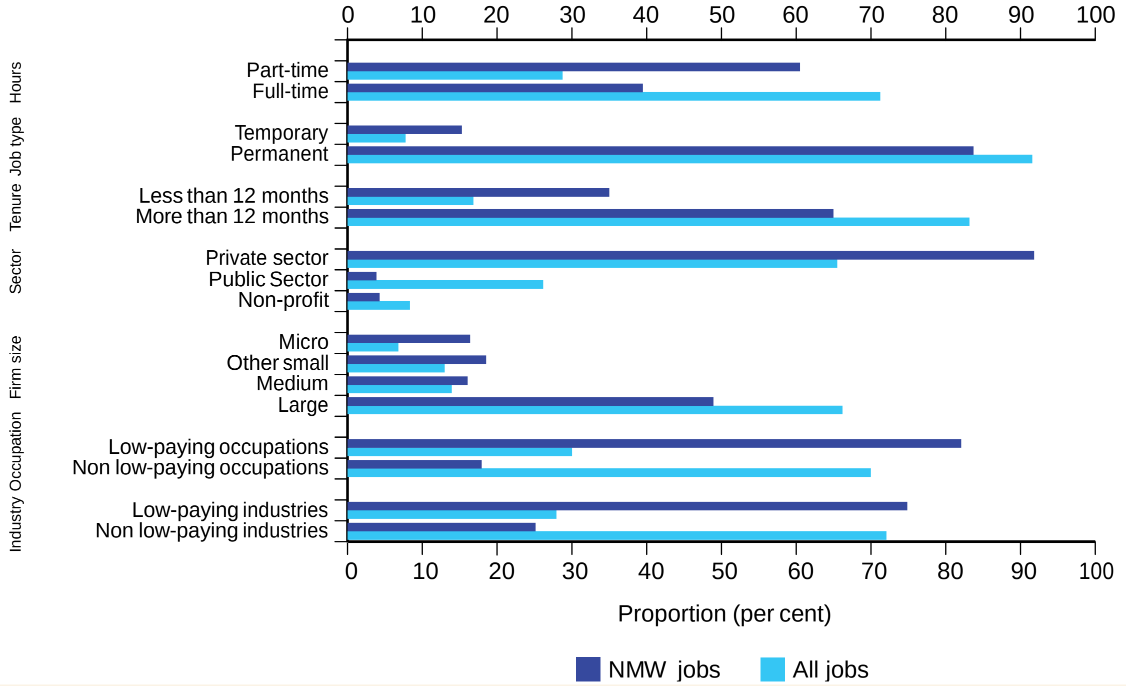
Table 6.1: Number and proportion of minimum wage jobs in the UK by low-paying industry and occupation, UK, 2013

Industry / Occupation	Standard Industrial Classification (2007)			Standard Occupational Classification (2010)		
	Number (thousands)	Proportion of total NMW jobs (per cent)	Proportion of jobs in sector (per cent)	Number (thousands)	Proportion of total NMW jobs (per cent)	Proportion of jobs in sector (per cent)
All	**1,332**	**100.0**	**5.1**	**1,332**	**100.0**	**5.1**
Non low-paying sectors	**335**	**25.1**	**1.8**	**239**	**17.9**	**1.3**
All low-paying sectors	**997**	**74.9**	**13.7**	**1093**	**82.1**	**14.0**
Hospitality	331	24.9	24.9	289	21.7	25.2
Retail	278	20.9	9.7	249	18.7	11.8
Cleaning	88	6.6	30.6	183	13.7	22.4
Social Care	87	6.6	8.8	66	5.0	8.8
Employment Agencies	75	5.7	13.5	x	x	x
Leisure, travel and sport	45	3.4	10.8	26	1.9	10.3
Hairdressing	26	2.0	29.7	26	2.0	29.3
Food processing	25	1.9	6.8	48	3.6	14.6
Childcare	24	1.8	14.9	44	3.3	12.7
Agriculture	9	0.7	7.8	11	0.8	6.8
Textiles and clothing	7	0.6	11.4	7	0.5	12.2
Office work	x	x	x	33	2.4	7.3
Non-food processing	x	x	x	25	1.9	6.5
Storage	x	x	x	51	3.8	10.1
Transport	x	x	x	38	2.8	8.7

Notes: Estimates based on ASHE, 2010 methodology, low-pay weights, including those not on adult rates of pay, UK, April 2013. Minimum wage jobs defined as adults (aged 21 and over) earning less than £6.24, youths (aged 18 to 20) earning less than £5.03, and 16 to 17 year olds earning less than £3.73 in April 2013. Low-paying sectors are those with a large number or high proportion of minimum wage jobs. x denotes not applicable
Source: Low Pay Commission (2014), Table 2.1

6.31 Minimum wage jobs are more likely to be part-time jobs than full-time. Figure 6.1 shows that over 60 per cent of minimum wage jobs were held by part-time workers in 2013. Additionally, 11 per cent of part-time jobs were minimum wage jobs compared to 3 per cent of full-time jobs (Low Pay Commission (2014)). Temporary jobs were also more likely to be minimum wage jobs than permanent jobs. Approximately 10 per cent of temporary jobs were minimum wage, double the proportion of permanent jobs. Workers who had been in their jobs for less than 12 months were also more likely to be classified as minimum wage workers than those who had been in them longer. 11 per cent of jobs held for less than 12 months were minimum wage jobs, compared to 4 per cent for jobs held for more than 12 months.

Figure 6.1: Proportion of all jobs and minimum wage jobs in the UK by hours, job type, tenure, sector, firm size, industry and occupation, 2013

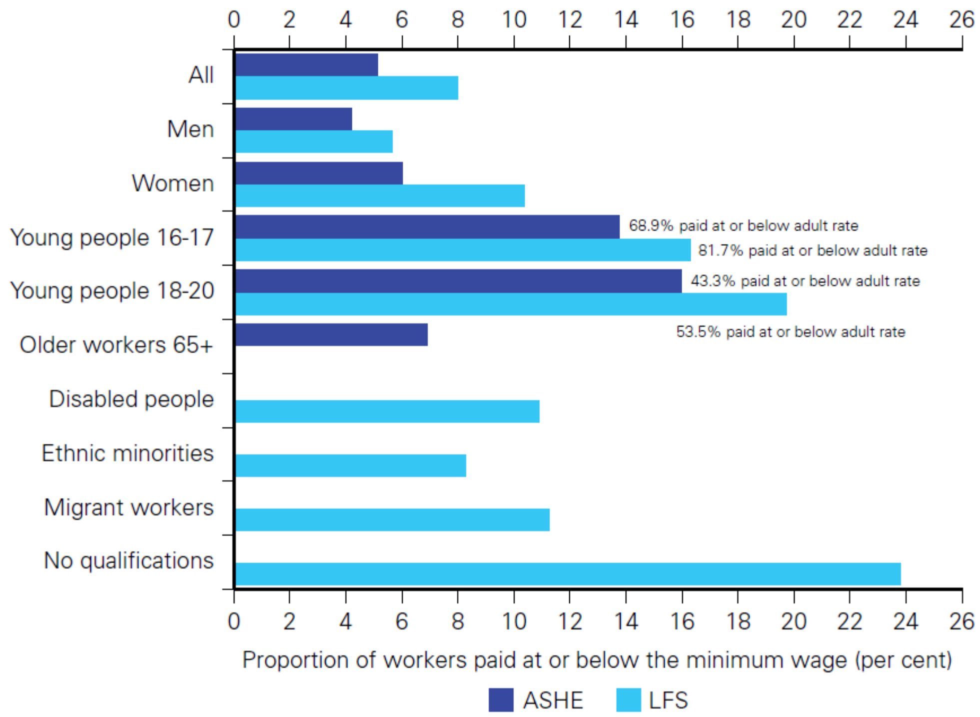


Source: Low Pay Commission (2014), Figure 2.1

6.32 Earnings data from the Annual Survey of Hours and Earnings (ASHE) are only available by age and gender, so data from the Labour Force Survey (LFS) are used for the other groups presented in Figure 6.1. LFS data on earnings are regarded as less reliable than ASHE data because it is self-reported and based on smaller sample sizes. LFS estimates of hourly earnings also tend to be lower than ASHE as it collects data on respondents' actual and usual hours of work which could include unpaid hours. This results in the derived hourly earnings variable to be lower than that from ASHE, and therefore produces higher estimates for those in NMW jobs (LPC, (2013)).

6.33 The LPC estimates show that around 11.3 per cent of migrant workers' jobs were paid at or below the minimum wage, compared with 7.4 per cent of jobs for UK-born workers (Figure 6.2) (LPC, (2014)).

Figure 6.2: Proportion of workers paid at or below the minimum wage, UK, 2013



Notes: Estimates based on ASHE 2010 methodology, low-pay weights, including those not on adult rates of pay, UK, April 2013 and LFS Microdata, income weights, quarterly, not seasonally adjusted, UK, Q2 2013. Minimum wage jobs defined as adults (aged 21 and over) earning less than £6.24, youths (aged 18-20) earning less than £5.03, and 16-17 year olds earning less than £3.73 in April 2013.
Source: Low Pay Commission (2014), Figure 2.5

6.34 There was also noticeable variation between particular groups within the migrant and ethnic minority worker categories who were in minimum wage jobs. For instance, around 15 per cent of Pakistani/Bangladeshi workers were in minimum wage jobs, the highest proportion among all ethnic groups. This compares with approximately 8 per cent of white workers and 6 per cent of black workers in these jobs.

6.35 The Department for Business, Innovation and Skills (BIS) is responsible for the policy on NMW compliance and enforcement. HMRC, via its National Minimum Wage Inspectorate (NMWI), enforces the National Minimum Wage Act 1998 on BIS' behalf.

"Enforcement of the National Minimum Wage (NMW) is particularly relevant to the impacts of migrant work in low-skilled occupations. If migrants are willing to work for less than NMW or are less aware of their rights to be paid the NMW, it could lead to native workers being undercut illegally by migrant workers."

Department for Business, Innovation and Skills response to MAC call for evidence

6.36 The NMWI has a team of 175, of which 142 are involved in the enforcement of the NMW. Inspectors have the right to enter a place of work where they can demand to examine wage records. Such inspections are often initiated by complaints made by workers or from third parties, such as trade unions. In addition, enforcement activities can take place when risk assessments indicate that employers are not paying the NMW.

6.37 Inspectors can issue a 'notice of underpayment'. This requires the employer to pay, within 28 days, any amount owed to workers. If employers do not comply, the claim can be taken to an employment tribunal or to the county courts. Employers who are repeat offenders or who refuse to co-operate can be prosecuted.

6.38 In evidence to us BIS stated that *"The Government is committed to increasing compliance with minimum wage legislation and effective enforcement of it".* The department said *"non-compliant employers need to believe that there is a real risk that they will be investigated"* and confirmed that *"Government actively targets employers who flout their responsibilities and investigates any complaint made against them, taking civil and criminal proceedings as necessary...when we find examples of businesses breaking the law we crack down on them"*.

6.39 When we met HMRC to discuss compliance and enforcement we were impressed by the commitment with which they undertake these tasks. We heard that the NMWI investigates every complaint received by the Pay and Work Rights Helpline and they also carry out investigations in sectors or areas where there is a higher risk of workers not getting paid the legal minimum wage. They said they had carried out about 65,000 interventions since 1999, equal to 5,000 per year.

"If HMRC investigates an employer that is breaking NMW law the employer will have to pay back the arrears owed to workers, face financial penalty and be publicly named and shamed under the NMW Naming Scheme."

The Department for Business, Innovation and Skills response to MAC call for evidence

6.40 If an employer is found to be non-compliant, i.e. not paying the relevant NMW, three penalties can apply. First, arrears of wages are identified. From 1999 to 2013, £45 million in arrears for over 200,000 workers were identified, equivalent to £225 per worker, which is a non-trivial sum for a minimum wage-worker. However, we understand that "identified" does not automatically mean "paid". In fact, many employers declare themselves to be bankrupt in order to avoid paying these arrears (often to resume business under an alternative identity soon afterwards).

6.41 Second, an underpaying employer has to pay a fine, or penalty, for non-compliance and in 2012/13, 708 employers received such penalties totalling £777,000. We believe an average penalty per employer of just

over £1,000 provides little incentive to obey the law. That said, we note that the maximum penalty has recently been increased from £5,000 to £20,000 for every underpaid worker – recognition that the previous fine was inadequate.

6.42 As stated above, HMRC identified more than £45 million in arrears for over 200,000 workers in the course of 65,000 employer interventions. BIS said that in 2012/13 HMRC identified £3.9 million in arrears of wages for over 26,500 workers, which they said represents a 33 per cent increase in the number of workers HMRC were able to help in 2012/13 and a 26 per cent increase in arrears identified compared to 2009/10. We note this improvement but we think that there is still some way to go to ensure a stringent regime of compliance. Robinson (2014) found that over the past six years cases processed by the the NMWI have fallen annually from its peak at 4,473 in 2007-08 to 1,615 in 2012-13. Robinson also highlighted that the issue of low criminal prosecution for failure to pay the minimum wage where there has only been one prosecution in 2010-2011 and one in 2012-13. It is questionable whether the system of interventions and enforcement action are providing a sufficient deterrent to those employers seeking to avoid paying the NMW and Ipsos MORI (2012) found that *"awareness of the penalty acted as a deterrent for some, but only if they felt there was a strong possibility that they could be **caught** breaking the law."*

> *"In our 2013 Report we reiterated our long held view that serious infringers of the NMW should be prosecuted, and that this action should be publicised to deter others. While the Government has always supported prosecutions as one part of its tool kit for addressing non-compliance, there have been only eight prosecutions since the introduction of the NMW with the last case in February 2013."*
>
> Low Pay Commission (2014)

> *"The lack of commitment to enforcement within the UK regulatory framework can be seen with regard to the national minimum wage, where no prosecutions have taken place since June 2010, and, despite the introduction of a policy from 1January 2011 to 'name and shame' violators who disregard the minimum wage, only one person has been named."*
>
> Joseph Rowntree Foundation (2013)

6.43 Third, BIS (Department for Business, Innovation and Skills (2013b)) states that "*the Government operates a policy of selective and exemplary criminal investigations to bolster our overall national minimum wage compliance and enforcement strategy*". BIS told us that "*the focus of HMRC investigators must…be on cases where prosecution will do most to promote compliance with the law*". HMRC confirmed to us that only the

most severe cases are prosecuted. They said that it is more worthwhile for them to go down the civil route rather than the prosecution route, and even then, many employers disappear and employees move to self-employed status. This latter move is, we were told, very difficult to challenge as it is the employer's responsibility to define employment status. HMRC also said that it is very difficult to prosecute labour providers as they may not have any assets.

6.44 Ipsos MORI (2012) found that while most employers were aware of the need to pay the NMW, there was a lack of awareness about the specifics of the legislation. The two main reasons employers gave for non-compliance with the NMW were that they could not afford to pay it or, for various reasons, they were unwilling to do so. Ipsos MORI (2012) said that, generally speaking, employers were aware of the need to pay the enforceable NMW and that there is a minimum hourly rate to be paid to their employees. However, none were able to give the exact amount payable to over 21s and this in part explains why some employers thought that their business could not afford to pay their employees the NMW.

"Matters concerning the sourcing, recruitment, conditions of hire and remuneration of workers cannot be reduced to the view that employers have a free hand in all these matters. This is particularly the case in sectors involving low skill/low productivity goods manufacture or service provision, where levels of profit are likely to revolve around management techniques which optimise the exploitation of labour resources."

Migrants' Rights Network response to MAC call for evidence

6.45 Ipsos MORI (2012) also found that some employers exploited vulnerable workers by giving those in positions of responsibility permanent contracts and paid them wages compliant with the NMW. Meanwhile part-time staff, casual workers, students and recent migrants were less likely to be seen as 'proper' workers and were therefore paid less.

6.46 In fact, Ipsos MORI (2012) reported that *"some employers used only those workers who they know did not have a valid permit to work in the UK (or were not allowed to work the number of hours they were contracted for) or those who were also claiming benefits"*. Interestingly, Ipsos MORI also found that some employers were concerned that paying a flat rate wage with no option to add to it would not incentivise their workers.

6.47 In our discussions with partners we were also told how non-compliance with, and lack of enforcement of, the NMW plays out on the ground. In Boston we met with representatives of various bodies, including the local authority, local employers, trade unions and migrant groups. One of the central themes of our discussions was the lack of enforcement of employment rights, mainly around pay. There was a prevailing concern that migrants were being exploited through the way in which they were paid. This, we were told, was because some migrants were unaware of

the minimum wage, or of their general rights, which meant that they did not know that deductions for items such as holiday pay or travel costs should not be made from their wages.

6.48 The majority of employers we met with said increasing the enforcement activity with regard to the NMW would create a level-playing field for them and also for resident local workers, as they felt that low wages, and the fact that vulnerable workers are easier to exploit, were significant attractions for some employers preferring migrant labour.

6.49 We were told in Newham that there is a problem with payment of the NMW and that the borough is in favour of long-term devolution of powers to deal with this. In particular, they would like the power to be able to carry out wage checks. They said that they would also like to remove the cap on fines and increase them significantly. We heard that an HMRC enforcement team spent a morning in Newham and found 20 instances of issues with NMW payment. Newham representatives argued that this suggests a significant problem which HMRC lack the resources to deal with. The local authority has 150 people in touch with businesses in one way or another and felt that this significant presence on the ground could be used to enforce the NMW in partnership with HMRC. We concur with this and believe that there may be opportunities to be exploited by HMRC in engaging with local authorities to share information about local businesses.

6.50 It is not just the lack of enforcement that can cause workers to be denied their basic employment rights, including being paid below the NMW. We discussed zero hours contracts in Chapter 5 and here note the recent research from the University of Leeds (Bessa *et al.* (2013)) which found that even though an average worker in the care sector is paid 15 per cent above the minimum wage, *"…weekly rates for those on zero-hours are significantly less – overall all workers have to work beyond their contractual hours to ensure a living wage, but this is particularly true for those on zero-hours contracts"*. This study also found that "*in order to win local authority tenders, whilst complying with the NMW, homecare providers are increasingly unable to guarantee careworkers fixed and contracted weekly hours. This has implications for sick pay and holiday pay and entitlement, whilst providers often do not pay overtime or unsocial hours premiums and in many cases they do not pay for travel time between visits"*.

Role of the informal economy in non-payment of the NMW

6.51 In its broadest sense, the informal economy can be defined as activities and income that are partially or fully outside government regulation, taxation, and scrutiny. The size of the informal economy is difficult to measure mainly because it requires a calculation of a number of hidden economic activities. Nevertheless, Schneider and Williams (2013) recently suggested that the shadow economy constitutes approximately 10 per cent of GDP in the UK.

6.52 The drivers behind the decision to seek work within the informal economy include not having to pay income tax or VAT but also, according to Ipsos MORI (2012), having large debts, being unable to find work within the formal economy, and lacking the means to ensure even a basic standard of living.

6.53 An issue often prevalent in the informal economy is the under-payment of the NMW. The Government is intent on ensuring that all workers obtain the rights they are entitled to, particularly the NMW. In addition to the GLA responding to labour market, tax and employment law abuses within the sectors under its umbrella, we understand that HMRC has established specialist teams whose aim is to identify and tackle those operating within the informal economy.

6.54 Ipsos MORI (2012) found that, when setting up a business, employers gave priority to ensuring that business rates, registration fees and VAT were paid. Employers did not consider the payment of the NMW to be as important because the penalties for non-compliance with, for example, tax legislation were perceived to be more severe than those for the NMW and also because of the relatively low possibility of NMW inspection. Ipsos MORI said *"although not explicit in the way they discussed the NMW, this ranking was largely dependent on whether they felt they would get caught if they were not complying. As few believed they would be inspected for non-compliance with the NMW, this was not an effective spur for them to ensure they acted in accordance with the legislation"*. Ipsos MORI also highlighted that only a proportion of the work carried out by such businesses went through the official books which allowed the businesses to *"maximise the cash-in-hand profit from the other percentage of the business"*. HMRC confirmed that cash-in-hand is a low-level tax evasion but one which can have a large aggregate impact on total tax receipts.

Case study: Cash-in-hand working in Southwark

In 2012/13 Southwark Council commissioned a piece of combined ethnographic and survey research to better understand the lives of migrant communities in the borough. The research was undertaken by ESRO, an independent research agency, and was focused on five migrant communities (Nigerian, Sierra Leonean, Francophone African, Bangladeshi, and Arabic speakers). These communities were chosen as each had been identified as being poorly understood, either due to the relatively recent growth of the population in the borough, or because it was suspected that a large proportion of the population might be hidden from official statistics and/or administrative data sources. In relation to the informal economy in the borough, the ESRO research found that:

"28% of our sample indicated that they worked for 'cash-in-hand' (this represented 42% of those who said that they were 'employed' and 47% of all of those who said that they brought in any money at all). Working for cash is perhaps the best proxy for understanding how many people in the sample worked in 'informal jobs' or in jobs that may be less secure or sustainable in terms of employment protection, pay and duration of employment. We can be fairly sure of the accuracy of these figures since the response rate for this question was actually far higher (881 of 981 surveyed) than a later question that asked for specific details about current employment."

"Those parts of the population who were more likely to be working for cash were the following:

Those with little or no education	64%
Undocumented migrants	52%
Undocumented & 'employed'	58%
Visa-overstayers	53%

"...Working for cash seems to be prevalent among all segments of the migrant population we studied. Rates do not vary considerably according to age, gender, or length of time in the UK, for example. This means that those parts of the population for whom precarious employment circumstances might have greater detrimental impact, were in fact, just as likely to have precarious employment circumstances. For example, 34% of employed migrants with children under 18 in the UK said that they were paid in cash."

Source: ESRO (2013)

6.55 Workers who operate within the informal economy are often denied other basic labour market protection including the right to: work no more than 48 hours a week; paid holidays; sick pay; protection from unlawful deductions from wages and minimum notice periods. All of which, together with the under-payment of the NMW, can further exacerbate the exploitation of workers, especially the most vulnerable.

6.4 Is enforcement of employment rights effective?

6.56 In the thirteen years following the introduction of the NMW in 1999, HMRC carried out about 65,000 employer interventions or visits, equivalent to 5,000 per year. However, there are around 1.2 million employers in the UK (BIS, (2013a)) and therefore at that annual rate of visits it would take 250 years to inspect every employer. Or, to put it another way, without targeted, risk-based visits an employer can expect a visit to check on

NMW compliance once in every 250 years! Even though the risk-based approach used by HMRC raises the likelihood of a visit for potential non-compliant firms, such small probabilities hardly provide a strong incentive to comply.

6.57 Similarly, in the seven years from 2007 to 2013, nine employers were prosecuted for non-compliance with the NMW legislation, which is equivalent to 1.3 prosecutions per year. Given the total number of employers in the UK, this rate implies that an employer faces the possibility of prosecution under the NMW legislation once in a million years! We believe that such a likelihood of prosecution is unlikely to promote compliance with the law.

6.58 We received evidence about how the lack of effective enforcement impacts on the ground. Most often this is because some employers feel they do not have to comply with the relevant legislation. For instance, we heard about how employment agencies and employment businesses are excessively charging migrant workers for their services. We received anecdotal evidence about agencies that offer migrant workers loans and the workers are told that such loans must be repaid through a salary-deduction scheme and that workers were unaware of the payment terms at the outset. This results in migrants being charged at a level similar to or sometimes even higher than those of moneylenders. These loans tie the workers to the agents preventing them from easily moving jobs.

6.59 In Peterborough we were told about the practices of a local recruitment agency. Workers were offered a small daily wage to work but were then made to make daily contributions for items such as employment protection insurance, transport and uniform. Peterborough County Council told us that because of these deductions some migrant workers were being paid as little as £3.50 an hour for an 8 hour day. We heard that in an 18 month period, of all the agencies in Peterborough taken to employment tribunals, only four or five agencies were successfully closed. Some of those agencies that had closed had restarted and were now trading under a different name. It was also mentioned to us that those ex-employees who took agencies to a tribunal would potentially find it difficult to obtain employment through other agencies.

6.60 Although there are inevitably frustrations associated with enforcement action and the ensuing legal action, the enforcement agencies can point to a number of success stories.

Case study: GLA upholding labour standards through licence monitoring

On 5 March 2014, the GLA labelled DJ Houghton Ltd the 'worst UK gangmaster ever' for their 'prolonged and disgraceful' exploitation of workers. After lengthy efforts to clear its name, the gangmaster finally withdrew its appeal against the decision to revoke its license dating back to October 2012.

At that time, 29 Lithuanian men were found to have been 'treated like slaves' when put to work as chicken catchers by DJ Houghton Ltd, which provided migrant workers to Noble Foods, one of the UK's largest processors of eggs and chickens.

The men gave evidence detailing: physical and mental control through beatings and the use of dogs to intimidate; excessive recruitment fees; wage deductions and withheld wages; poor and cramped living conditions; confinement in a transit van for days without washing or toilet facilities; movement around the UK from job to job, paid only for the time that they were working; and a lack of health and safety equipment or training.

Upon uncovering this exploitation, the GLA immediately revoked DJ Houghton's license for failing 18 separate GLA Licensing Standards, including: 2.2 Paying wages in accordance with National Minimum Wage; 3.1 Physical and mental threats to workers; 3.3 Withholding wages; and 4.1 Quality of accommodation.

Source: Robinson (2014)

6.61 A significant proportion of the evidence we received told us that although enforcement action did serve to punish a number of employers found to be in breach of or not complying with the relevant legislation, the temptation for employers to avoid costly compliance, and the rewards to them for doing so, were such as to not act as a sufficient brake on those willing to take a chance. In looking at the influence of legislation on how employers and recruitment agencies engage with migrant labour, McCollum and Findlay (2012) found that unscrupulous activity with regards to payment of overtime, income taxes, National Insurance contributions, holiday pay and adherence to health and safety and other legislation was commonplace in the food production and processing sectors. This was attributed to the role of supermarkets in driving down margins and the labour provision industry being highly competitive.

6.62 These factors served to create incentives for organisations to cut corners in order to reduce their costs. Legitimate labour providers reported that competing with providers who were cutting corners was very difficult because they could offer labour to employers at reduced rates.

6.63 The Forced Labour Monitoring Group (FLMG) told us that, in the sectors within the GLA's remit, migrants are recruited by labour providers (both in their home country and within the UK) and employers because migrants represent a more obedient source of low-wage labour which can lead to exploitation and in extreme cases forced labour. The FLMG also explained that issues such as a lack of English language skills and unfamiliarity with the UK regulatory frameworks can create barriers to migrant workers reporting incidents of exploitation.

> *"…we wish to highlight that exploitation appears to concentrate in low-wage sectors of the economy where migrant labour use is pronounced. Those sectors regulated by the Gangmasters Licensing Authority currently include shellfish collection, food processing, agriculture, horticulture and forestry. There is strong evidence from a range of quarters that, moving forwards, the GLA's now-depleted resources are inadequate to undertake effective regulation in even those limited numbers of sectors."*
>
> Forced Labour Monitoring Group response to MAC call for evidence

6.64 Warwick IER (2013) reported that the majority of employers who commented on legislation expressed concerns about whether it would require them to provide additional monitoring or other data and the time this would take to collect.

6.65 In addition, aggrieved employees are obliged themselves to initiate action through Employment Tribunals against employers who they believe have breached their legal rights. The legal process is slow. According to Clark (2013) even for the simplest of cases it can take up to 26 weeks to get a judgement. Making an employment tribunal claim can also be expensive. A cost for bringing an employment tribunal claim was introduced in 2013, which starts at £390 to take the administratively simpler 'level 1' claims to a full hearing. Clark suggests that because the median award in Wages Act cases in 2011-12 was £400, the starting fee of £390 would deter claimants. Even when an employee wins their claim, tribunal awards, which are only enforceable via the county court, often go unpaid. According to Clark (2013) a study conducted in 2007-2008 found that *"in only 53 percent of cases examined had awards been paid in full."*

6.66 The impact of compliance and enforcement on the migrants themselves is also significant. Unite told us that in their view there is an association between low-paid work, low-skilled work and low levels of employment protection.

> *"Whether migrant or non-migrant, workers are making rational decisions as to the advantages and disadvantages of taking up such insecure work, with its low rewards, insecurity, lack of progression, and likelihood of becoming trapped."*
>
> Unite response to MAC call for evidence

6.67 The remainder of this chapter will look at the extent to which the conditions identified by Unite and others create an environment in which vulnerable workers, specifically migrant workers, can be exposed to exploitation.

6.5 Exploitation of migrants in low-skilled jobs

6.68 We were struck on our visits around the country by the amount of concern that was expressed by virtually everyone we spoke to about the exploitation of migrants in low-skilled jobs. This section will look at some of the evidence we received about this.

6.69 We received evidence from the TUC raising their concern about the lack of labour market protection found in low-skilled occupations. They told us that this encourages exploitation and undercutting, and said the rapid expansion of low-skilled employment over higher-skilled employment denies workers the ability to utilise existing skills or opportunities after training.

"The TUC calls on the government to provide better labour market protection to ensure decent conditions for workers in low-skilled work are provided and language support for migrants and routes to have their skills recognised. The TUC also calls on employers to provide decent pay and conditions to better reward employment in low-skill occupations as well as creating more work in higher-skilled occupations and skills training for workers to allow them access to these occupations."

TUC response to MAC call for evidence

6.70 The TUC told us that migrants, particularly from lower income EU accession countries, are often likely to take up low-skilled work, partly due to the nature of the labour market but also due to the labour market profile of such migrants. They said that the skill levels of these workers and the occupations they take are not necessarily linked. For instance, almost half the EU8 workers to arrive in the UK were educated to degree level or higher, yet the majority of EU8 workers who arrived after 2004 were employed in poorly paid, low-skilled parts of the economy. They felt that this is due to the non-recognition of qualifications; language barriers; and the network effect whereby new migrants learned about job opportunities from associates already employed in the UK.

6.71 The TUC considers that the government should offer more support to migrant workers to allow them to utilise their qualifications and skills so they do not have to work below their skill level. The TUC said employers should support this and adequately reward workers for their skills. They would like to see responsible employers providing workers with information on their rights and working with trade unions to make sure all workers are protected. The TUC argued that extending the scope and coverage of collective bargaining at a sectoral level would play a major role in addressing the problems of exploitation and undercutting. We recognise that this would be a huge change in employment relations and this is not directly a matter for the MAC.

6.72 During our visits to places which had experienced relatively high levels of migrants the point that migrant workers are more likely to be exploited than resident workers as they are not aware of their rights and are afraid they may be sacked/evicted/deported if they complain was raised on a number of occasions.

6.73 At our meeting with the Equality and Human Rights Commission (EHRC) they expressed the view that migrant workers, and especially agency workers, were more likely than resident workers to put up with poor working conditions and bad treatment by employers because they were not aware of their rights, they do not know who to complain to and are scared that if they do complain they could lose their job. The EHRC said it is often better for a migrant to be in the UK with a job, albeit a low-paid one, than in their home country without a job.

6.74 At a meeting with the trade unions we were given further examples of exploitation. It was suggested that employers used language skills as an excuse and a mechanism to keep people in low-skilled jobs. The outsourcing of low-skilled work means that now there are double barriers to progression – the agency and the client. We were told that English for speakers of other languages (ESOL) provision has reduced since the recession and employers are less willing to engage in training for staff. The trade unions argued employers keep the different nationality groups separate in order to keep them isolated and reduce the information available to them.

6.75 A major issue for migrant workers is not being given a formal employment contract, which makes people very vulnerable to being exploited. We were also told that when accommodation is linked to the workplace, this can cause additional problems for workers. It can lead to workers being completely isolated and under the control of their employer/landlord.

Case study: Patterns of Employment in Southwark

"Undocumented migrants can be very vulnerable to employer exploitation. We encountered many stories of people being forced to work for long hours on low pay (well below minimum wage) under the threat of deportation, even in businesses located in Southwark. Migrants in these situations often feel that they have very little recourse to complain."

"More complicated situations can arise in relation to sharing NI numbers, identity documents and bank accounts. Focus group respondents described labyrinthine relationships whereby one person may be collecting wages for several people (who do not have proper documentation) into his bank account and/or having national insurance contributions paid on his behalf. The migrant workers must then try and reclaim the wages they have earned from this 'broker'. In many cases the 'broker' will be a friend, and nothing untoward happens, in other situations however, complex negotiations over fees and commission can take place and create rifts between people. Again, those without their own documents and bank accounts are the more vulnerable."

"The situation for many migrants (especially the undocumented) is one in which earning money is a necessity; beyond all other considerations. They may be being relied upon to earn money to send to another country to support friends and family, they must find a way to secure accommodation, and in many cases they have no recourse to public support. This inevitably means that migrants will take work that would appear less than desirable to the 'native' population. In fact, not earning money is, in many cases, simply not an option. This makes it difficult to be exact about the proportion of 'employed' migrants, as people will take short-term, one-off and odd-jobs."

"In our survey, for example, 51 respondents said that they were unemployed but also indicated that they were 'paid in cash'. Their jobs included child-minding, security jobs, volunteering (for expense) etc. In all likelihood these were just one-offs – rather than salaried jobs. In this context, it is very difficult to unravel the notion of exploitation."

Source: ESRO (2013)

6.76 We note that there are sector specific conditions which create the possibility of exploitation, including forced labour. For example, the Joseph Rowntree Foundation (JRF) (JRF, (2013)) explains that in the construction sector, there is a persistent reliance on "*contingent forms of labour*" including the self-employed, agency workers and subcontractors. The JRF argues that employment within the sector tends to be "*precarious and insecure*" and highlighted a quote from UCATT, the union for workers in the construction sector, arguing that there is *"evidence to suggest that the practice of false or 'bogus' self-employment is commonly used by employers to 'evade' taxes and engage workers without having to respect employment rights and entitlements such as holiday pay, sick pay and pensions"* The JRF said that labour providers play an important role in the supply of workers to firms. They point out that the GLA has no remit in the construction sector and therefore labour provision is left to self-regulation. We noted earlier in this chapter the views of the TUC and the Forced Labour Monitoring Group that the Government should extend the GLA's remit to cover sectors including construction.

Overcrowded housing

6.77 The exploitation of workers also extends to the conditions in which they live. We discuss the social impacts of migrants working in low-skilled jobs in Chapter 9. Here we provide a brief overview of how the lack of enforcement of housing laws can add to the vulnerability of workers. In particular areas of the country large influxes of migrants have been associated with increases in Houses in Multiple Occupation (HMOs). Based on Labour Force Survey (LFS) 2013 data, Table 6.2 shows that a higher proportion of EU8 & EU2 and non-EU born migrants live in households with two or more family units as compared to UK born and EU (excluding EU8 and EU2) born.

Table 6.2: Households with two or more family units by country of birth, 2013

	Total population (millions)	Number of households with 2 or more family units (in thousands)	Proportion of all households with 2 or more family units
UK	54.9	957	1.7
EU (excluding EU8 & EU 2)	1.5	25	1.7
EU8 & EU2	1.2	100	8.1
non-EU	5.0	253	5.0

Notes: A family unit can comprise either a single person, or a married/cohabiting couple and their never-married children who have no children of their own living with them, or a lone parent with such children. Number of households with two or more family units combines the following categories: 2 or more family units, all dependent children, 2 or more family units, dependent & non-dependent children, 2 or more family units, all non-dependent children and 2 or more family units, no children.
Source: Labour Force Survey

6.79 The Housing Act 2004 introduced licensing for HMOs to be done by local authorities and provides a detailed definition of HMOs, and sets out standards of management for this type of property. There are two types of HMO licensing:

- mandatory licensing; and
- additional licensing.

6.80 Licensing is **mandatory** for all HMOs which have three or more storeys and are occupied by five or more persons forming two or more households. **Additional licensing** is when a local authority can impose a licence on types of HMOs for which licensing is not mandatory. The authority may do this if it considers that a significant proportion of these HMOs are being poorly managed. It is a criminal offence to manage or control a property which should be licensed but is not. If convicted, the landlord or manager could be fined up to £20,000.

6.81 In Peterborough we were told that HMOs have become very prominent and that there are streets in the town consisting solely of this type of accommodation. We heard anecdotal evidence about overcrowded houses causing the spread of disease and were told of a case where it was reported that 70 people were living in one house. When authorities visited the premises to investigate, the house had been emptied and all those living there moved elsewhere.

6.82 We were able to see for ourselves some of these issues first hand on a visit to Wisbech in Cambridgeshire. We were told that the number of rental properties there had trebled over the last 10 years and that this had coincided with relatively large increases in the numbers of Latvians and Lithuanians arriving in the town. Locally, rented accommodation is seen as a good opportunity for investment. Owners reported being completely unaware of how their properties are used, despite the impact this could have on mortgages and housing insurance.

6.83 The property, and those who reside there, are controlled by a letting agent or sub-letter. Tenants are charged approximately £60 each per week for rent, regardless of how many people are in the property. Therefore, overcrowded properties allow the sub-letter to earn more than those at normal occupancy levels.

6.84 Properties which would typically be designed for three or four people were found to be accommodating six or seven, and sometimes 10 or more. More people in a property generates more noise and more refuse and, understandably, this causes concern amongst neighbours and can generate negative attitudes towards migrants. With so little space in the property itself, occupants are more likely to spend time outside, increasing their visbility to neighbours. Arguments between occupants of such HMOs can spill outside their residence, exacerbating the concerns of their neighbours.

6.85 The impact of these HMOs is concentrated in the private rented sector. We were told that, in general, the Latvian and Lithuanian migrants in Wisbech are very reluctant to deal with the state, especially upon arrival. Presently, if they are in social housing they are most likely to have been re-housed following eviction from private rented accommodation. However, there was some evidence of an increasing willingness by migrants to interact with the state to obtain social housing, due in part to the problems they have encountered in the private rented sector.

Patterns of exploitation

6.86 We have discussed how current employment and housing legislation and the enforcement of these, particularly the NMW, can impact on migrants. In isolation these can have significant negative effects on the welfare of individuals. However, the combination of non-compliance and insufficient enforcement can lead to instances of severe exploitation, particularly of vulnerable groups such as migrants. During our visit to Wisbech we were shown clear evidence by the police and local council of such instances of

exploitation of migrants, and on a relatively large scale. Box 6.2 shows how and why exploitation occurs based upon what we were told and saw in Wisbech.

Box 6.2: How exploitation occurs in Wisbech, Cambridgeshire

Companies in Latvia and Lithuania advertise the life that potential migrants can expect in the UK and charge £300 to £600 to come to the UK. Migrants are dropped off outside a petrol station, and then brought by a minibus to an overcrowded house.

↓

The owners of the house are usually unaware, as the house for them is just an investment, and it is really controlled by a letting agent or sub-letter. The sub-letter will usually control several properties and will not only collect rent from the tenants but also collect their wages and then distribute the money to them.

↓

Upon arrival, the migrants are immediately charged rent, perhaps as much as 3 weeks' worth in advance so they are immediately in debt. Their passport may also be confiscated, and may be used to commit identity fraud.

↓

They are also discouraged from getting a UK bank account as this means that the exploiters have more control over them. Alternatives like Onepay cards may be used instead.

↓

Accommodation is tied to work. If there is work available, they are given work; if not then they are not offered any assistance, and there is the risk that they will lose the accommodation due to lack of formal tenancy agreements. If work is not tied to accommodation, the accommodation is more reliable but the work offered tends to be more spasmodic.

↓

If they are in work, then they are often paid less than the minimum wage. This is achieved through illegal deductions from their pay including transport, food and rent. Work is rationed; for example, 5 people are paid to do one person's work, and this keeps people poor and reliant on the exploiter.

↓

The key is often that wages are paid to one person and then they distribute the wages as they see fit to multiple people, meaning that the migrants' pay is less transparent and they are more under the exploiters' control. Ensuring direct payment each worker is an important step in counteracting this exploitation.

↓

The incentive for migrants is that there is a light at the end of the tunnel, that there are examples of people who come out of their initial period of debt and are then able to get a bank account and escape the sub-letter's control.

6.87 What happens to such exploited migrants seems to depend upon a few key factors. Box 6.3 sets out these factors and the very different outcomes that may result, using case studies of migrants we met when visiting Wisbech.

Box 6.3: Case studies from Wisbech on the outcomes of exploitation and their determinants

Currently being exploited:

1 couple and 1 man. The couple previously resided in Italy where they worked as party planners. Now they work in a chicken processing factory. For a whole week's work they were paid £50. This figure is their wage minus deductions such as rent and transport, but does not include utility bills. They are using Onepay cards rather than bank accounts. They were mislead by the recruitment agency about what life in the UK would be like and are strongly considering going back to Italy, where they had more pleasant living and working conditions.

Escape

Keys:

- **Awareness of NMW**
- **Bank account rather than Onepay card**
- **Legitimate gangmaster**
- **Able to overcome initial debt due to availability of work and control of finances**

Exploitation

Keys:

- **Lack of access to work**
- **Unable to save and overcome initial debt**
- **Debts mount and increase the risk of losing accommodation and becoming homeless**

A success story:

2 women aged mid-20s to mid-30s. They have been in the UK for about 1 year. One has a medical degree and has come to the UK with the hope of improving her English so that she can apply her skills here. Both work in agriculture and catch a minibus to work. They normally earn (and are aware of) the NMW and receive legitimate wage slips.

Descending into poverty:

1 man. He stayed in a squat the night before we met him (the conditions of which are appalling: no heat, light or running water and the basement is used as the toilet) because he wanted to drink with his friends. He is not returning to other accommodation because he has no money to pay the rent. He has been working in agriculture, but the work has dried up recently. He is indifferent about returning home because the conditions are no better – the homeless are attacked and abused there.

6.88 It should be noted that the negative outcome of poverty which we describe in Box 6.3 is by no means the worst. We heard accounts of younger females being driven into prostitution or sham marriage in order to pay off debts, and we were told there have been several migrants whose desperation was such that they committed suicide.

6.89 On the upside of this story, we did find that one of the ways in which migrants found a legitimate gangmaster in Wisbech was through a local charity called the Night Shelter. This organisation provided temporary accommodation and support for those who had become homeless. Those being helped by the Night Shelter were work-ready and more likely to be motivated to find a job rather than rely on benefits. We were told that 46 per cent of those the Night Shelter helped found a job within 2 weeks.

6.90 Migrants can also become complicit in the exploitation of other migrants. After a period of time, stronger characters from among those being exploited could become the head of particular HMOs. They would be given the responsibility of managing the other occupants, and perhaps be allowed to act as a driver in return for a reduction in rent. Additionally, we were told that many of the persons seeking to exploit migrants were themselves nationals of the same country as those they exploited.

6.91 When we went to Boston we met with a representative from the Latvian community who gave us some anonymous quotes from members of that community about their experiences of exploitation.

Case study: Testimonials from Latvian nationals living in Boston
"In my agency when I am going to work I am forced to go with their transport and I have to pay £5 for a day. It is much cheaper for me to go with my own transport, but if I do so they charge me and take money from my salary anyway. And you cannot plan your day off work. They give you one, but they can call you any time and say you have to be at work in one hour. If you say no, they punish you by giving you a whole week off work." *"People are forced to stay and work overtime. They do not have a choice to say no, and even if they do and they are travelling to work with company transport it only arrives when overtime is finished."* *"You can see that on this payslip is no hour rate, no insurance number, no taxes paid, no national insurance paid on one of them."* *"I was working for them one year and I was working in department where work was very hard. I had health problems with my arms – they were swelling and I was in pain during my work. I went to agency girls and asked them if it is possible to change department and told them why, after few days they called me in the office and told me this is last week I am working there."* *"Our factory is very busy from August till end of December, after this period it goes very quiet. They keep some people from agency and split job between them, still what they do is not fair because they say split job equally, but some people get 24 or 32 hours per week, but some only 8 hours per week."* *"I had court with one agency couple years ago. I sue them because they was not paying me all the money they needed to pay me. This January I was looking for a new job and I went to another agency to apply they told me that they do not need employee like me because they have heard that I sue company in which I worked before."*
Source: Note of quotations from Latvian nationals supplied at our meeting in Boston, (2014)

6.6 Conclusions

6.92 In this chapter we examined the legislation governing the low-skilled labour market as well as those bodies that are responsible for enforcing compliance with the relevant legislation. We paid particular attention to the NMW and its enforcement as we feel that this is a key component in ensuring fairness of treatment for workers in low-skilled jobs and in delivering a level playing field for all employers as well as helping UK-born workers compete with migrants for these jobs. We then looked at whether enforcement of the legislation was effective and whether exploitation, particularly of migrant workers, was occurring notwithstanding the regime of measures intended to protect them.

6.93 We found that there was a low level of labour market enforcement across low-skilled jobs. Although there was legislation in place, the numbers indicate that untargeted inspections will be rare. The relatively small numbers of successful prosecutions coupled with non-application of the harshest penalties could lead employers to conclude that chance favours those willing to avoid their obligations under the legislation. The level of resources put into inspections could result in employers being reasonably sure that there was only a small chance of them being discovered to be in breach of their obligations. The opportunities afforded by non-compliance

meant that this could be seen as the more attractive option by employers. We received evidence that this was the case. The legal process available to employees to initiate action against employers who have breached employment rights are protracted, expensive and give employees little prospect of getting back what is due to them (Dickens (2012)).

6.94 While we did see evidence of employment rights being enforced, we question how extensive the enforcement is and whether the resources devoted to enforcement are sufficient. Enforcement bodies, such as the GLA, the HSE and the EASI, should have the effectiveness of their enforcement activity increased through further resourcing.

6.95 Additionally, the fact that there are a number of bodies with responsibility for enforcing different aspects of employment rights caused us concern that there might be confusion over respective roles and differing priorities of each of these organisations. These bodies are prohibited by legislation from the widespread sharing of data and we do believe there is a case for increased data sharing among relevant enforcement bodies.

6.96 The UK represents an example of light touch enforcement of employment rights. The majority of developed countries follow the ILO Labour Inspection convention 81 of 1947 with specialist labour inspectorates, some dealing separately with health and safety and general rights. Most of them have substantial proactive powers of entry, inspection, testing, and questioning. In recent years, some have called for a single comprehensive enforcement agency in the UK. It is clear to us that there is a need for more joined-up enforcement response. The Government may wish to consider the option of bringing together under a single umbrella the various enforcement responsibilities in order to better enforce employment rights. At the very least there is clearly scope for existing agencies to re-focus efforts and seek to work more collaboratively to tackle these issues.

6.97 It may be that it is the UK’s flexible labour market combined with the low level of enforcement activities that have contributed to the increased employment of migrants in low-skilled jobs. We now go on to consider the wider labour market impacts of this.

Chapter 7 Labour market impacts

7.1 Introduction

7.1 In its commission the Government asked us to *"consider the labour market, economic and social impacts on the UK and specifically on British workers, drawing on and updating earlier work in this area".* This chapter, together with Chapters 8 and 9, addresses this part of the commission. First, in this chapter, we consider the impacts of migrants on the UK labour market. Although we have been asked to specifically consider the impacts of migrants in low-skilled jobs, section 7.2 assesses the findings from past empirical studies which have mostly considered all migrants and their impacts on all employees in the UK labour market. **The MAC is carrying out further econometric analysis to supplement this and the results will be published in due course.** This is discussed below. Where possible we distinguish between the impacts of EU- and non-EU born migrants, as well as the impacts on the labour market outcomes of all British workers and of those working in low-skilled jobs.

7.2 Building on our recent report *"Analysis of the Impacts of Migration"* (MAC, (2012a)) and on findings from more recent studies, we first look at the overall impacts of migrants on average wages and on the wage distribution of the UK-born labour force. We conclude that overall the impacts found are modest and tend to be positive at the top of the wage distribution and negative at the bottom. As we would expect workers in low-skilled jobs to be at the bottom end of the wage distribution, this suggests that the negative impact is likely to fall on those working in low-skilled jobs. We then consider the impacts on employment and unemployment at the UK level. Most of the academic studies we looked at found no impact on the employment and unemployment outcomes of native workers. Our findings in MAC (2012a) of a negative association between recent inflows of non-EU migrants and native employment in times of economic downturn or slow economic growth were corroborated by the recent joint Department for Business Innovation and Skills (BIS) and Home Office analysis (Devlin *et al.* (2014)).

7.3 Most of this analysis applies to the national level. However, as we show in Chapter 3, there are some local areas that have experienced much higher inflows of migrants than others, and likewise specific occupations and

sectors which have seen much larger increases in migrant employment. This is especially true in recent years, where there have been large and rapid inflows of migrants, particularly from EU8 countries, to local areas that are not used to high migration. Therefore, it may be that the impacts of migrants on wages and employment for particular local areas or occupations or sectors are different to national-level estimates.

7.4 It is also important to consider anecdotal evidence from specific local areas or sectors alongside estimates based on the available data. We use findings from research we commissioned from Frontier Economics and Warwick Institute for Employment Research (IER), as well as evidence we received from partners. We visited several places that have experienced a recent and rapid increase of their migrant population, namely: Southampton, Boston, Wisbech, Hull, Newham and Peterborough. Our findings are presented in section 7.3.

7.2 Literature reviews of the impacts of migration on the labour market

7.5 In Chapter 8, we note that increased migration raises output. However, this does not tell us if the average native worker is better or worse off as a result of increased migration. Negative impacts of migration could depress the wages of native workers, decrease the native employment rate or increase the native unemployment rate. Whether this occurs will largely depend on whether migrants are competing with natives or if they are complementary to them. If complementary, migrants will do the work that natives do not have the skills to do or introduce new ideas or technology which makes the native population more productive.

7.6 In addition, if the demand for labour is rising, there may be no effects of migration on wages and employment. Substitution and displacement of British workers is more likely to occur when output is demand-constrained as in a recession or when capital is less mobile. An open economy may also adjust by other means such as by changing the mix of goods that the economy produces (Wadsworth (2014)).

7.7 In practice, there will be instances of migrants both competing with natives and complementing them, meaning some workers will gain and some will lose. Therefore, it is important to consider not just the average labour market impacts of migration, but the impacts on specific groups, including those who work in low-skilled jobs, as the impacts on this group may differ to those on the average UK worker.

7.8 We now review relevant literature regarding the impact of migration on wages, the UK employment rate and the UK unemployment rate. Where possible, we differentiate between the impact on the average UK worker and the impact on UK workers in low-skilled jobs.

Literature review of the impact of migration on wages

Wage distribution

7.9 First we review the impact of migration on average wages and across the wage distribution. The majority of studies concur in their estimates that migrants had only a modest impact on average wages, but differ in their assessments of whether this impact is positive or negative. The results from Dustmann *et al.* (2005), Dustmann *et al.* (2013), Lemos and Portes (2008), Nickell and Saleheen (2008), Reed and Latorre (2009) and Nathan (2011) suggest that an increase of 10,000 in the number of migrants in the UK decreased or increased average wages by between -£2 and +£2 per year.

7.10 The majority of these studies find that migrants increased wage growth at the top end of the wage distribution but reduced wage growth at the bottom end.

7.11 Dustmann *et al.* (2013) used data for Great Britain from 1997 to 2005 to estimate the impact of immigration on the wage distribution of UK-born workers. The results suggest that an increase of 10,000 working-age migrants in the UK decreased average wage growth by approximately £1 per year for the bottom 10 per cent of earners, but increased average wage growth for the median earner and the top 10 per cent of earners by approximately £4 per year and £5 per year respectively. This suggests that an increase of migrants in low-skilled employment has a negative impact on the wages of UK low-skilled workers as these workers are likely to be at the bottom end of the wage distribution.

7.12 Gordon and Kaplanis (2014) show that between 1995 and 2000 London experienced a strong upsurge in migration coinciding with falling real earnings and increased employment in the bottom quintile. All three of these shifts largely reversed in the following five years. The authors hypothesise that the growth in the bottom segment of jobs was conditional on an elastic supply of cheap labour which was available due to large-scale migration from low-wage economies to London at this time. To test this hypothesis they use data for 1976 to 2008 and look at international migration flows for a particular region rather than the stock. Gordon and Kaplanis find that the negative effects on wages were confined to the bottom tier of jobs. Increasing the level of inflow by the equivalent of 1 per cent of a region's population could be expected to reduce wages in the bottom quintile by nearly 4 per cent in the short run, rising to 6 per cent in the long run. The effect of migrants from rich-countries was substantially weaker and is not statistically significant, suggesting that this negative effect was driven by inflows of migrants from poorer countries. Furthermore it was only the most recent inflow of migrants that had an impact, suggesting that these effects may not be repeated in other time periods.

Occupational wages

7.13 Nickell and Saleheen (2008) used data for Great Britain from 1992 to 2006 to estimate the impact of migrants on average wages by occupation group and by occupation. Their results suggest that an increase of 10,000 migrants working in semi-skilled or unskilled occupations reduced the average wage in that occupation by around £8 per year, and that an equivalent increase in the number of migrants working in skilled production occupations reduced average wages by around £15 per year. Migrants were found to have had little or no impact for other occupation groups. Considering the impact by occupation, an increase of 10,000 migrants working in caring personal services is estimated to have reduced average wages in this occupation by approximately £25 per year.

Wage differentials

7.14 Manacorda *et al.* (2006) used data for Great Britain from 1975 to 2005 to estimate the impact of migration on the relative wages of British workers, resident migrants, British university graduates and British high school graduates. The results from this study suggest that newly-arrived migrants increased the differential between the average wages of natives and resident migrants by 5.5 per cent over the period 1975 to 2005. Newly-arrived migrants are found to have had little impact on the average wages of British workers but to have reduced the average wages of those migrants who have been in the UK for longer. Furthermore, the results from this study suggest that newly-arrived migrants increased the differential between the average earnings of British university graduates and British high school graduates by 0.4 per cent over the same period.

7.15 Rosso (2013) used the UK Labour Force Survey for the years 1998 to 2008 to compute the wage gap between EU8 migrant workers and UK workers at each percentile of the wage distribution, both before and after accession in 2004. Based on the difference in hourly gross real wages, before the accession, EU8 migrant workers earned less than UK workers at each percentile of the wage distribution, with the exception of at the 80^{th} percentile. After accession, the gap between EU8 and UK wages increased, with the largest increase at the top of the distribution. At the 90^{th} percentile, EU8 migrants earned almost 60 per cent less than UK workers. The author goes on to explore the reasons for these changes in the wage distribution, comparing the returns to certain attributes and skills for EU8 migrants, other migrant groups and UK workers at different points of the wage distribution. Compared to other migrant groups, a much larger proportion of the wage differential is explained by occupational downgrading by EU8 migrants across the wage distribution. The author hypothesises that the gap in wage levels at the top of the distribution is mainly due to a lack of transferability of skills acquired in the source country, while at the bottom end of the distribution the gap is due to the temporary nature of these migrants and therefore the greater likelihood of accepting lower wages.

7.16 We conclude that overall the impacts found are modest and tend to be positive at the top of the wage distribution and negative at the bottom. As we would expect workers in low-skilled jobs to be at the bottom end of the wage distribution, this suggests that the negative impact is likely to fall on those working in low-skilled jobs.

Literature review of the impact of migration on employment

7.17 We now review previous studies which have estimated the impact, if any, of migrants on employment in the UK. Dustmann *et al.* (2005) studied the effects of immigration on native labour market outcomes within Britain. They find that the relationship depends on the skill mix of the native population and also on how the economy adjusts to changes in the skill mix. According to the theory presented in the paper, it is expected that if the composition of migrant labour resembles that of the native population, there will be no effect of migration on wages and employment. This is because it is assumed that a replication of the existing workforce will not place a disproportionate amount of labour market pressure on any particular native group.

7.18 Using data from 1983 to 2000, Dustman *et al.* (2005) tested the relationship between the migrant/native ratio and native employment. The geographic coverage of the study was Great Britain, divided into 17 regions. The mean ages of natives and migrants, and highest qualifications of the native working-age population by region and year were control variables along with region and year fixed effects. The authors found no statistically significant effects of migration on native wages and employment. Overall, the study concluded that migrants have little or no overall association with native employment rates over the period 1983 to 2000.

7.19 In 2012, we undertook some analysis to estimate the association between migration and the native employment rate in Great Britain over the period 1975 to 2010 using data from the LFS (MAC, (2012a)). The study considered the impact over: the whole time period; during sub periods 1975 to 1994 and 1995 to 2010; in periods of zero or negative output gap and periods of positive output gap; and the impact of EU and non-EU migrants.

7.20 The study found negative associations between stocks of working-age migrants and the employment of natives in periods normally associated with slow economic growth driven by non-EU migrants. No such association was identified when the output gap was positive.

7.21 The recent joint BIS and Home Office analysis, published by Devlin *et al.* (2014), replicated our analysis, adjusting certain aspects to test their impact on the results.

7.22 Given the significance of London as a destination for migrant labour and as a hub for economic activity, London might be considered an outlier which could have been driving the results found in MAC, (2012). The BIS

and HO analysis removed London to test if results held for the rest of Great Britain – the negative association remained statistically significant. Furthermore, migrants were defined on the basis of nationality rather than country of birth – again the negative association remained significant.

7.23 Data points from recent years were dropped from the analysis to test whether the recent economic downturn was driving the result – the results remained significant when 2010 data were omitted. However the effect disappeared when the data were truncated to 1995 to 2008.

7.24 Subsequent LFS data releases were incorporated up to 2012 Q2 – neither the magnitude nor the significance of the negative association effect were significantly affected. Unemployment rates and inactivity rates were tested as the dependant variable, rather than employment rates. No significant impact was detected though coefficients were positive consistent with the negative associations with employment noted above.

7.25 In summary, most of the academic studies found no impact on employment outcomes of native workers. Our findings in MAC (2012) of a negative association between recent inflows of non-EU migrants and native employment in times of economic downturn or slow economic growth was the first study to find a large and significant result and has since been supported by Devlin *et al.* (2014). But these two studies are sensitive to assumptions. There are many statistical caveats and an emphasis that association does not equate to causation.

Literature review of the impact of migration on native unemployment

7.26 The majority of the studies estimating the impact of EU8 migrants found that they had little or no impact on UK unemployment (Gilpin *et al.* (2006), Lemos and Portes (2008) and Lemos (2010)). Only Portes and French (2005) estimated that EU8 migrants increased UK unemployment over the period 2003 to 2004. However, this study was updated in Gilpin *et al.* (2006), which concluded that EU8 migrants had modest or no impact on UK unemployment between 2004 and 2005.

7.27 Of the studies which estimate the impact of all foreign-born migrants on unemployment in Great Britain, Dustmann *et al.* (2005) estimated that migrants had little or no overall impact on unemployment rates of British natives over the period 1983 to 2000. Nevertheless, the authors estimated that migrants were associated with an increase in the unemployment rate of natives with intermediate qualifications. Their results suggest that an increase of 100 working-age migrants in Great Britain is associated with an increase of approximately 10 unemployed natives with intermediate qualifications. No statistically significant effects were found for graduate and unqualified natives. This would suggest that there was no effect of an increase in immigration on natives in low-skilled jobs.

7.28 Jean and Jimenez (2007) used data for 18 member countries of the Organisation for Economic Co-operation and Development (OECD) including the UK for the period 1984 to 2003 to estimate the impact of

migrants on native unemployment rates. Their results suggest that an increase of 100 working-age migrants in year 1 is associated with an increase in the number of unemployed natives in years 2 and 3 of around 34, and no association with native unemployment in later years. The results from this study are not however directly comparable with other UK-wide studies since the authors use pooled data for 18 countries including the UK.

7.29 Lucchino *et al.* (2012) examined the impact of migration inflows on the claimant count rate using National Insurance Number (NINo) registrations of foreign nationals at local authority level. They find no association between migration inflows and claimant count unemployment. Further work to test the relationship across the business cycle also found no association.

7.30 This was the first use of NINo data to assess the impact of immigration on native labour market outcomes. All foreign nationals who want to work or claim benefits and tax credits have to register for a NINo through Jobcentre Plus. As a consequence, NINos issued to foreign nationals are likely to be closely correlated with inflows of migrants to a given region for work reasons. This means that **all** those who register to work will be captured, including students and family. NINo data are also population rather than sample data, implying that it is not affected by sampling error.

7.31 However, while NINo data count people regardless of their length of stay, they do not include people who leave the UK and return at a later date. Second, they do not contain a great deal of information on the personal characteristics of migrants, particularly skill/education and wage. Third, as NINo data are a measure of flows rather than stocks of immigrants it is likely that the association observed for stocks and flows will be different. Furthermore, there may be a discrepancy between actual date of arrival and when someone is allocated a NINo as the published figures *"are based on recorded registration date on the HMRC National Insurance Recording and Pay as you Earn System, i.e. after the NINo application process has been completed. This may be a number of weeks or months (or in some cases years) after arriving in the UK"* (Department for Work and Pensions, (2014)).

7.32 The study uses annual financial year data from 2002/03 to 2010/11 and finds a small negative and insignificant correlation between the migrant inflow rate and the change in the claimant count rate. In addition, results did not show that immigration has a more negative impact on unemployment during periods of recession or low growth.

7.33 Battisti *et al.* (2014) propose a model which finds that the impact of migration on wages, employment and welfare of natives depends not only on the characteristics of migrants and natives and on their interaction, but that labour market frictions and the institutions of the host country play a *'crucial role'*. In addition to the typical complementary or substitute-based view of migration on welfare, they take account of job-search frictions, wage bargaining and fiscal redistribution. Applying data for 20

Organisation for Economic Co-operation and Development (OECD) countries to their model, it is the countries with less flexible labour markets, higher unemployment rates and fewer skilled natives who are predicted to gain the most from an equivalent increase in migration. Battisti *et al.*'s findings indicate that migrants *'greasing the wheels'* of the labour market is an *'important phenomenon'* and may help to understand different effects across countries.

7.34 In summary, most of the academic studies found no impact on unemployment outcomes of native workers, and where a positive effect was found this was small.

7.35 We have looked at existing literature on the impact of migration on wages, both average wages and on the native wage distribution, and the impact of migration on employment and unemployment rates. We conclude that in most cases, the impact of migration at the national level was either modest or not significant. In section 7.3 of this chapter, we consider the local level impacts to determine whether labour market outcomes in areas with a high concentration of migrants have been affected.

7.36 **Later in 2014 we will supplement the above literature review by publishing the results of our own econometric work looking at the impacts of migration on native employment, the wage distribution and occupational wages.**

Other impacts of increased migrant employment

7.37 In addition to the impact on wages, employment and unemployment, increased migrant employment in low-skilled jobs may impact public service delivery and the participation of women in the labour force. We reviewed the relevant literature regarding these areas.

Public service delivery

7.38 We consider the impact of migrant employment in the UK on the provision of pubic services. Dustmann and Frattini (2011) found that non-EEA migrants who were involved in the delivery of public services tended to be located in certain regions, work in particular sectors and be employed in high-skilled occupations. In 2010 approximately 26 per cent of all employment of UK-born individuals was in the public sector, compared to only 21 per cent of all employment of migrants. However, 23 per cent of all non-EEA migrants employed in the UK were in public sector employment, which suggests that the average non-EEA migrant makes a greater contribution to the provision of UK public services than the average EEA migrant.

7.39 The contribution of non-EEA migrants to the provision of UK public services was also found to be concentrated in particular subsectors. Using pooled LFS data between 2008 and 2010 the authors found that non-EEA migrants represent 11.2 per cent of all public sector employees in the health sector while constituting 9.6 per cent of the total working-age

population. On the other hand, non-EEA migrants were found to be under-represented in all other subsectors of public sector employment. Analysis of the LFS also suggests that non-EEA migrants employed in the public sector tend to be disproportionately employed in the more highly skilled occupational groupings of the 1-digit level of Standard Occupation Classification 2000. 64 per cent of all public sector employees from outside the EEA were employed in the most highly skilled occupational groupings (managers and senior officials; professional occupations; and associate professional and technical occupations) compared to 52 per cent of public sector employees born in the UK.

7.40 Non-EEA migrants were found to make a disproportionately large contribution to the provision of public services in three UK regions: East Anglia, South East and South West. In East Anglia, non-EEA migrants constitute 6.0 per cent of the working-age population yet 8.6 per cent of all public sector employees. In the South East, 8.6 per cent of the working-age population is non-EEA migrants, compared to 9.1 per cent of all public sector employees; and in the South West the respective proportions are 4.5 per cent of the population and 5.0 per cent of all public sector employment.

7.41 On average, non-EEA migrants employed in the public sector were found to be younger and better educated (proxied by the age at which the individual leaves education) than the average UK-born public sector employee. The average UK-born individual employed in the public sector is 43 years old and left full-time education at 19 years old, while the average non-EEA migrant in the public sector is 41 years old and left full-time education at age 21.

7.42 Evidence from NHS Employers suggested that they did not have problems attracting labour for low-skilled positions. NHS Employers told us that low-skilled occupations in the NHS settings are defined as being roles in National Agenda for Change pay bands 1-4 and likely to fall within the Office of National Statistics (ONS) SOC system at level 1 and 2 based on the skills, knowledge and qualifications required. The rates of pay range from £14,294 - £22,016. Staff within these bands make up around 40 per cent of the 1.3 million NHS workforce and are responsible for an estimated 60 per cent of direct patient contact.

7.43 A workforce survey of 60 NHS employers conducted in 2013 indicated that oversupply in the NHS is most prevalent amongst the low-skilled bands 1-4 in the support workforce and administrative and clerical staff groups, with reports of some vacancies receiving in excess of 100 applications. This is supported by data from NHS Jobs for band 1-4 vacancies (administrative, clerical and additional clinical services) which shows typically high applications per vacancy rates.

> *"For example, in a large NHS organisation employing approximately 12,000 staff, 248 advertisements for band 1-4 posts received on average 50 applications each, totalling 12,343 applications over a 12 month period."*
>
> NHS Employers response to MAC call for evidence

7.44 In terms of developing the UK workforce, NHS Employers told us that during 2012/13 there were 7,894 NHS apprenticeship starts. They cited partnership working between the NHS and Jobcentre Plus as proving effective in supporting people into employment in the NHS along with *Learning for Life*, an NHS campaign to promote workplace learning and its role in improving staff skills and experience, staff engagement and motivation, and helping to improve patient care. Health Education England (HEE) held a consultation in early 2014 on the development of a national NHS strategy to develop the training and career options for staff in bands 1-4 positions.

7.45 A large proportion of bands 1-4 workers are in healthcare support worker roles providing vital assistance to healthcare professions in diagnosing, treating and caring for patients. Employment into these roles has not usually required any additional specific skills or training, however as a result of the independent Cavendish Review into healthcare assistants and support workers in the NHS and social care, the NHS is looking at strengthening recruitment, selection, training, induction and development practices for this part of the workforce. In the future, support workers will be required to earn a Certificate of Fundamental Care which will link healthcare support worker training to nurse training, making the route to career progression clearer for staff.

> *"Attracting and retaining support workers with the right values and behaviours, and developing their skills are imperative to the flexibility and sustainability of workforce supply, and improved patient experiences."*
>
> NHS Employers response to MAC call for evidence

Increased labour force participation of women

7.46 Several studies using data from the US have found an association between low-skilled migrants working in household production jobs and women spending more time at work. Cortés and Tessada (2011) highlight that low-skilled migrants to the US are disproportionately represented in service sectors that are close substitutes for household production. Based on previous findings in Cortés (2008), which found that the then recent waves of low-skilled migrants led to lower prices of services which were close substitutes to household production, Cortés and Tessada suggest that in response to this, natives may choose to substitute their own time devoted to household production with the now cheaper services available. The authors argue that this result is important because many highly skilled women work in occupations where long hours are required to succeed, for example, as lawyers and physicians. Therefore, this has implications regarding career progression, as well as better utilisation of skills. This impact of migration does not benefit all natives equally, as the effects are concentrated at the top of the wage distribution. The findings of this study are for the US and so the effect on the UK labour market may be different.

7.47 Forlani *et al.* (2013) carry out a cross-country study which looks at the impact of migration on female labour force participation in countries such as Germany, Switzerland and the UK. Segmenting the labour markets of these countries by education, they find that the presence of unskilled migrants in services positively affects the labour supply of native women aged 22 to 45 not living with their parents. Like Cortés and Tessada (2011), they find an associated increase in the number of hours worked by skilled native women; however, they also find an increase in labour market participation for unskilled native women. An average increase of 1 per cent in the ratio of unskilled migrants employed in the household service sector to the total labour force increases the probability of women working more than 50 hours per week by 0.04 percentage points, and increases the probability of unskilled women participating in the labour market by 0.14 percentage points. The results are stronger for women with children and Forlani *et al.* also find that these results are stronger in countries which are less supportive to families in terms of policy interventions.

7.3 Labour market impacts in local areas, occupations and sectors

7.48 Modest estimates at the national level may conceal larger impacts, positive or negative, of migration on local labour markets or in specific sectors of the economy. It is difficult to estimate the impacts of migration on relatively small local areas or on particular occupations in the same way as national level impacts as these estimates would have to be based on less data. The implication of basing estimates on fewer data is that they would be less accurate and thus unreliable.

7.49 Previous studies have restricted their overall sample to focus on a group of local areas whose labour markets may have been more likely to be affected due to a large increase in migration (Gilpin *et al.* (2006), Lemos and Portes, (2008)). The aggregate estimates for these groups of local

areas did not differ to those at the national level, that being there were no significant associations. However, there may have still been specific local areas within these groups for which there were significant associations between migration and the labour market. Nickell and Saleheen (2008) also restrict their sample to look at the wage effects for specific groups of occupations. They do find significant associations for some groups of occupations and not others, although again, there may still have been occupations at a more disaggregated level which were affected but did not show up in their results.

7.50 Nathan (2008) reviews the local economics of migration. He suggests that different types of local areas are likely to be affected by migration in different ways. Large urban areas such as London are likely to experience the biggest gains from migration, where the scale of economic activity is greatest and the gains from a diverse workforce are more likely to be realised. Smaller towns or cities that form part of a bigger city-region or attract migrants through local universities may benefit more than others, through indirect effects, or having a lot of knowledge-based activity. The study notes that in rural areas the major effect of migration on the labour market will be filling vacancies and skills shortages.

7.51 In local areas with lots of entry level jobs there may be short-term negative adjustment effects for low-skilled workers. Migrants may be *'used to provide a source of cheap, capable labour to employers'* and local residents in direct competition with migrants may lose out. There is tentative evidence that migrants may help sustain a low-skilled equilibrium in these areas, particularly in ex-industrial economies which might otherwise upgrade production and career paths. Competition with natives in these areas may be minimised if migrants take '*hard to fill jobs*' at the *'margin of the labour market'*.

7.52 There are a number of reasons why the impacts of migration on the labour market may differ among local areas, occupations and sectors. In chapter 5, we discussed how institutions and public policies play a complex role in employers' decisions regarding who they hire. For example the existence of training and apprenticeship systems for British workers and the nature of labour market regulation will have different effects on the demand for migrant workers in different occupations. Brücker *et al.* (2012) point out that institutions such as collective bargaining and employment protection affect the way in which wages respond to labour supply shocks, and therefore play a key role on how migration impacts on labour market outcomes of local workers. If the incidence of such institutions or policies differs among sectors, then the labour market impacts may also be different between these sectors.

7.53 In Chapter 3 we discussed how different groups of migrants have concentrated in certain local areas. Non-EU migrants in low-skilled work tend to be concentrated in certain local authorities in London. EU8 and EU2 migrants accounted for a larger proportion of migrants in low-skilled jobs in areas such as Boston, Peterborough, Corby, Southampton and Northampton.

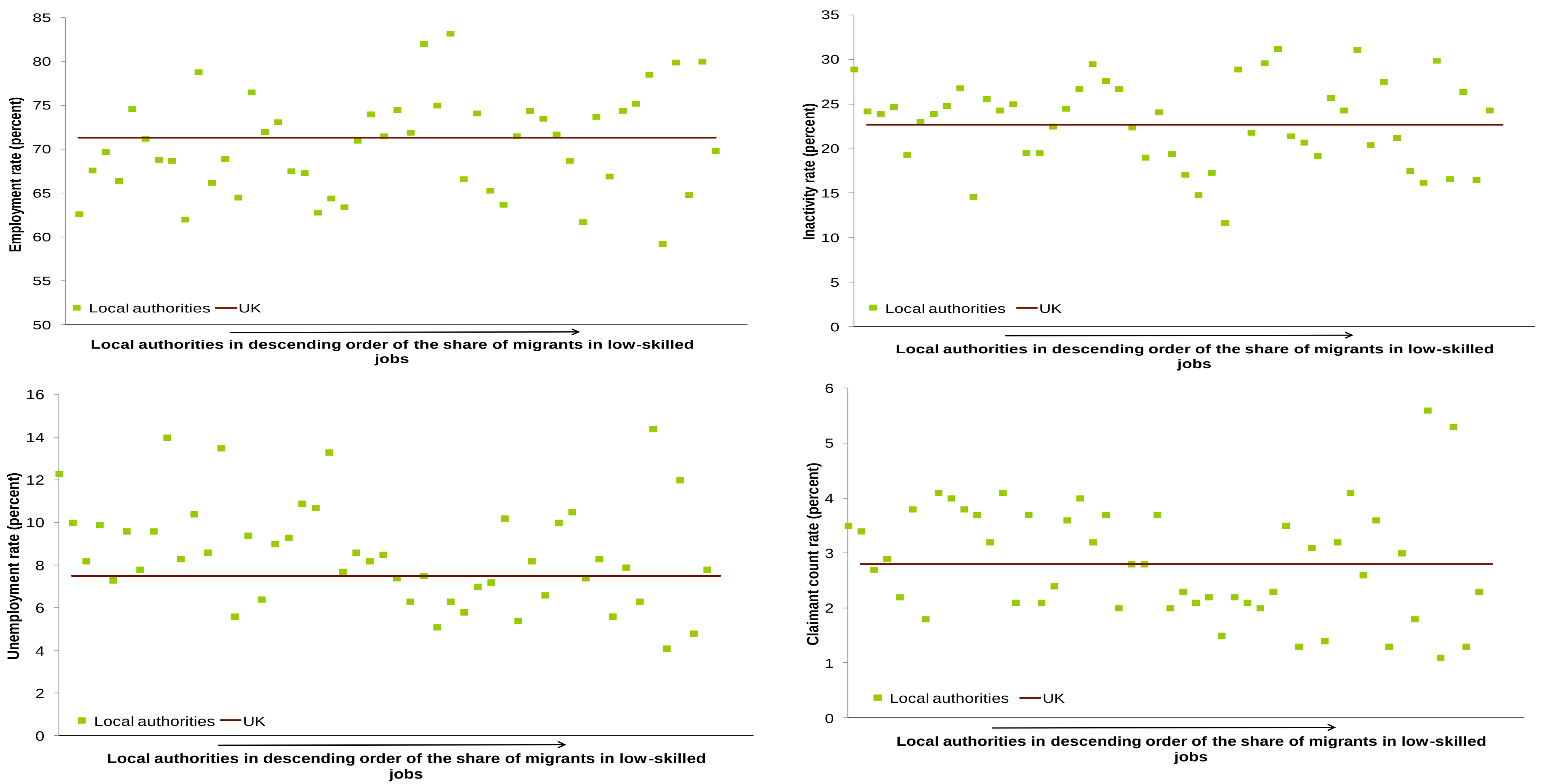
7.54 The concentration of migrants in some local areas is often a result of the concentration of certain occupations or sectors in these areas. For example, the high proportions of EU8 and EU2 migrants in locations such as Boston and Peterborough result from the concentration of agriculture or food processing businesses in those areas. Therefore, even if a local area has been subject to a rapid and recent rise in migration, the labour market impacts of this migration may vary according to the local economic structure, and the propensity of both migrants and natives to undertake the kind of jobs available. It is also dependent on the types of skills that migrants possess relative to natives.

7.55 Figure 7.1 and Table 7.1 show the local labour market indicators for areas with a high share of migrants in low-skilled employment as identified in Chapter 3. In 2013, the employment, unemployment and inactivity rates for the UK were 71.3 per cent, 7.5 per cent and 22.7 per cent respectively. There appears to be no systematic difference in these rates at the local level, where in some areas these rates are above the national average and in other areas they are below. Of the 49 local authorities shown in Figure 7.1, 26 (53 per cent) had employment rates less than the national average, 32 (65 per cent) had unemployment rates above the national average and 27 (55 per cent) had inactivity rates above the national average.

7.56 Wadsworth (2014) shows that there is a lack of correlation between changes in the native-born youth unemployment rate and changes in the share of immigrants living in a local authority area between 2004 and 2010. Local authorities that experienced the largest rises in immigrants experienced smaller rises in youth unemployment.

7.57 It is clear that immigration has not had a universal impact on these indicators at the local level and so it is important to consider each local area separately to identify any impacts. In Chapter 9 we discuss that in fact, areas with a high migrant inflow also experienced net outflows to other parts of the UK. Thus any impacts on the population in the local labour market could also be as a result of changes in the composition of local population.

Figure 7.1: Labour market indicators by local authority in England, 2013



Notes: Data for local areas are in descending order by the share of migrants in low-skilled jobs. Data for employment, unemployment and inactivity rates are for 2013. City of London has been excluded here as data were unavailable. The unemployment rate is for the population aged 16 and over. Employment and inactivity rates are based on individuals aged from 16 to 64. The Claimant Count is a measure of the number of people claiming Jobseeker's Allowance and the percentages are of population aged from 16 to 64 based on mid-year 2012 population estimates. Data for claimant count rates are for April 2014.
Source: Office for National Statistics (2014h)

Table 7.1: Labour market indicators by local authority in England, 2013

	Region	Local authority	Share of migrants in low-skill employment (%)**	Employment rate (%)	Unemployment rate (%)	Inactivity rate (%)	Claimant count rates* (%)
United Kingdom			15.8	71.3	7.5	22.7	2.8
1	London	Newham	22.5	62.6	12.3	28.9	3.5
2	London	Brent	20.2	67.6	10.0	24.2	3.4
3	South East	Slough	17.6	69.7	8.2	23.9	2.7
4	London	Ealing	16.9	66.4	9.9	24.7	2.9
5	London	Hounslow	16.9	74.6	7.3	19.3	2.2
6	London	Waltham Forest	15.1	71.2	9.6	23.0	3.8
7	London	Harrow	15.0	68.8	7.8	23.9	1.8
8	London	Haringey	14.8	68.7	9.6	24.8	4.1
9	East Midlands	Leicester	13.5	62.0	14.0	26.8	4.0
10	London	Lambeth	13.3	78.8	8.3	14.6	3.8
11	London	Southwark	13.3	66.2	10.4	25.6	3.7
12	East of England	Luton	13.1	68.9	8.6	24.3	3.2
13	London	Barking and Dagenham	12.7	64.5	13.5	25.0	4.1
14	London	Merton	12.7	76.5	5.6	19.5	2.1
15	London	Lewisham	12.0	72.0	9.4	19.5	3.7
16	London	Barnet	12.0	73.1	6.4	22.5	2.1
17	London	Redbridge	12.0	67.5	9.0	24.5	2.4
18	London	Enfield	11.8	67.3	9.3	26.7	3.6
19	London	Hackney	11.7	62.8	10.9	29.5	4.0
20	London	Greenwich	11.6	64.4	10.7	27.6	3.2
21	London	Tower Hamlets	11.5	63.4	13.3	26.7	3.7
22	London	Hillingdon	10.9	71.0	7.7	22.4	2.0
23	London	Croydon	10.8	74.0	8.6	19.0	2.8
24	London	Hammersmith and Fulham	10.7	71.5	8.2	24.1	2.8
25	East of England	Peterborough	10.4	74.5	8.5	19.4	3.7
26	South East	Crawley	10.3	71.9	7.4	17.1	2.0
27	East Midlands	Boston	10.2	82.0	6.3	14.8	2.3
28	London	Wandsworth	9.8	75.0	7.5	17.3	2.1
29	East of England	Watford	9.7	83.2	5.1	11.7	2.2
30	London	City of London	9.5	#	#	#	1.5
31	London	Westminster	9.5	66.6	6.3	28.9	2.2
32	South East	Reading	9.0	74.1	5.8	21.8	2.1
33	London	Kensington and Chelsea	8.9	65.3	7.0	29.6	2.0
34	London	Camden	8.3	63.7	7.2	31.2	2.3

Table 7.1: Labour market indicators by local authority in England, 2013							
	Region	**Local authority**	**Share of migrants in low-skill employment (%)****	**Employment rate (%)**	**Unemployment rate (%)**	**Inactivity rate (%)**	**Claimant count rates* (%)**
35	East Midlands	Corby	8.2	71.5	10.2	21.4	3.5
36	London	Kingston upon Thames	7.9	74.4	5.4	20.7	1.3
37	East Midlands	Northampton	7.9	73.5	8.2	19.2	3.1
38	South East	Rushmoor	7.6	71.7	6.6	25.7	1.4
39	London	Islington	7.6	68.7	10.0	24.3	3.2
40	North West	Manchester	7.5	61.7	10.5	31.1	4.1
41	South East	Milton Keynes	7.4	73.7	7.4	20.4	2.6
42	West Midlands	Coventry	7.3	66.9	8.3	27.5	3.6
43	South East	Oxford	7.3	74.4	5.6	21.2	1.3
44	East of England	Bedford	6.9	75.2	7.9	17.5	3.0
45	London	Sutton	6.6	78.5	6.3	16.2	1.8
46	West Midlands	Birmingham	6.6	59.2	14.4	29.9	5.6
47	South East	Woking	6.4	79.9	4.1	16.6	1.1
48	West Midlands	Sandwell	6.4	64.8	12.0	26.4	5.3
49	East of England	Forest Heath	6.4	80.0	4.8	16.5	1.3
50	South East	Southampton	6.4	69.8	7.8	24.3	2.3

Notes: see notes in Figure 7.1. *Data for claimant count is for April 2014. **England and Wales only. # Sample size too small to provide estimates.
Source: Office for National Statistics (2014h)

Partner evidence on impacts by sector and locality

7.58 The impact of migration at the local level was described by employers and local councils when we met with them on our visits. When we went to Wisbech, we were told that highly skilled migrants see the area as a landing spot, where they can gradually learn English, learn about British culture and have contacts who are also from their home country. They tend to be overqualified for their jobs in agriculture and food processing but need a level of English that can match their skills to allow them to progress. Over time there has been a change in the characteristics of migrants who arrive, and now there is a tendency for them to be less educated and come from smaller villages which are poorer. High-skilled natives tend to leave the area, and once migrants gain skills, so do they, which creates a brain drain. Other than medical professionals and

teachers, natives that stay in the area tend to be those with lower work aspirations.

7.59 Employers and the council in Boston told us that migrants seem to have filled gaps in the labour market, for example, addressing skills shortages in the construction sector or because there was a lack of resident interest in agriculture work. This could in part be because migrants are more willing to work in these jobs but also because employers may prefer migrants over UK-born workers. In Hull, we were told that migrants were willing to take on short-term/seasonal work and employers valued this flexibility. We were told that these migrants were highly mobile and willing to travel widely for employment compared to UK-born workers.

7.60 Partners in Scotland highlighted Worker Registration Scheme (WRS) data showing that 23 per cent of the workforce in Perth and Kinross were migrants, mostly from the A8 countries. We were told that initially these migrants were concentrated in agriculture, such as fruit picking, but are now spreading to other industries such as catering, food processing and social care. Aberdeenshire had the second highest migrant workforce concentration at 14 per cent, followed by Glasgow with only 3.9 per cent. In Glasgow City, 11.5 per cent of the 600,000 population were born outside the UK, and of these, 77 per cent were from non-European Union (non-EU) countries. Partners said that EU migrants, mostly Poles, some Ukrainians, have come to Glasgow since 2004 and demonstrated a willingness to do low-skilled jobs. We were told that they were filling these roles and then spending money in local shops which meant that deprived areas of the city had benefited from their presence.

7.61 As discussed in Chapter 5, word of mouth recruitment is very common amongst migrants and this was reiterated during our visits to local authorities, particularly in Newham where we were told that it was common to find a Polish store that will employ only Polish workers. This type of recruitment restricts the access to employment of both natives and migrants from other countries.

7.62 Specifically on wages, in London, in the worst paying 20 per cent of jobs half of workers are post 1984 migrants. This significant migrant inflow depresses wages for this quintile. Gordon (2014) states that at the time of the peak inflow in 2000 there was a 15 per cent reduction in pay compared with what it otherwise would have been. This is an example of the local impact being larger than the national average impact.

7.63 From the data on local labour market indicators and the anecdotal evidence from our visits above, it is clear that the impact of migration has varied at the local level. Although there were some common themes we were told on our visits such as migrants being more willing to work in low-skilled jobs, there were also other issues/factors that varied across these areas. Thus, to understand the impact of migration at the local level, it is important to consider each local area separately.

7.64 We commissioned Frontier Economics to assess the labour force composition in low-skilled sectors in the UK economy and to consider the role of migrants taking low-skilled jobs. In their report, Frontier Economics (2013) use regression analysis to understand which economic sectors are attracting migrants. Overall, they find that the variables considered, including average pay, sector/occupation pay, incidence of temporary and part-time working, self-employment, skill level, age and gender, provide only a partial explanation of the variation in migrant shares, and the magnitude of these effects is small.

7.65 From their analysis, two associations stood out across regression specifications for economic sectors. The researchers found average pay to be positively associated with migrant share, or *"sectors with relatively higher average pay tend to attract relatively more migrants."* However, in terms of magnitude this effect was small. A £1 increase in sectoral pay was associated with an increase in migrant share of between 0.4 and 0.9 per cent.

7.66 Frontier Economics also found temporary working to be positively associated with migrant shares or *"sectors where this form of working is relatively more common attract more migrants".* A 1 percentage point increase in the incidence of temporary working was associated with up to a 0.26 percentage point higher migrant share, and this effect was twice as strong when considering changes in migrant share.

7.67 As well as regression analysis, Frontier economics also looked at correlations by dividing industrial sectors into four categories:

- Rising migrant share: the 10 sectors where migrant shares increased the most between 1994 and 2012;
- Static migrant share: the 10 sectors where migrant shares increased the least between 1994 and 2012;
- High migrant share: the 10 sectors with the highest migrant shares in 2012; and
- Low migrant share: the 10 sectors with the lowest migrant shares in 2012.

7.68 Their work found that the sectors with a rising migrant share and those with a high migrant share had lower average wages than the UK economy as a whole. However, when the researchers looked at the correlation between migrant shares (and changes thereof) and wages across all sectors, they found no strong association between the two. The researchers note that *"although sectors with higher pay tend to attract relatively more migrant workers, the association between the two is weak."*

7.69 Table 7.2 highlights that self-employment, part-time employment, temporary working and agency working were all more prevalent in sectors with a high or rising migrant share. As shown in Chapter 5, the need for a

highly flexible workforce was an important factor in explaining employers' demands for migrant workers in low-skilled sectors. However, the correlations between migrant share and these variables were not high. Sectors with high or rising migrant shares were also characterised by a higher percentage of low-skilled occupations.[23]

Table 7.2: Characteristics of sectors by migrant share (per cent), 1994 to 2012

Sector	Pay (£)	Self-employment	Part-time working	Percentage of low-skill occupations	Temporary working	Agency working
All sectors	13.15	10	26	45	5.6	0.9
Rising migrant share	11.11	14	30	52	7.0	1.1
Static migrant share	14.24	7	12	47	3.8	1.6
High migrant share	11.83	15	27	54	6.8	1.3
Low migrant share	14.82	7	11	47	3.9	1.7

Note: Frontier Economics used data from the Labour Force Survey
Source: Frontier Economics (2013)

Anecdotal evidence of the labour impact of migrants in low-skilled sectors/occupations

7.70 In the remaining part of this chapter, to consider the labour market impact of migrants in low-skilled jobs, we draw on evidence we obtained through engaging with partners. It is important to emphasise that just because employers make a particular claim – for example, that migrants do not compete with natives in their sector – this does not necessarily capture the totality of experiences. There will be variation between firms and regions, and employers obviously have a potential bias, as they benefit from having a pool of, potentially skilled, labour available through migration to the UK. However, it should also be noted that employers did often explain what drives their demand for migrant workers. Many of these reasons were described in Chapter 5, and some are also included in the partner responses we set out in this part of the chapter.

23 Frontier Economics defines occupation as low-skilled if two of the three following conditions are satisfied: Median full-time sector pay is below £10.60; more than half the workforce in sector left full-time education aged 16 or less; and more than 45 per cent of workforce in sector is employed in low skilled occupations.

Migrants in low-skilled work

7.71 The type of work and working practices vary considerably across low-skilled occupations, and may explain different concentrations of migrants in these occupations (as shown in Table 7.3) and the number of responses we received from our call for evidence in relation to these. We discuss each low-skilled occupation in turn.

Table 7.3: Employment in 4-digit elementary occupations, 2011

SOC code and title		Total Employment	Migrants in employment		Migrants in employment by country of birth (percentage)		
		Thousands	Percentage	Thousands	EU8 and EU2	Other EU	Non-EU
1-digit occupations							
4	Administrative and secretarial occupations	3,052	11	340	14	19	67
6	Caring, leisure and other service occupations	2,502	15	381	17	15	68
7	Sales and customer service occupations	2,250	13	297	13	14	73
8	Process, plant and machine operatives	1,931	18	345	33	10	57
9	Elementary occupations	2,975	22	645	36	11	53
Selected 4 digit occupations*							
4124	Finance officers	26	16	4	7	16	77
4159	Other administrative occupations n.e.c.	594	11	65	15	18	66
4215	Personal assistants and other secretaries	275	12	34	12	24	64
6125	Teaching assistants	324	10	33	11	21	68
6145	Care workers and home carers	689	19	133	15	10	75
6231	Housekeepers and related occupations	60	30	18	31	12	57
7111	Sales and retail assistants	1,272	13	170	13	13	74
7112	Retail cashiers and check-out operators	148	17	24	8	10	82
7124	Market and street traders and assistants	16	23	4	9	9	82
8111	Food, drink and tobacco process operatives	154	39	61	58	6	36
8212	Van drivers	259	14	38	28	11	61
8214	Taxi and cab drivers and chauffeurs	175	37	65	5	4	92
9134	Packers, bottlers, canners and fillers	101	49	50	61	4	35
9233	Cleaners and domestics	562	26	149	37	11	52
9273	Waiters and waitresses	202	29	59	27	18	55

Notes: *4 digit occupations were selected because they either accounted for a relatively large proportion of total employment within their respective 1-digit occupation or a relatively large proportion of their employment was accounted for by migrants.
Source: Office for National Statistics (2014f). England and Wales Census of Population, 2011

Administrative and secretarial occupations

7.72 According to the England and Wales Census of Population in 2011, 11 per cent of those employed in administrative and secretarial occupations were migrants. At the one digit level, this group of low-skilled occupations had the lowest proportion of migrants in employment. No administrative or secretarial occupation at the 4-digit level using the ONS SOC, had a migrant share above 16 per cent. We also received no responses to our call for evidence from employers, employees or stakeholders in these occupations.

Caring, leisure and other service occupations.

7.73 Data on employment in administrative and secretarial occupations and the level of partner response contrast with those of caring, leisure and other service occupations. Table 7.3 shows that in 2011, 15 per cent of those employed in caring, leisure and other service occupations were migrants. For the largest 4-digit occupation within caring, leisure and other service occupations, of the 689,000 employed as care workers and home carers, 19 per cent were migrants, three-quarters of which were migrants from non-EU countries. 30 per cent of those working as housekeepers and related occupations were migrants, 31 per cent of whom were from EU8 or EU2 countries.

7.74 We also received a number of responses to our call for evidence from partners in the care sector. Apex Care told us that UK employees often do not have the same work ethos of migrant workers who are more willing to work extra shifts and who are more committed and happy to have a job. Migrant staff often have better qualifications and a more professional attitude. Without migrant workers Apex Care told us they would not fill all their vacancies.

"If it were not for the migrant workers...I think we would struggle to provide care at all or at the quality we wish."

Apex Care response to MAC call for evidence

7.75 Apex Care also told us they try to encourage more UK born workers to consider care by offering apprenticeships and work experience and frequently advertise for carers and nurses but are finding it hard over the past one or two years to attract enough workers to provide consistent care.

> *"I do not genuinely believe and our experience to date has not shown that migrant workers are taking jobs that UK born workers would wish to take but instead filling the gaps that many UK born workers are not willing to take."*
>
> Apex Care response to MAC call for evidence

7.76 St Luke's Hospital told us that without migrants it is difficult to see how health and social care services would have managed over the years. Non-European migrant staff have better English language skills and European migrant staff have a better work ethic.

> *"It should be noted that many of the migrants taking low skilled work are actually skilled labour. For example, the latest applicant for care work is a qualified Physiotherapist in Poland and we have a Spanish care worker who is a qualified nurse trying to improve her English sufficiently to take a qualified nurse post."*
>
> St Luke's Hospital response to MAC call for evidence

7.77 The responses seemed to suggest that migrant workers were more willing to take on the working patterns and type of work associated with the sector. This was also a finding of research by Warwick IER (2014) where it was noted that migrant workers were willing to take work that required greater flexibility and was less attractive to UK-born workers.

7.78 As was discussed in Chapter 6, the use of zero-hours contracts in the care sector may have had an impact on weekly or monthly earnings. We did not receive evidence from partners regarding the impact of migrants or other factors on wages in the care sector.

Sales and customer service occupations

7.79 In sales and customer service occupations, 13 per cent of the 2.3 million individuals in employment in 2011 were migrants. One 4-digit occupation, sales and retail assistants, accounted for 57 per cent of those in employment in sales and customer service occupations and 13 per cent of this occupation were migrants. Some 4-digit occupations such as retail cashiers and check-out operators had a higher concentration of migrants. 17 per cent of employment in this occupation was accounted for by migrants, the majority of whom were from non-EU countries.

7.80 We were told by Newham council that EU migrants work in jobs that previously 16-19 year old natives would have taken, particularly in the retail and hospitality sectors and are preferred by employers due to their previous experience. This potentially creates a disadvantage for young adults in the area who have fewer opportunities to get work experience where they would have previously.

7.81 Warwick IER (2014) noted that some employers emphasised the attraction of staff with no/few non-work commitments as being able to best fit in with flexible working requirements. In this category were students working in the retail sector; they were often and willing to work at the weekend, and also migrant workers without other family members in the UK. In this context one retail employer interpreted this as *"migrants want*[ing] *the job more and work*[ing] *harder."*

Process, plant and machine operatives

7.82 In process, plant and machine operatives 18 per cent of the 1.9 million employed in 2011 were migrants. Several 4-digit occupations had particularly large concentrations of migrants, and there was considerable variation in where these migrants were from. 39 per cent of the 154,000 employed as food, drink and tobacco process operatives were migrants, and of these, 58 per cent were from EU8 and EU2 countries. 37 per cent of the 175,000 employed as taxi and cab drivers and chauffeurs were migrants, almost all originating from non-EU countries.

7.83 On our visit to Wisbech, we were told that employers in agriculture or food processing used to employ the indigenous population but now almost entirely employ Lithuanians or Latvians. This can create barriers to entry for UK born workers as English is no longer used as the operating language in some workplaces. We were also told that employers are now more likely to use word of mouth or social networks to recruit, so this suppresses indigenous access to these jobs. In Peterborough we were told that local workers refused to work in food processing factories because workers in these factories did not speak English.

7.84 These finding were also reiterated in the response from the Department for Work and Pensions to our call for evidence, particularly in reference to the horticultural sector. Though they noted that there is little evidence on the extent and effect of this.

"The existing seasonal workforce consists of large cohorts of migrant workers; consequently native languages are typically spoken which can exclude UK nationals. The longer a migrant cohort dominates a farm increases the likelihood of progression to supervisory and managerial positions; this could lock-out newcomers."

Department for Work and Pensions response to MAC call for evidence

7.85 In response to our call for evidence, EEF, the manufacturers' organisation, told us that the ability of firms to respond rapidly to global competitive pressure is very much dependent on the UK's labour market, which has remained relatively flexible compared to some other countries. This has allowed UK companies to recruit a range of people and adopt new production strategies that help UK manufacturing respond quickly to changing demand. A survey commissioned by the EEF in 2011 found that

97 per cent of companies agreed that responsiveness is one of the main factors driving their need for flexibility in the workplace. Nearly nine in ten companies agreed that they need to be flexible to respond to changes in the type of products their customers are looking to supply.

7.86 EEF said that manufacturers also need this flexibility to fulfil their wider growth ambitions on innovation export and in order to expand their business. They noted that accessing the right workers plays a central role to achieving this. Three-quarters of manufacturers said that accessing the right skills is a key business concern and over a half said it was their main concern.

"If employers were unable to recruit migrant workers, then the numbers of manufacturers reporting difficulties recruiting for unskilled positions, and low skilled positions will undoubtedly increase. Currently, lower figures are likely to reflect the fact that migrant workers are more likely to accept job offers for low-skilled vacancies.

Manufacturers would continue to seek to recruit from the local labour market, but in the same way they do now. There is no preference to recruit workers from the EEA or non-EEA for low skilled jobs but simply to recruit the best person for the job, and from a cohort of applicants that apply for the job in the first instance. It is worth noting that nearly a half of manufacturers say their recruitment problems stem from a lack of applicants."

EEF (the manufacturers' organisation) response to MAC call for evidence

Elementary occupations

7.87 In elementary occupations 22 per cent of the 3 million employed in 2011 were migrants. This group comprises a variety of different types of occupations including construction, cleaners and domestics and bar staff. Cleaners and domestic workers made up nearly a fifth of those employed in elementary occupations, and over a quarter of these were migrants. 29 per cent of waiters and waitresses were migrants. Nearly a half of the 101,000 employed as packers, bottlers, canners and fillers were migrants, over three-fifths of whom were from EU8 and EU2 countries. Of all the occupations we consider in this chapter, elementary occupations have the highest migrant share.

7.88 Newham council told us that there had been an increase in the number of Eastern European migrants working in construction since the announcement of the Olympics. We were told this was in part attributed to employers' preference for them over young natives because they have relevant site experience.

7.89 On our visit to Southampton, we were told that migrant workers in low-paid jobs such as cleaning and care are prepared to live in cheap, crowded accommodation and have a poor standard of living in order to be able to

send money back to relatives in their own country. No UK born worker is in the position of needing to do this.

7.90 Fresh Catch, a seafood processing employer, told us in their response to our call for evidence, that at particularly busy times the company will increase its staff numbers with local agency staff, most of whom are of EEA origin.

“Fresh Catch is a major employer in the town of Peterhead directly employing around 120 staff and indirectly supporting a further 150 people through its policy of sourcing all of its requirements from the local community.

Over 90 per cent of the company’s spending is made within the North East of Scotland and this supports many small, local businesses on a week to week basis...All of the company’s migrant workers live within the Peterhead town and therefore they commit themselves to the local economy and contribute to it through their spending within the local community.”

Fresh Catch response to MAC call for evidence

“Fresh Catch like most of the seafood processing sector in the North East of Scotland need to use EEA and non-EEA workers to function properly as most of the indigenous population have now found work in the energy sector. This region of the UK is one of the most fortunate in terms of its labour market and relatively low unemployment rates but for companies such as Fresh Catch it can only show growth and be in business by the recruitment of migrant workers...For our region of the UK the factors that most impact on the recruitment of UK-born workers to that of migrant workers is down to the financial incentives and wage structures that the energy sector can afford compared to our fishing/food processing sector. This is not a cultural or attitudinal issue but simply one of economics and a better funded sector offering better financial packages in their recruitment of workers...The company is non-discriminatory and therefore will employ someone on merit whether they are UK-born or of EEA/non-EEA origin.”

Fresh Catch response to MAC call for evidence

7.91 The Federation of Small Businesses highlighted how the nature of agricultural work was unlikely to suit individuals looking for permanent or regular work. In addition to a general lack of supply from the domestic population to work in such jobs, this suggests that it was unlikely that migrants were competing with natives for these jobs. This then resulted in high concentrations of migrants in areas where horticulture was a key component of the local economy.

"...in lower-skilled, labour intensive sectors, such as agriculture and hospitality... employers often point to a lack of demand and motivation among the domestic population to work such jobs. In agriculture, many of the jobs are temporary and seasonal and are therefore unlikely to suit individuals looking for permanent or regular work...The sectoral dimension also helps to explain why in certain parts of the country, such as the South West (where horticulture is a key contributor to the local economy), the use of migrant labour is particularly pronounced."

Federation of Small Businesses response to MAC call for evidence

7.92 In response to our call for evidence, the Department for Work and Pensions said that during 2013, it had been *"running pilot schemes to promote and facilitate the take up of seasonal horticultural work by UK jobseekers."* One of the factors that influenced UK born workers not taking these jobs was a lack of knowledge about horticulture work and DWP said it was looking at ways to address this to increase the number of UK born workers in these jobs.

"Some claimants, especially the younger cohort, had inaccurate perceptions about horticulture work. DWP has invested in improving awareness of JCP Advisors. Consequently they have become more confident in promoting this work, explaining the working conditions, expectations and earnings potential...It was suggested that a DVD that conveys an accurate picture of this type of work would assist JCP Advisors to promote the industry and match their customers to jobs."

Department for Work and Pensions response to MAC call for evidence

7.93 We were told by the 50 Club, a specialist consultancy which provides farmers and growers with support in the area of employment law, that migrants who have moved to remote rural locations have not impacted the employment of UK nationals, as they believe that UK nationals cannot or will not fill such jobs. This concurs with the majority of what we were told when reviewing the Seasonal Agricultural Workers' Scheme (MAC, (2013)).

"Whilst we are not in a position to comment on the impact such migrants have had on the national economy, evidence from our membership suggests that both EEA and non-EEA migrants have had a significant impact on local employers and businesses. They have proved to be a reliable and motivated source of labour to undertake low skilled jobs and it has been proven that – particularly in remoter rural locations – those jobs would not be filled by UK nationals."

50 Club response to MAC call for evidence

7.94 In response to our call for evidence, the British Hospitality Association (BHA) told us that the impact of migrants on local employers and businesses has been considerably greater in London than elsewhere and in the restaurant sector in particular. They said that without migrants it is hard to see how the hospitality industry in the capital could operate at anything like its present level of activity.

7.95 The anecdotal experience of many BHA members was that many European migrants had academic qualifications (often at degree level) and interpersonal skills which were not always available from young people in the domestic market. Language skills have not had a significant impact in recent years as the European migrants who arrived in the previous decade either came with decent or good English language skills or came here to develop those skills.

7.96 The BHA has linked up with Business in the Community to develop The Big Hospitality Conversation, aimed at getting employers to pledge jobs, apprenticeships and work placements for unemployed UK residents.

"Initiatives such as The Big Hospitality Conversation show that the industry understands the importance of trying to recruit young people who are currently unemployed in the UK, but the economics of the industry are such that, with wages taking around a third of turnover in hotels and around 40 per cent in restaurants, it would not be economically feasible to offer higher wages to the same number of employees if the number available to work in the industry declined as a result of migration policy."

British Hospitality Association response to MAC call for evidence

7.97 People 1st, the sector skills council for hospitality, passenger transport, travel and tourism in the UK, reported that employers in the hospitality sector did not feel that young UK nationals seeking work in the sector had the necessary communication and employability skills to build on. European migrants were felt to be much better at these skills, although their level of English was seen as a challenge.

"Based on current figures, in some areas of the country (notably London and the South East), the sector would not be able to function effectively without migrant workers."

People 1st response to MAC call for evidence

7.98 Many employers in the sector are at present not finding it difficult to recruit. However, as the economy continues to pick up it was felt to be likely that the recruitment problems faced by the sector before 2008 were liable to return.

7.99 Immigrants were more likely than natives to be concentrated in the following three sectors: distribution, hotels and restaurants; transport and communications; and banking, finance and insurance (Migration Policy Institute (MPI) (2014)). MPI also found that of the three immigrant dominated sectors, distribution, hotels and restaurants appears to have provided the best opportunity to move out of low-skilled work (defined as working in elementary occupations). 44 per cent of the 2000-01 cohort working in hotels and restaurants were in low-skilled jobs in 2002, immediately after arriving to the UK. By 2010, this cohort's proportion of workers in low-skilled employment fell to 20 per cent (a similar proportion to that of natives).

7.100 In summary, there is considerable variation in the employment of migrants, both from EU and non-EU countries, in specific low-skilled occupations as shown by the data. Evidence received from partners reiterates this, particularly for low-skilled economic sectors. In the agriculture sector we were told that migrants were used to fill shortages because natives were reluctant to take on short-term/ seasonal work. In the care sector, we were told that it was the difference in the work ethos of migrants and their willingness to work extra shifts which in turn increased employers demand for migrant labour in this sector.

7.101 This illustrates only some of the differences across sectors and it is important to note this for policy interventions: there are large variations in the impact of migration within each low-skilled occupation and between sectors, thus policies that aim to address these universally should be avoided and instead should be developed to tackle each occupation/sector individually.

7.4 Conclusions

7.102 Overall the impacts of migrants on average wages and on the wage distribution discussed in the review of existing literature were modest and tended to be positive at the top of the wage distribution and negative at the bottom. As we would expect workers in low-skilled jobs to be at the bottom end of the wage distribution, this would suggest that the negative impact would fall be on those working in low-skilled jobs. Most of the academic studies found smaller or no impact on employment and unemployment outcomes of native workers. We will report on our follow up research to our 2012 report (MAC (2012a)) on migrants' impact on pay and jobs later in the year.

7.103 There have been local areas, occupations and sectors which have experienced a larger or more rapid increase in migrants than the national average. We might expect that this migration is more likely to have impacted the labour market specific to these local areas than average estimates for the national level suggest. There was no consistent pattern in local labour market indicators among the areas with a high share of migrants in employment in low-skilled jobs which supported that fact that each local area would need to be considered individually to assess any impacts of migration. These effects are difficult to assess empirically and

there are other factors to consider apart from simply the level of migration in an area, or the time over which an influx has happened.

7.104 At the sector level, research showed that sectors with relatively high average pay and temporary working patterns tended to attract relatively more migrants. We noted that there was considerable variation in the employment of migrants, both from EU and non-EU countries, in specific low-skilled occupations and sectors of the economy. This was both shown by the data and by evidence we received from partners. There are low-skilled jobs in which migrants have a greater propensity to be employed than natives, particularly those which have specific working practices like temporary working or less attractive working conditions Thus, as with local areas, it is necessary to consider each sector/occupation individually to assess the impact of migration.

Chapter 8 Wider economic impacts

8.1 Introduction

8.1 Although the impacts resulting from immigration are often first thought of in terms of how the labour market is affected, immigration can also have wider economic impacts affecting economic growth and the distribution of income. Often this is measured on the basis of total migration, but it might also be expected that different types of migrants impose different degrees of benefits and costs based on their reasons for being in the UK and the extent to which they engage in productive economic activity. This will then be affected by the skills they bring with them and the sectors in which they end up working. Those with higher skills and/or working in more skilled occupations are likely to make a greater contribution to the economy.

8.2 In this chapter we focus on the macroeconomic contribution made by migrants in low-skilled employment. Specifically we consider five areas of macroeconomic impact:

- Gross Domestic Product (GDP);
- productivity;
- prices;
- fiscal; and
- trade and remittances.

8.3 We address each of these in turn before concluding the chapter by summarising the key results and providing an assessment, based on the available evidence, of the impact of migrants in low-skilled work on the wider economy.

8.2 Low-skilled immigration and GDP

Estimating the value of employment in low-skilled occupations

8.4 GDP is the value of all goods and services produced in a country in a given time period and provides an indication of how well a country's

economy is growing. According to estimates produced by the Department of Business, Innovation and Skills (BIS) (BIS (2013a)) the value of the output produced by migrants in low-skilled occupations was £37bn in 2012. This is equivalent to 2.5 per cent of UK GDP, though as the BIS evidence points out: *"This may be thought of as a lower bound estimate, as it does not reflect any producer surplus. It also does not reflect any further indirect impacts on the economy through consumption by low-skilled migrants, nor does it distinguish between benefits accruing to migrants and existing UK residents, an important distinction".*

8.5 Overall, in 2012, the value added to UK GDP by the 13.3 million people - both migrants and UK-born – employed in low-skilled occupations was £233 billion. This is equivalent to 16 per cent of total UK GDP in 2012.

Table 8.1: Contribution of employment in low-skilled occupations to UK GDP, 2012

Group	Workforce		GDP	
	Million	Per cent	£ billion	Per cent
Total	13.3	100	233	100
Born outside the UK				
Total	2.11	15.8	37	16
EU	0.86	6.5	16	6
Non-EU	1.25	9.4	21	10

Source: Department for Business, Innovation and Skills (BIS), response to MAC call for evidence

8.6 Those born outside the UK working in low-skilled jobs account for 2.11 million of the total low-skilled workforce, split as follows:

- European Union (EU): 0.86 million (6.5 per cent of all low-skilled jobs)
- Non-EU: 1.25 million (9.4 per cent of all low-skilled jobs)

8.7 As we highlighted in Chapter 3, over half of the non-UK born working in low-skilled occupations are from outside the EU. In the absence of an open immigration route for non-EU low-skilled workers since 2008, these will have entered the UK legally via family and study routes, previous work routes or are illegal entrants.

GDP versus GDP per head

8.8 Table 8.1 shows that the contribution to UK GDP from foreign-born workers in low-skilled occupations is proportionate to their share of all employment in low-skilled jobs – i.e.16 per cent. On the basis of these figures, these migrant workers have added to overall UK GDP, but not disproportionately so.

8.9 In terms of contribution to economic growth, the House of Lords (2008) said that "*Overall GDP …is an irrelevant and misleading criterion for*

assessing the economic impacts of immigration on the UK. The total size of an economy is not an index of prosperity. The focus of analysis should rather be on the effects of immigration on income per head of the resident population. Both theory and the available empirical evidence indicate that these effects are small, especially in the long run when the economy fully adjusts to the increased supply of labour. In the long run, the main economic effect of immigration is to enlarge the economy, with relatively small costs and benefits for the incomes of the resident population."

8.10 The Migration Advisory Committee (MAC) has previously endorsed this view (MAC (2012a)). The issue we wish to consider here is therefore whether the addition of migrant workers in low-skilled jobs actually increased GDP per head.

8.3 International comparisons

8.11 The difference between impacts based on total GDP and GDP per head has been well demonstrated by Holland *et al.* (2011). This analysis carried out for the European Commission was based on an economic model run by the National Institute for Economic and Social Research (NIESR). This estimated for the period 2004-2009 the GDP effects of migration from the EU enlargement countries on the fifteen existing EU member states prior to 2004. The results are age-adjusted to reflect the younger age profile of this migrant population.

8.12 Figure 8.1 shows the differential impact on GDP and GDP per head across EU15 member states. Following the 2004 accession NIESR estimated that GDP increased the most in Ireland (by 3 per cent) and the UK (by 1.2 per cent), two of the three member states that opened their labour markets immediately in 2004 (see Chapter 3 for details) and who, as a result, received most EU8 migrants.

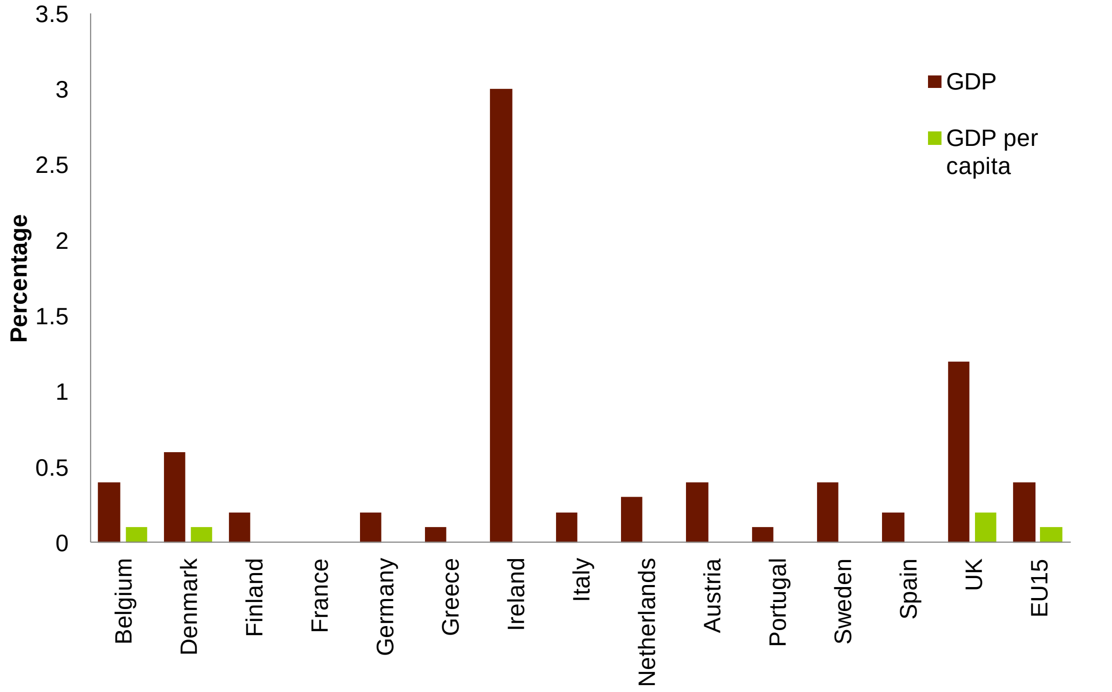
8.13 However, the impact on GDP per head in Ireland was zero. GDP had grown in Ireland only because the population itself had grown – due to migration - by a similar magnitude. For the UK, the results were more positive: NIESR estimated that GDP per head increased by 0.2 per cent, indicating there had been a net gain per person, equivalent to £50 over the 2004 to 2009 period.

8.14 Following the accession of Bulgaria and Romania (EU2) in 2007, the majority of migrants from these countries went to Spain and Italy and this shows in the overall impact on GDP in Spain and Italy, of 1.7 and 1.3 per cent respectively (Figure 8.1 lower panel). The impact on GDP per head was 0.1 per cent in each case, indicating a small but positive benefit. For the UK the impact was estimated at 0.2 per cent of GDP, but at zero per cent in terms of GDP per head.

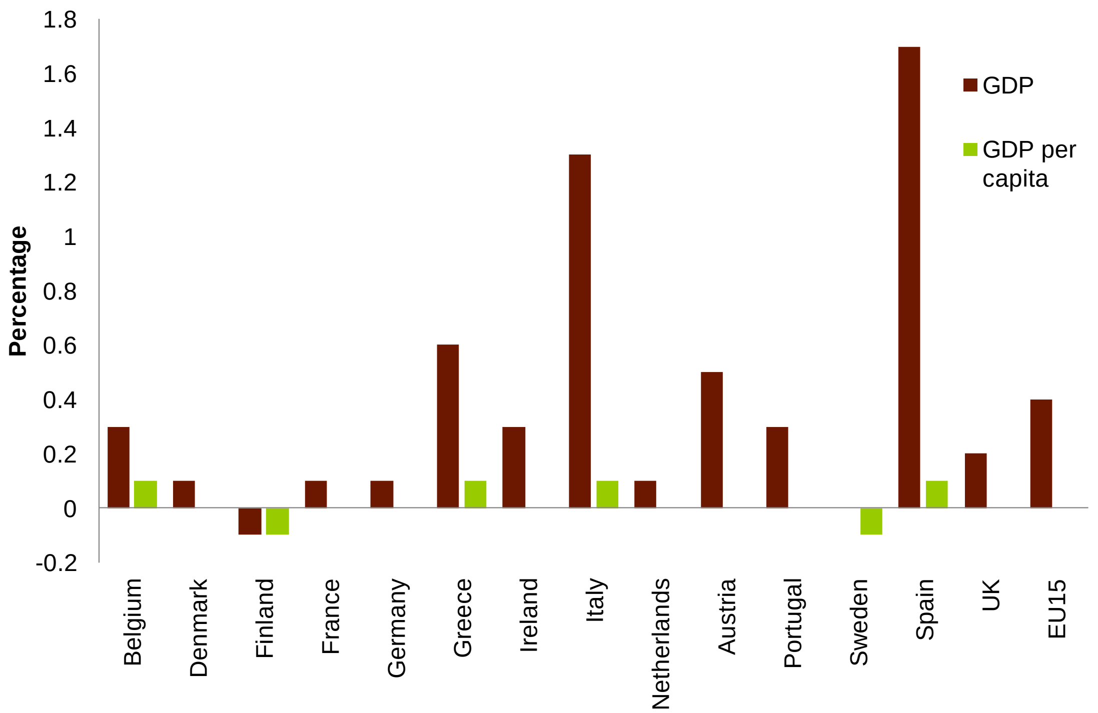
8.15 For the EU15 countries as a whole the effect on GDP was 0.4 per cent from both the EU8 and EU2 accessions, but only 0.1 and zero per cent respectively in terms of GDP per head. Overall, Holland *et al* (2011) find that, "*the impact on GDP per capita of the [migration] shock is negligible*".

Figure 8.1: Long run Impact of EU8 (upper panel) and EU2 (lower panel) accession on GDP and GDP per head for EU15 countries

EU8



EU2



Note: Based on migration following 2004 accession (EU8) and 2007 accession (EU2) for the period 2004-2009; excludes Luxembourg
Source: Holland *et al.* (2011)

8.16 The period covered by this analysis only goes up to 2009, when a number of member states had yet to grant labour market access to nationals from EU8 and EU2. However, on the basis of these figures the impact on

overall GDP was positive for some countries, but the impact on GDP per head was either quite small or zero.

8.17 Analysis by Brücker (2007) based on the first two years after the EU8 accession after 2004 found similar results including negligible long run impact on native incomes. Furthermore Brücker (2008) estimated the impact of the diversion (see Chapter 3) of EU8 migrants to the UK instead of Germany and found that diversion alone added 0.4 per cent to UK GDP over the period 2004 to 2011. However, no estimates for the impact on per capita GDP are given.

8.18 More recent estimates, again produced by NIESR (2014), have considered the impact on UK GDP of reducing net migration. Their focus was on all migrants, not just those in low-skilled occupations, though they did estimate the impact of reducing EU8 migrant flows.

8.19 NIESR estimated that halving net migration to the UK would over time would result in a decline in GDP of up to 11 per cent by 2060. GDP per head was estimated to fall by 2.7 per cent over the same period. However, estimates looking half a century ahead should be treated with extreme caution.

8.20 What the analysis above demonstrates is that the economy of a migrant receiving country will gain – i.e. have a higher per capita GDP – if the migrant inflow leads to an increase in productivity. This may arise if the migrant workers are better skilled, and hence are more productive, compared to native workers. It may also arise from so-called spill-over effects. One of the difficulties of assessing economic impacts is that estimates are restricted to the direct effects and miss out these broader dynamic effects. MAC (2012a) identified this as a key area for future research, though recognised the complexities involved. The next section looks at productivity impacts and identifies the channels through which migrant workers may impact on productivity.

8.4 Impact on productivity

8.21 A key concept here is the **capital-labour ratio**, i.e. how capital (denoted by K) and labour (denoted by L) are used together in different combinations to produce output and can be expressed as the capital labour ratio (K/L). Depending on the production process in question optimal ratios of capital and labour can be identified to produce output using the most efficient combination.

8.22 An increase in migration therefore adds to the amount of labour used in the economy. But in the short-run it is assumed the amount of capital does not adjust immediately to maintain this optimal combination of capital and labour. Therefore the capital-labour ratio changes and productivity falls. Over time it is assumed the stock of capital will adjust to restore the original capital labour ratio and productivity will increase once again.

8.23 Migration, particularly of working age individuals, is expected therefore to impact not only on the level of employment in an economy, but also on the relative combination of capital to labour in the production process and on the productive capabilities of the resident workforce as well.

8.24 Peri (2012) sets out a number of ways in which the economy may respond to migration, including: changes in capital investment; wage distribution effects; specialisation of tasks (such as native upgrading); job creation in complementary jobs; or dynamic labour market flexibility effects (such as increased female labour force participation if migrants take household jobs – see Chapter 7). Peri (2012) suggests that while much of the productivity gains of migration may accrue largely to the migrant, the host country may also benefit.

Research relating migration to productivity

Evidence for the UK

8.25 Kangasniemi *et al.* (2012) consider the impact of migration on productivity in the UK and Spain over the period 1996-2005. Spain has experienced an even faster growth of migrant population than the UK in the last decade or so. The authors consider the migration and productivity impacts at the industry level. In Spain, the study finds that migration explains part of the poor performance of labour productivity, with both quality and quantity effects negatively impacting labour productivity. In other words the average productivity fell across the economy as more migrants arrived in those sectors, but also these migrants were, on average, less productive than native workers. In the UK, while the quality of migrants was found to have a positive impact on labour productivity, it was generally not large enough to offset the negative quantity effect.

8.26 Kangasniemi *et al. (2012)*, found that migrants accounted for around a fifth of the annual growth in the *hotels and restaurants* sector and just under a tenth of the annual growth in *transport and communications*. In both cases the productivity effect from migration explained only around ten per cent of the improvement. In other words output in these low-skilled sectors increase because there were more migrants workers, rather than because of productivity gains.

8.27 A recent wage approach study for the UK (NIESR (2013)) found a very small effect of migration on productivity. According to their results if the immigration share increased from 10 to 11 per cent (i.e. by 1 percentage point), this would be expected to be associated with a 0.06-0.07 per cent increase in the level of labour productivity. In other words, if, before the rise, each employed person on average produced £30,000 worth of goods, after the rise in the migrant/native ratio we would expect them to produce £30,018-£30,021 - a gain of £18-21 per person.

International evidence

8.28 Lewis (2010) uses a sample of US manufacturing plants and finds that an increase in the relative supply of low-skilled labour is associated with slower growth in capital/labour ratio (slower productivity growth) and capital/output ratio – these findings were consistent with machinery being a relative substitute for low-skilled labour (and a relative complement with middle-skilled labour) in the US.

8.29 Paserman (2013) investigated whether firms and industries in Israel with a higher concentration of immigrants experienced increases in productivity following the mass migration from the former Soviet Union in the 1990s. The analysis found no correlation between immigrant concentration and productivity at the firm level in cross-sectional and pooled regressions.

8.30 An analysis of 24 Organisation for Economic Co-operation and Development (OECD) countries by Orefice (2010) covering the period 1998 to 2007 found that migrants can affect total factor productivity (TFP) in host countries, which raises both wages and the returns to capital. He distinguished between the impacts of high- and low-skilled migrants, suggesting the former raise per capita incomes and raise the capital-labour ratio in the long run. By contrast migration that is predominantly low-skilled will lower per capita incomes on average and induce a shift towards less productive, more labour-intensive processes. Orefice found that in the short run a 1 per cent increase in immigration generally results in a 0.69 per cent decline in per capita GDP. This may be offset to some extent, but not entirely, if the increase is among skilled migrants.

Comments on the impact on productivity

8.31 We conclude that, in the short run, increased labour supply reduces output per unit of labour and real labour costs. The lower cost induces a shift in resource towards an increased use of labour in production. All things equal, returns to capital investment increase and in the long run economic output increases, output per unit of labour increases and the capital labour ratio is restored. If, however, there is a fundamental permanent reduction in labour productivity, then output per unit of labour and the capital labour ratio remain below the original levels.

8.32 While it is possible for migration to have both short- and long-run effects on labour productivity, the empirical research is not clear whether this will ultimately be positive or negative. It is likely that the particular effect of a given migrant cohort will depend on the skill level, flexibility and capital complementarity of the cohort relative to the resident stock.

8.5 Impact on Prices

8.33 We commissioned Professor Tommaso Frattini to carry out research for us to examine the impact of migrants in low-skilled work on consumer prices. The full research paper is published alongside this report. This research updated and extended his earlier work in this area (Frattini (2008)).

8.34 Earlier research for the US (Cortes (2008)) examined the causal effect of immigration on prices of non-traded goods and services, for example construction, electricity and internal transport, and found that at the immigration levels experienced by the US at the time a 10 per cent increase in the share of low-skilled immigrants in the labour force decreases the price of immigrant-intensive services such as housekeeping and gardening by 2 per cent. The analysis also found that this was brought about by the feed through effects of lower wages.

8.35 Frattini (2014) analysed the effect of immigration (defined as foreign-born) on local output prices for 318 goods and services (239 tradable and 79 non-tradable) in the UK between 1997 and 2012, and distinguished between pre-recession (1997-2007) and post-recession (2008-2012) years. The analysis used annual changes in immigration and in price level in different regions to identify the effect of immigration on prices of goods and services. This identification strategy allows detecting the full impact of immigration on prices of non-tradable goods and services, for which both demand and supply are determined locally. However, it only allows identifying the changes in prices of tradable goods that are determined by shifts in local demand, as the supply of tradable goods is nationally (or internationally) determined.

8.36 Overall, the results show a very small impact of increased immigration on prices. For the period 1997-2012 a **1 percentage point increase in the immigrant to native ratio would lead to a 0.15 per cent decrease in the average price of services**. Over the census period 2001-2011 the migrant-native ratio increased by six percentage points. Therefore in practical terms this means that a service such as cleaning originally priced at £10 an hour in 2001, would be 0.9 per cent lower in 2011 and would cost £9.91 (not adjusted for inflation).

8.37 Immigration had a negative and statistically significant causal effect on the average price growth of non-traded goods and services over the period 1997 to 2007. However, this effect disappeared in the post-recession years. The discrepancy between the results for the two periods leads to a negative but not statistically significant estimated effect on average over the whole period 1997 to 2012. Even for pre-recession years, however, the size of the estimated average effect is not large.

8.38 Frattini (2014) also demonstrated that the small reduction in the average price growth of services detected is only driven by a stronger effect on prices of services in sectors that intensively use low wage labour. The size of the reduction in price growth brought about by immigration is an increasing function of the share of low-wage workers in the sector.

8.39 For the low-wage sectors, Frattini detected an average negative effect for the whole period 1997-2012, while for post-recession years the size of the effects is smaller and insignificant, but follows the same pattern. In particular, he identified significant negative price effects for *floor or wall covering*, *take-away food*, *washing and dry cleaning* and *hairdressing*.

8.40 These findings are consistent with those of Frattini (2008) for the years 1995 to 2006. Frattini argues that based on the results of studies on the wage consequences of immigration in the UK (such as Dustmann *et al.* (2013)) immigration reduced wages at the bottom of the wage distribution and, similar to Cortes (2008), interprets these results as evidence of a pass-through effect from production costs to prices.

8.41 Differently from Frattini (2008), the analysis has not identified any statistically significant link between immigration and prices of tradable goods. Over the whole period 1997-2012 the effect on prices of tradable goods is estimated to be zero.

8.6 Fiscal impact

8.42 The most thorough recent analysis of the impact of the fiscal effects of immigration to the UK has been carried out by Dustmann and Frattini (2013), building on an earlier paper looking at the fiscal costs and benefits of EU8 migration to the UK (Dustmann, Frattini and Halls, 2010).

8.43 Dustmann and Frattini (2013) provide estimates for the fiscal effects for the overall immigrant population for the period 1995 to 2012, as well as for more recent migrants who came to the UK after 2000. For this latter cohort the authors distinguish between European versus non-European migrants.

8.44 For fiscal expenditure by natives and migrants, they allocated categories using various assumptions (for more information see Table A.1 of Dustmann and Frattini, (2013)). The categories were:

- pure public goods (such as defence spending);
- congestible public goods (such as transport infrastructure);
- health;
- education (four categories);
- benefits (six categories);
- other (five categories).

8.45 Similarly, they allocated tax revenue between natives and migrants into the following categories:

- income tax and national insurance;
- Value Added Tax (VAT) etc;
- company tax;
- council tax;
- business rates;

- other (four categories).

8.46 The Dustmann and Frattini paper was criticised by Stone (2013) although this does not affect the thrust of the results. Stone helpfully provides net figures on a per person per year basis for the 11 years from 2001 to 2011 (see Table 8.2 below, column 2).

Table 8.2: Net aggregate and per person per year contribution to the public finances, 2001 to 2011, natives compared with migrants

Group	Sum 2001 to 2011 (11 years) Total net £m (1)	2001 to 2011 Per individual per year, net £ (2)
Native	-624,120	-1,087
EEA		
All	8,978	436
Recent	22,106	2,732
Non-recent	-13,128	-1,052
Non-EEA		
All	-86,820	-1,471
Recent	2,942	162
Non-recent	-89,762	-2,198

Notes: Recent refers to migrants who arrived from 2001 onwards and non-recent refers to migrants who arrived prior to 2001. Migrants are defined by country of birth.
Sources: Column 1: Dustmann and Frattini (2013), Table 5. Column 2: Stone (2013), page 8

8.47 Table 8.2 shows the following:

- Over the 11-year period from 2001 to 2011, **migrants' cumulative net contribution was minus £78 billion**. Among the UK-born population the cumulative net contribution over this period was minus £624 billion.

- However, **recent migrants from both the EEA and non-EEA have made a positive contribution to the public finances**.

- There are three standout results:

    - Recent EEA migrants made a positive net contribution of £2,732 per person per year.

    - Non-recent non-EEA migrants were net debtors at minus £2,198 per person per year.

    - On a per person per year basis, migrants overall (weighted to reflect relative EEA and non-EEA migrant populations) contributed minus £978 to the public finances, similar to natives at minus £1,087.

8.48 These results are congruent with common sense:

- Recent EEA migrants have high employment rates and relatively few children (at least not accompanying them in the UK).

- Non-recent non-EEA migrants have low employment rates and larger families. Many will also be in low-paying jobs. Their low employment rate and relatively low pay causes them to make a negative contribution (see OECD (2013b) and OBR (2013)).

- Migrants in low-skilled jobs are disproportionately non-recent non-EEA and recent EEA. Many non-recent non-EEA workers have jobs in, for example, care, hospitality and taxi driving. This group, for example those from the Indian sub-continent, often have relatively low paid jobs, lower employment rates and larger families (partly because they have lived in the UK for a longer time). Therefore they make a negative contribution to the public finances. Many recent less-skilled EU8 and EU2 migrants work in cleaning, food manufacture and agriculture. They also have relatively low hourly pay but – because they work longer hours – above average weekly pay. They also have relatively higher employment rates and small families. Therefore they contribute positively to the public finances.

8.49 There are, of necessity, numerous assumptions behind these figures. Such assumptions are matters of legitimate debate and could lead to somewhat different results. They include:

- How should national debt be allocated (see Williams (2013))?

- How should children of migrants born in the UK be allocated?

- Incidence of benefit receipt is important. For example, the Department for Work and Pensions (DWP (2012)) state that migrants are less likely to claim working-age non-work benefits (job seekers allowance; incapacity benefits; lone parent; carer; disabled; bereavement) but O'Connor (2013) states that migrants are more likely than natives to claim working tax credit (this is discussed in greater detail in Chapter 9).

8.50 Rowthorn (2014) also queried the Dustmann and Frattini results on two counts; first, migrant earnings, and hence their contribution to government revenue, were overestimated in the Dustmann and Frattini analysis, while, second, no account is taken of the fiscal impact of jobs for native workers as a result of competition from migrants. He provides revised estimates based on some adjustments highlighted by MigrationWatch (2014) and taking into account the effects of labour displacement. Rowthorn finds instead a net fiscal cost from recent migration for the period 2001-2011 (Table 8.3).

Table 8.3: Comparison of estimates of fiscal impact of recent migrants (Cumulative amount 2001-2011 - £m at 2011 prices (% GDP in parentheses))

Research	EEA migrants	Non-EEA migrants	Total recent migrants
Dustmann & Frattini	21,700 (0.13)	2,900 (0.02)	24,500 (0.15)
Rowthorn	-500 (-0.09)	-30,400 (-0.19)	-30,900 (-0.28)

Notes: Recent refers to migrants who arrived from 2001 onwards Migrants are defined by country of birth.
Sources: Dustmann and Frattini (2013), Rowthorn (2014)

8.51 Rowthorn notes that these results will be affected by the economic crisis of 2008 and the deterioration of the fiscal balance. As the economy recovers, government spending continues to reduce and any labour displacement effects fade, the fiscal effects for EEA and non-EEA migrants should improve. However, he still concludes that:

"*As a result, the fiscal contribution of recent EEA migrants, properly measured, may return to surplus, it if has not already done so. The fiscal balance of recent non-EEA migrants, properly measured, is likely to remain in deficit*".

8.52 Rowthorn's results therefore will become less negative as the economy improves. But even allowing for differences in methodological approach the net gains or losses from recent migration remain very small – perhaps of the order of plus or minus 0.15 per cent of GDP. Moreover, this is an aggregate effect over the whole period 2001 to 2011, so per year the impact would be at most 0.015 per cent of GDP.

8.53 These analyses do not distinguish between migrants working in high- and low-skilled occupations. The findings are likely to average out the potential contributions by migrant type, where we would expect those migrants working in higher skilled occupations to be greater net contributors than those in low-skilled employment. The figures presented above therefore are likely to overstate the fiscal impact from migrants in low-skilled work.

International comparisons

8.54 It is helpful to put the UK findings into context. The OECD (2013) has carried out the first comparative international study of the net fiscal impact of migration. The OECD highlights the difficulties associated with measuring the fiscal impact of the total migrant stock, noting that any estimates will be greatly influenced by the methodology used and the underlying assumptions made. Fiscal impacts can be either positive or negative depending on how certain public service and public infrastructure

costs and non-personal taxes (e.g. corporation tax) are attributed to migrants.

8.55 The OECD adopted a generational accounting approach, which estimates the cost of, and contribution to, the public purse in any given year. For the UK they found for the period 2007 to 2009 a positive fiscal impact of immigrants that amounted to just under half a per cent of GDP in their baseline scenario (Table 8.4). If pension costs are excluded then this rises to 1 per cent of GDP. However, adding in per capita allocation of collectively-accrued items (excluding defence) makes the fiscal impact of migrants becomes negative (-0.26 per cent).

Table 8.4: OECD estimates of net fiscal impact of immigrants, UK 2007-09

	% GDP
Baseline	**0.46**
Baseline excluding pension system	**1.02**
Baseline plus per capita allocation of collectively-accrued items (excl defence and debt services)	**-0.01**
Baseline plus per capita allocation of collectively-accrued items (excl. Defence)	**-0.26**

Note: Collectively-accrued items includes expenditure on education and labour market policy measures, health, social protection, public order and safety – see Figure 3.A1.8 OECD (2013) for further detail.
Source: OECD (2013), adapted from Table 3.7

8.56 Based on their analysis the OECD found some key results on fiscal impacts for all OECD countries as a whole and the factors which influence these:

- The fiscal impact of immigration is close to zero on average. Where the immigrant share of the total population receiving pensions is large the impact tends to be negative. Otherwise the impact is generally proportional to the share of immigrants in the total population.

- With the increasing policy focus in recent decades on skilled labour, recent immigrants are more likely to be net fiscal contributors than earlier migrants. Hence yesterday's migration policies explain the relatively poor results in certain countries and for certain groups, rather than policies being followed now.

- Skilled migrants (defined here as those with university-level education) make a larger fiscal contribution than low-skilled immigrants. But low-skilled immigrants tend to make a greater contribution than low-skilled UK-born workers.

- Age profile is one of the main factors explaining cross-country differences in immigrants' net fiscal position – the younger the adult migrant the more positive their direct fiscal contribution (due to a longer working life and their greater incentive to invest in their own education and training).

Migrants in low-skilled work

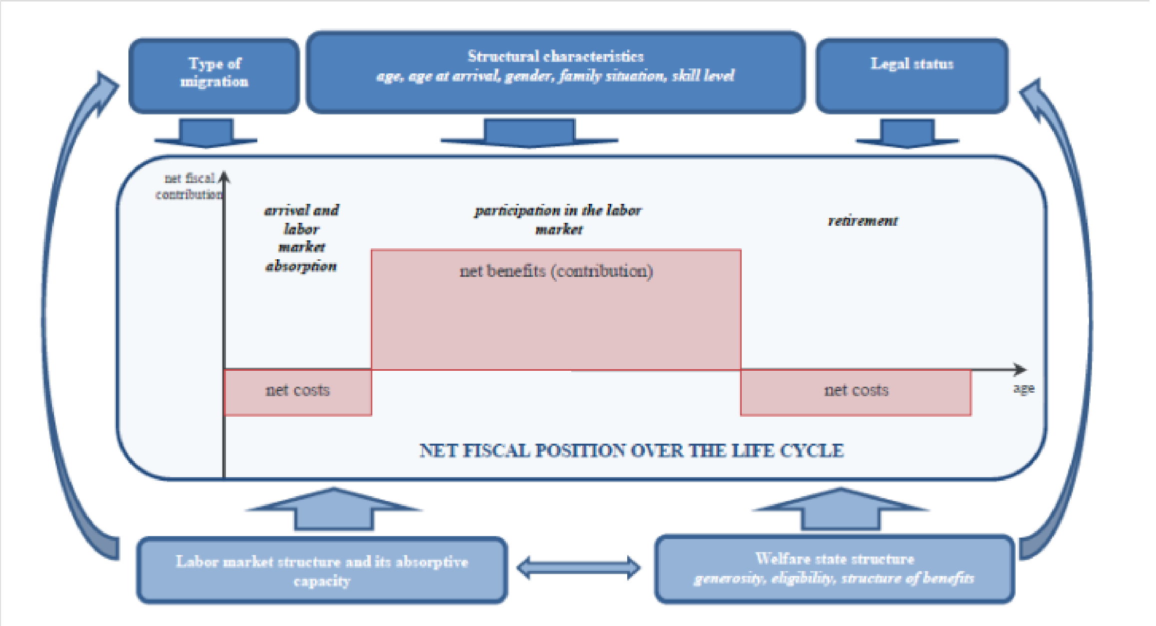
- Where immigrants have a less favourable net fiscal position than natives, this is not because they claim more social benefits, but because they tend to earn less and hence pay less in tax.
- Employment is the single most important determinant of migrants' net fiscal contribution, especially in generous welfare states. The OECD argues that raising the migrant employment rate to that of natives would result in substantial fiscal gains.

Life-cycle approach to measuring fiscal effects

8.57 Ideally any assessment of fiscal impacts should be done on the basis of a life-cycle approach, rather than the static analysis for any given year.

8.58 Figure 8.2 below illustrates this concept. Generally fiscal impacts tend to be positive for the working-age population, as their contribution from income taxes will outweigh any costs they place on the state. For younger and older age groups it is the reverse as the costs of education and pensions respectively result in a net negative fiscal impact.

Figure 8.2: Factors influencing the net fiscal position of immigrants



Source: Kaszmarczyk (2013)

8.59 Estimating fiscal impacts on this basis is complex and uncertain, as is widely recognised in the literature, and so mostly represents an ideal rather than practical approach. However, Ruist (2013) used a dynamic life-cycle approach to estimate the future fiscal contribution of EU8 and EU2 immigrants in Sweden. Ruist finds that these immigrants generate less public revenue, but also impose lower costs, with a net result of zero or small positive contribution. Also their discounted net contribution over their lifetime may be either positive or negative depending on factors such as the extent to which their incomes converge with those of natives.

Public debt

8.60 A further related issue here is the impact of net immigration on public debt levels. In their Fiscal Sustainability Report the Office for Budget Responsibility (OBR (2013)) examine this issue using assumptions for future migration inflows – a zero net migration scenario, a central case of 140,000 per year and a high migration scenario of 260,000 per year – and take into account population projections and the impact of immigration on productivity. They then forecast the impact on public finances over a 50-year time horizon.

8.61 The OBR estimates suggest that higher net inward migration would reduce public sector net debt as a share of GDP over the long-term. Under the central scenario net immigration of 140,000 per year would result in public sector net debt growing to 99 per cent of GDP by 2062-63. With zero net migration it would be 174 per cent of GDP. Under a high migration scenario it would be 78 per cent. From these results OBR concludes that *"immigration has a positive effect on the public sector's debt dynamics*". Because of their age structure (i.e. they are predominantly of working age) migrants would add to tax receipts but add little to age-related public spending pressures. It should be noted this analysis assumes migrants have the same skills profile as the native population.

8.62 It is also the case that the full effects of migrants retiring are not fully captured in this model. Indeed the OBR analysis does recognise that migrants will also one day retire from the workforce thus *"creating new age-related spending pressures"*. The OBR concludes that, "*higher migration could be seen as delaying some of the fiscal challenges of an ageing population rather than a way of resolving them permanently*".

8.63 Therefore higher migration may well help reduce public sector net debt. However this is probably a temporary effect and the gains would need to be weighed against other costs and benefits arising from the increased migration.

8.7 Trade and remittances

8.64 The available evidence on trade and remittance impacts is again limited, especially when trying to focus specifically on migrants in low-skilled employment. As such we summarise below the general literature as it applies to the UK and make inferences on the basis of migrants from those countries demonstrating a higher propensity for low-skilled employment.

Trade

8.65 We consider whether an increase in migrant population impacts on bilateral imports and exports between host and origin countries. It is reasonable to assume that closer bilateral links may lead to greater trade volumes. From a meta-analysis of 48 trade and immigration studies from across the world, Genc *et al.* (2011) found that increased immigration

generally adds to existing trade flows rather than displacing previous ones. On average, a ten per cent increase in the number of immigrants may be expected to increase the volume of trade by 1.5 per cent. The impact is weaker in the case of trade in similar goods and as the stock of immigrants increases over time.

8.66 We have found evidence from three studies looking at UK-specific analyses that can also highlight potential links with migrants in low-skilled work, although they all predate the EU expansion from 2004. Girma and Yu (2002) analysed the period 1981 to 1993 and found a significant positive relationship between the stock of immigrants from non-Commonwealth countries and UK exports to these countries – a ten per cent increase in migrants increases exports by 5 per cent in the long run. However, no export effect was found in the case of immigrants from Commonwealth countries[24], though their analysis of imports to the UK did demonstrate a trade-substitution effect (i.e. they displaced some imports to the UK from other countries).

8.67 Ghatak and Piperakis (2007) and Ghatak *et al.* (2009)[25] examined the impact of Eastern European immigration on UK trade for the periods 1991 to 2001 and 1996 to 2003 respectively. Both studies find a stronger impact in terms of imports to the UK than on UK exports to the country of migrant origin.

8.68 Both the general and the UK-specific evidence suggest some links between trade and immigration, but it is difficult to separate out the impact from a subset of migrants coming to the UK for low-skilled work. This would only be possible using assumptions based on country of origin, but even here the more recent migration is not captured. Although the two studies focusing on migrants from some of the accession countries suggest a stronger import effect, this evidence is not strong enough to indicate the potential trade effects after 2004.

Recorded Remittances

8.69 Globally, it is estimated that officially recorded remittance flows, usually a transfer of money by a foreign-born individual to someone in thier country of origin, in 2013 amounted to £366bn (World Bank (2014); see also Box 8.1). India is the biggest recipient (£47bn in 2013), followed by China (£40bn). Philippines (£17bn), Nigeria (£14bn) as well as Bangladesh and Pakistan (£10bn each) are also in the top ten recipient countries. For recipient countries, remittances can amount to a significant share of national GDP – for instance remittance flows are equivalent to 12 per cent of GDP in Bangladesh (World Bank Remittances Factbook (2011)). They

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[24] Following the ONS definition this includes both old Commonwealth (e.g. Australia, New Zealand, and Canada) and new Commonwealth countries (e.g. India, Pakistan). This aggregation means we are not able to separately identify those countries more likely to supply migrants for low skilled work.

[25] Specifically for Romania, Bulgaria, Czech Republic, Poland, Hungary and Slovakia

can also be an important source of foreign exchange – current account deficits in Bulgaria and Romania in 2010 would have been 158 per cent and 45 per cent higher in the absence of remittances (Eurostat (2012)).

8.70 The UK does not formally collected data on remittance flows and has not done so since abolishing foreign exchange controls in 1979 (Migration Observatory (2011)). To derive estimates of remittance flows to and from the UK requires using data on officially recorded flows from other countries. On this basis, the World Bank data suggest that the UK was a net recipient of remittance flows in 2009; total inflows amounted to £4.65bn while outflows from the UK were £2.35bn. Remittance outflows were equivalent to 0.2 per cent of UK GDP (Migration Observatory (2013)). This estimate should be treated with caution due to the difficulties measuring remittances properly. Furthermore, it is estimated a third of remittances would not be recorded as they go through informal channels (Blackwell and Seddon (2004)).

Box 8.1: Remittances

The International Monetary Fund (IMF) defines personal remittances as the sum of two main components: compensation of employees and personal transfers.

Compensation of employees - represents remuneration in return for the labour input to the production process contributed by an individual in an employer-employee relationship with the enterprise.

Personal transfers - is broader than the “worker remittances” that had been used until recently and comprises “all current transfers in cash or in kind made or received by resident households to or from non-resident households”. According to the IMF’s remittance data compilation guide, “unlike worker remittances, personal transfers are defined independently of the source of income of the sending household, the relationship between the households, and the purpose for which the transfer is made”.

Source: World Bank (2013b)

8.71 Remittance data are based on estimates for migration stocks by source country and the propensity to remit and the amounts involved. As such, remittance flows can vary year-on-year, especially in light of the recent financial crisis and its impact on migrant flows and earnings.

8.72 A handful of studies allow us to form a partial picture of remitting behaviour by different groups. Clark and Drinkwater (2007) looked at remittance behaviour by household ethnicity and found that around one in three Caribbean and Pakistani households send remittances, though in the latter case less than 20 per cent did so regularly which was more in line with remittance behaviour in Indian and Bangladeshi households. They also found that the amount sent each month was mostly less than £100. A similar degree of remittance behaviour was identified in a study of migrants in Dublin (Batista and Umblijs (2014)), where 30 to 40 per cent of migrants born in Africa, Asia and the new EU member states had remitted or sent goods home at least once in the previous year.

Including unrecorded and informal channels

8.73 The World Bank also publishes estimates of remittances that are sent through unrecorded and informal channels. These suggest that remittance flows are actually considerably bigger and that the UK is a significant net sender of remittances. However, some caution is needed as the estimates will inevitably be less robust than officially recorded flows.

8.74 The World Bank estimates that remittances to the value of £15.48bn were sent from the UK in 2012 (Table 8.5). This is equivalent to almost 1 per cent of UK GDP. Most of this (£10.19bn) went to developing countries. Almost £3.17bn went to the EU15 countries while £1.31bn was sent to the new EU member states. By comparison, the UK received almost £5.5bn in remittances, mainly from Australia, the US and Canada.

Table 8.5 Estimated total remittances (recorded and unrecorded) to and from the UK, 2012 (£bn)

	To the UK	From the UK	*Main destination countries from remittances sent from the UK (£bn)*
Total	**5.47**	**15.48**	
EU15	1.54	3.17	France (0.93); Germany (0.76); Spain (0.34); Belgium (0.33)
EU12	0.02	1.31	Poland (0.75); Lithuania (0.15); Slovak Republic (0.10)
Other OECD	3.44	0.81	Australia (0.29); USA (0.22); Switzerland (0.08)
Rest of World	0.47	10.19	India (2.79); Nigeria (2.52); Pakistan (1.00); Bangladesh (0.56)

Note: EU12 consists of EU8 and EU2 countries plus Malta and Cyprus.
Source: World Bank (2012)

8.75 These data imply the UK was a net exporter of remittances to the rest of the world (amounting to £10bn in 2012). This is even higher (£11bn) with countries more likely to supply migrants for low-skilled employment in the UK (EU12 and non-OECD countries). Although these data are only estimates, it is reasonable to assume that net remittances flows from the UK are larger than indicated by the recorded data. Most appear to be flowing to areas of the world providing migrants for low-skilled work. This amounts to a leakage from the UK economy.

8.8 Conclusions

8.76 Having examined the impact of low-skilled employment among migrant workers on a range of macro economic variables, we conclude the following:

8.77 Migrants in low-skilled work add to overall GDP, but their contribution is in line with their share of low-skilled work generally. What matters though is GDP per capita (ideally how it impacts on resident population). Estimates based on migration from Central and Eastern Europe suggest the per capita impact is small, ranging from 0 to 0.2 per cent of GDP.

8.78 The impact on productivity is difficult to measure generally, but even more so for low-skilled. The available research suggests the effect is marginal.

8.79 There does appear to be a statistically significant impact on prices for non-tradable services, though again this is very small and was evident only for the period of economic growth before 2008.

8.80 The fiscal impact depends crucially on the methodology used and how the various elements of public tax and expenditure are apportioned. A variety of studies looking at this for the UK (and indeed other countries) find different results, but it is generally the case that recent migrants are net contributors in fiscal terms. Longer-term migrants actually impose a fiscal cost, though these findings should be treated with caution. Across most countries the fiscal impact from all migrants is small – somewhere between plus and minus half a per cent of GDP. UK studies at most suggest the positive impact resulting from recent EEA migrants is of the order of 0.015 per cent of GDP per year. This estimate inevitably averages out the contribution made by migrants in high- and low-skilled work respectively. As such, we would expect the fiscal contribution from migrant low-skilled employment to be lower than 0.015 per cent of GDP per year and quite possibly negative overall.

8.81 The studies undertaken on UK trade impacts provide only limited evidence and the results anyway are ambiguous. There does appear to be a net outflow of remittances to those countries more likely to supply migrants for low-skilled work in the UK. This may potentially amount to £11bn a year.

8.82 Overall, we examined the impact of migrants working in low-skilled jobs on GDP per head, productivity, prices, the fiscal situation and trade. Some impacts are positive and some are negative. But what is striking is how modest these economic effects are one way or the other. This suggests that factors other than economic variables are also crucial in understanding immigration. These include population size, housing, congestion and cohesion, which we consider in the next chapter.

Chapter 9 Social impacts

9.1 Introduction

9.1 This chapter sets out the social impacts of migrants working in low-skilled jobs, at least as far as the data allow. Even more so than the information contained in the preceding chapters on the labour market and wider economic impacts, the social impacts of immigration are difficult to define and to measure.

9.2 Some commentators (see, for instance, Collier (2013)) argue that the social impacts of immigration are greater than the economic impacts. The analysis in this chapter provides some preliminary evidence of associations between immigrant populations - and specifically those involved in low-skilled employment - and a range of what can reasonably be termed 'social' factors.

9.3 Most importantly, this chapter seeks to maintain the approach followed in the previous chapters and recognises the uneven distribution of migrants across the UK. Some areas in the UK may experience almost no social impact from immigration, while others may see a major impact. The focus in this chapter is therefore much more on 'local impacts' beyond the labour market impacts examined in earlier chapters.

9.4 The chapter is presented in two broad parts:

- The first part considers definitions of social impacts. It then uses measures of migrants working in low-skilled jobs from the England and Wales Census of Population to assess, as far as it is possible, how this evidence relates to community cohesion, integration and subjective wellbeing at the local level. It also examines the potential link between the evidence and the public's perceptions of, and attitudes towards, immigration.

- The second part looks at specific (non-economic) issues individually to see how migrants fare compared to the UK-born. This follows the approached adopted in Migration Advisory Committee (MAC) (2012a) and considers demographic change at the local level, housing, welfare

participation, use of public services (notably heath care and education) and crime.

9.5 Published Census data already tell us the shares and growth of migrants at the local authority level and we also have a national level indication of migrants – by country or region of birth – employed in low-skilled occupations. We requested further Census data from the Office for National Statistics (ONS) to identify at the local level those migrants working in low-skilled jobs.

9.6 We attempt to differentiate recent migrants from older ones, and identify how social impacts arising from immigration can vary between areas with longer experience of migrant communities and those which are experiencing relatively recent new arrivals. Again our focus is primarily on immigration in the last 15 to 20 years.

9.7 Overall, it is difficult to draw all of these elements (economic versus social impacts, regional versus national data, low-skilled versus other occupations, and new arrivals against more established migrant communities) together into a dynamic 'whole'. We supplement the available data with our findings from partner visits and other qualitative research.

9.2 Impact on cohesion

Defining cohesion

9.8 Our analysis in this section focuses on the association between immigration and social cohesion. Immediately this raises two issues. The first is that there is no single agreed definition of social cohesion. A range of indicators is used to determine cohesion and these include measures such as trust and common social norms (Putnam (2007); Migration Observatory (2014)). The second issue is that research in this area has examined the links between cohesion and diversity, with the latter considered in terms of population race or ethnicity rather than in terms of migrants and specifically those in low-skilled jobs.

9.9 Many of these research findings – especially those for the US, though for some European countries too – often point towards a negative relationship between ethnic diversity and social cohesion.

9.10 As we shall see later there tends to be a further link between diversity and socio-economic deprivation in local areas, suggesting that the negative association is not driven by diversity per se. Putnam (2007) suggested that *"immigration would lead to a substantial increase in ethnic diversity in virtually all modern societies over the coming decades"*. He argued that in the short- to medium-term immigration and ethnic diversity would challenge social solidarity and inhibit social capital. However, over time *"successful immigrant societies create new forms of social solidarity and dampen the effects of diversity by constructing new, more encompassing identities"* (Putnam (2007)).

9.11 The approach we follow differs from previous studies in that it examines the association with immigration (by country of birth), rather than an ethnicity measure. Issues related to ethnicity may overlap with an analysis based on country of birth, but we do not examine ethnicity specifically.

9.12 We adopt the following definition of cohesion: "*how migration affects neighbourhoods and is defined by people's perceptions of how people get along with each other in their local area or neighbourhood"* (Saggar *et al.* (2011)). Our analysis seeks to test the extent to which immigration affects people's perceptions of how they get along with each other at the local level and, if possible, to distinguish between short- and long-run impacts to see whether the trajectory suggested by Putnam holds true for recent UK immigration overall and specifically for those migrants working in low-skilled employment.

Measures of cohesion

9.13 As we have seen, migrants are concentrated in different areas of the UK and hence the impacts – both economically and socially – are likely to be felt differently across these areas. Therefore, national level reporting of social cohesion issues will possibly mask differences at the local level. We therefore sought to identify data pertaining to the local level and to make this as local as possible.

9.14 Measuring cohesion to help inform and feed into public policy debates in the UK really resulted from a report by the Community Cohesion Review Team (CCRT) in 2001. The CCRT was set up following disturbances in a number of towns and cities across the UK in 2001 "*to identify good practice, key policy issues and new and innovative thinking in the field of community cohesion"* (Home Office (2001)). The CCRT noted that community cohesion *"is closely linked to other concepts such as inclusion and exclusion, social capital and differentiation, community and neighbourhood",* and drew on earlier work by Forrest and Kearns (2001) setting out the various domains of community cohesion (Table 9.1).

Table 9.1: The domains of Community Cohesion	
Domain	Description
Common values and a civic culture	Common aims and objectives Common moral principles and codes of behaviour Support for political institutions and participation in politics
Social order and social control	Absence of general conflict and threats to the existing order Absence of incivility Effective informal social control Tolerance; respect for differences; inter-group cooperation
Social solidarity and reductions in wealth disparities	Harmonious economic and social development and common standards Redistribution of public finances and of opportunities Equal access to services and welfare benefits Ready acknowledgement of social obligations and willingness to assist others
Social networks and social capital	High degree of social interaction within communities and families Civic engagement and associational activity Easy resolution of collective action problems
Place attachment and identity	Strong attachment to place Inter-twining of personal and place identity

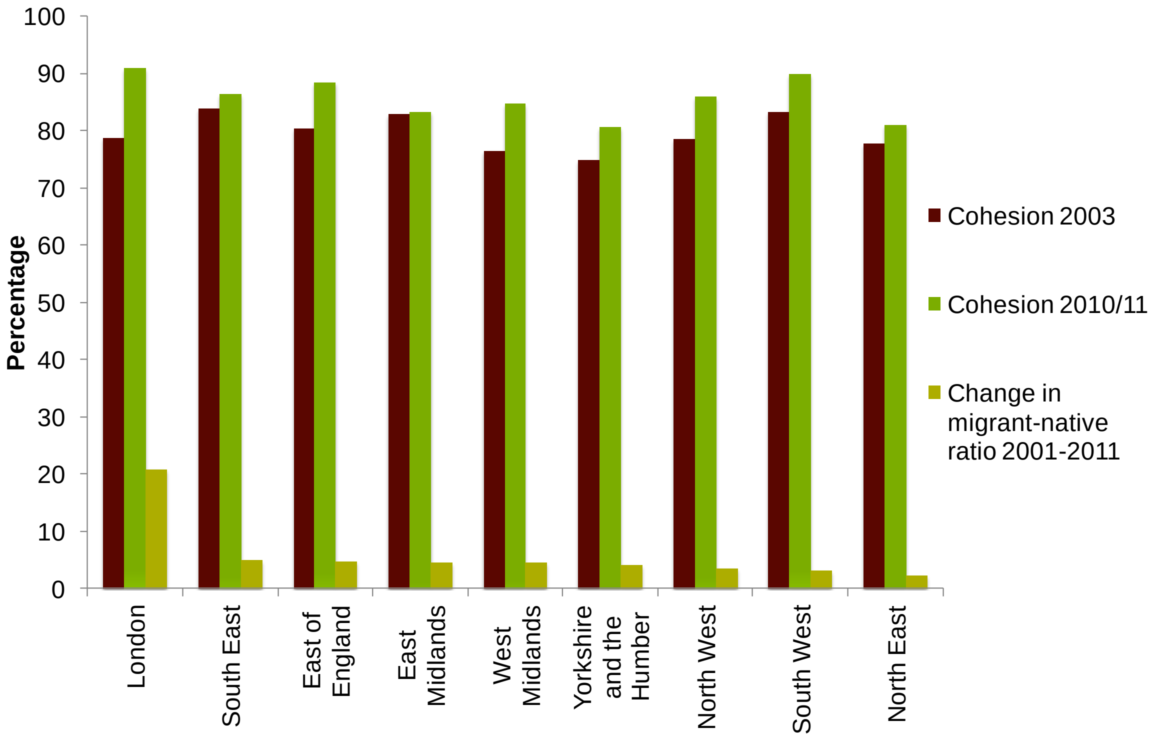
Source: Forrest and Kearns (2001)

9.15 Government began producing official measures of cohesion in 2001. These are mainly taken from the Citizenship Survey carried out in England and Wales by the Department for Communities and Local Government (DCLG) until 2010-11[26].

9.16 These surveys have included questions about community action (the degree to which people feel they can influence decisions at national and local level); civic engagement; trust in institutions (Parliament, local councils and the police); cohesion (the extent to which people feel that the local area is a place where people from different backgrounds can get on well together); belonging to the local neighbourhood; mixing socially with people from different backgrounds; and satisfaction with the local area as a place to live.

[26] This has now been superseded by the Community Life Survey (Cabinet Office, since 2012), though similar questions have been asked in both surveys to ensure consistency over time.

Figure 9.1: Reported cohesion and the change in migrant-native ratio for English regions, 2003 and 2010-11



Notes: Cohesion is represented by percentage of people who agree that their local area is a place where people from different backgrounds get on well together.
Source: Home Office (2003), Department for Communities and Local Government (2011) and Office for National Statistics (2014q). England and Wales Census of Population, 2011

9.17 Using data from the Citizenship Survey (Figure 9.1) we compare cohesion scores in 2003 and 2010/11 against the change in the migrant-native ratio for English regions[27]. Three points are worth noting from this. First, the percentage agreeing that their local area is a place where people from different backgrounds get on well together is relatively high. Second, this has risen for all regions since 2003. Third, this has occurred despite an increase in the share of migrants in each region.

9.18 The survey presents its results broken down into the English regions. Because the sample size for the Citizenship Survey was relatively small (a core sample of 10,000 plus an ethnic boost of 5,000) these data cannot be used to provide reliable results at a much more local level. England is split into 326 districts or local authorities, which would on average give around 50 responses for each local authority.

9.19 In an attempt to overcome this we have used data for England from the 2011 Census (ONS) and the 2008 Place Survey, the latter asking a number of these questions related to social cohesion.

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[27] Data for 2012-13 from the Community Life Survey show that for all regions except the North East cohesion scores are still higher than in 2003. For five regions (including London) scores had fallen since 2010-11.

9.20 The Place Survey was a postal survey co-ordinated by DCLG but carried out at local authority level. Overall, this yielded a sample of over a million people and achieved a response of over half a million (DCLG (2009)), providing a significant sample for each of the 326 local authorities in England.

9.21 We compare reported cohesion in 2008 (again measured as percentage of respondents agreeing that their local area is a place where people from different backgrounds get on well together) with the share of adult population by local authority that are migrants and in low-skilled work. (Figure 9.2). For comparison we do the same for UK-born in low-skilled work as well as for migrants and UK-born in high-skilled employment.

9.22 The results suggest a negative association between cohesion and migrants in low-skilled jobs. However, the same is true for UK-born in low-skilled jobs, which suggests that it is not immigration per se that might explain this. In fact, we find a strong, negative correlation between cohesion and the degree of low-skilled working, regardless of birthplace. By comparison the association between cohesion and high-skilled employment is clearly positive for the UK-born population, but much less so for the foreign-born in high-skilled work. Follow-up work by the MAC will investigate this further.

9.23 National level analysis of the 2005 Citizenship Survey (Laurence and Heath (2008)) did find that immigration had a negative effect on cohesion if large proportions of the in-migrants are non-white and originate from outside the UK. They also found that cohesion is negatively affected by crime (both levels and fear of), lack of civic participation, and socio-economic deprivation. By contrast, ethnic diversity, formal volunteering and being able to influence local decisions were identified as strong predictors of cohesion.

9.24 Often ethnic diversity is found to be negatively associated with cohesion, but this apparent link is in fact more complex. Ethnically diverse areas are also often areas of disadvantage and it is deprivation, rather than diversity, that undermines cohesion (Laurence and Heath (2008)). Other studies have reached similar conclusions (for instance see Becares (2011), Letki (2008)).

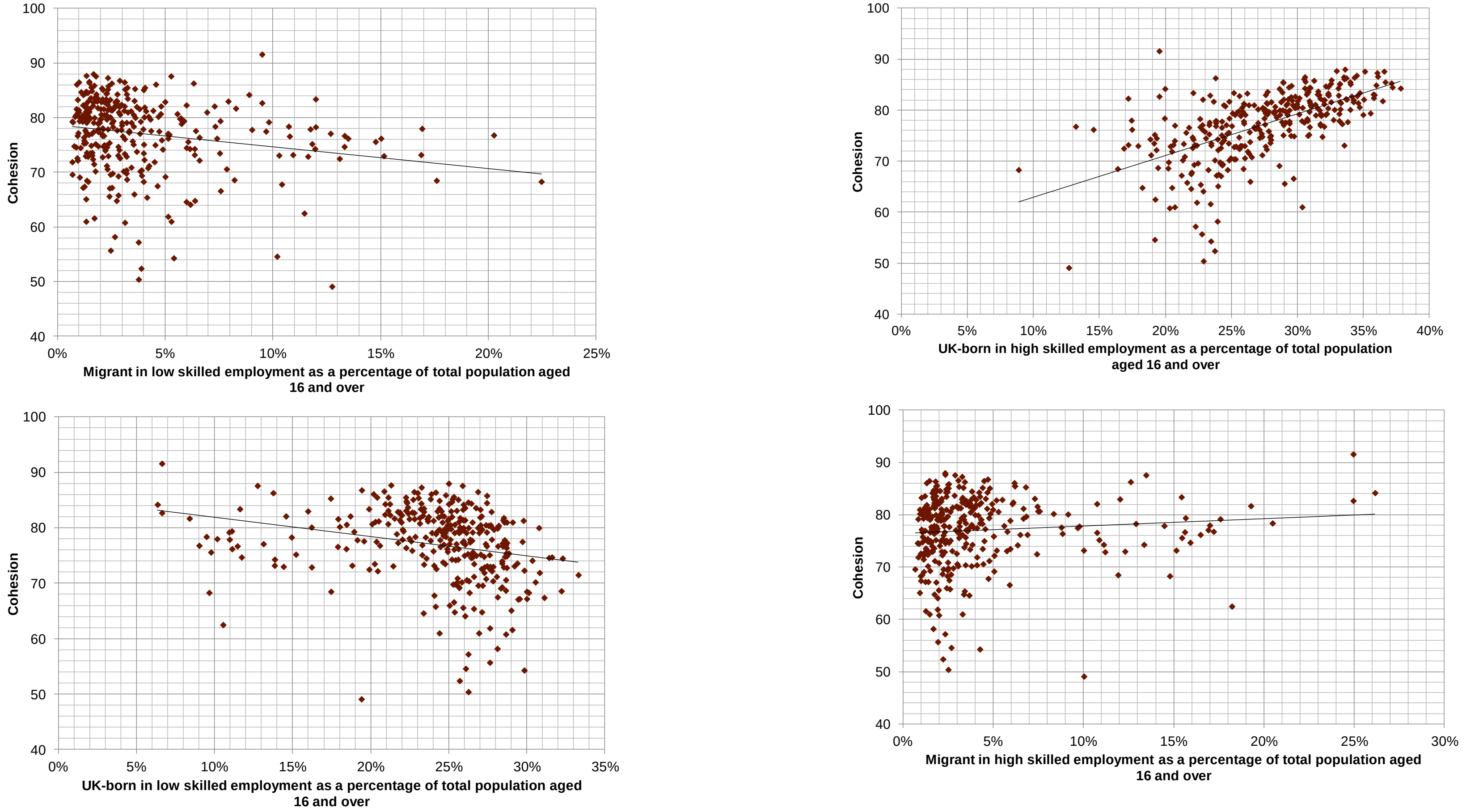
9.25 It is arguable that London represents a special case here, as migration has been relatively high historically. Migrant shares of population are much higher than elsewhere in the UK and migrant populations themselves are much more diverse. "*As possibly the most ethnically diverse conurbation on the planet, London serves as a particularly test-bed for theories about the effects of ethnic heterogeneity on prosocial attitudes*" Sturgis *et al.* (2013). London's earlier experience of migration therefore may to some extent serve as an example for those local areas that are new to significant migration. Sturgis *et al.* (2013) found two important results:

- First, *"ethnic diversity does not, in and of itself, drive down community cohesion and trust. In fact, in the highly diverse neighbourhoods that characterise modern London, the opposite appears to be the case, once adequate account is taken of the spatial distribution of immigrant groups within neighbourhoods and the degree of social and economic deprivation experienced by residents".*

- Second, *"ethnic segregation within neighbourhoods…is associated with lower levels of perceived social cohesion".*

9.26 Therefore, great care is required before reading too much into such results. As our interest here is around immigration rather than ethnicity, the MAC is undertaking further research in this area and will publish its findings in due course

Figure 9.2: Cohesion and shares of low- and high-skilled employment for migrants and UK-born, English local authorities, 2011



Notes: Cohesion is measured by the percentage of people by local authority in England, 2011-12, who agree that their local area is a place where people from different backgrounds get on well together. Local authorities are denoted by dots. The black trend line indicates the degree and direction of association between cohesion and the share of adult population by local authority employed in high or low-skilled work respectively.
Source: Department for Communities and Local Government (2009) and Office for National Statistics (2014c) England and Wales Census of Population, 2011

9.27 These results are just a snapshot: the Place Survey has since been abandoned as part of DCLG funding cuts, although some local authorities have continued it of their own volition. The fact that we are attempting to match data from different years (that is, 2008 and 2011) may also weaken results.

9.3 Impact on integration

9.28 Integration considers the outcomes of a particular group against a societal average. *It is about understanding the trajectories of first (and second) generation immigrant performance in a range of economic and social spheres (employment, housing, social interaction, marriage and so on*) (Saggar *et al.* (2012)).

9.29 Different groups of migrants can and do perform very differently. Because integration is often defined in terms of outcomes, it is generally easier to identify suitable indicators and therefore easier to measure (see for instance OECD (2013)).

The role of language

9.30 We limit our focus on integration to the role of English language and do so from two perspectives (for a broader survey of socio-economic integration see Dustmann *et al.* (2011)). First, we consider English language acquisition generally and what the research evidence says about its impacts on migrant outcomes. Second, we look at English language proficiency across occupations.

(i) Language acquisition and its effect on migrant outcomes

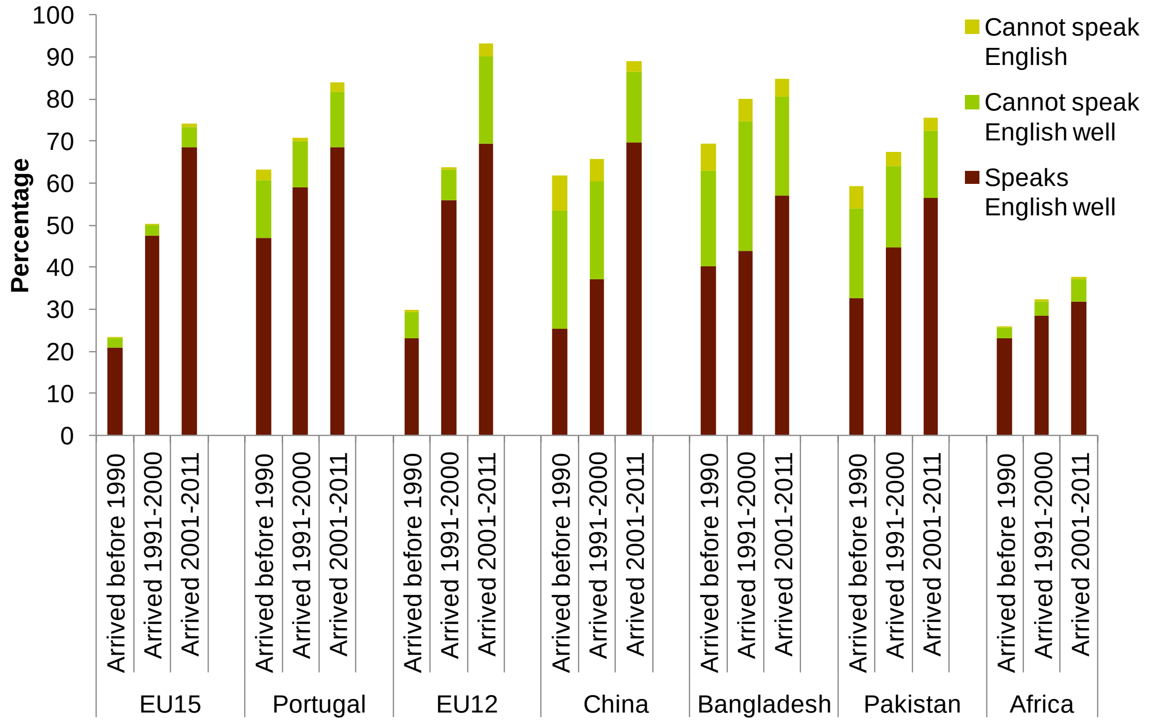
9.31 Census 2011 data (Nomis (2014b)) provide information on proficiency in English by country of birth and year of arrival. Generally we would expect that the longer a migrant has been in the UK, the better would be their English language ability.

9.32 Figure 9.3 presents data for migrants from selected countries and world regions. Recent migrants, those arriving in the last decade, generally do not have English as their first language (around 70 per cent or more of recent migrants for all areas except Africa). However, many (some 50 to 60 per cent) self report as being able to speak English well. Over time, an increasing share of migrants adopt English as their main language, though there are exceptions.

9.33 For migrants from southern Asia (including Pakistan and Bangladesh), as well as from Portugal, acquisition of English, even for those who have been in the UK for over 20 years, has been slower than for other migrant groups. More than one in three migrants from China and one in four from Pakistan and Bangladesh arriving before 1991 cannot speak English well, and one in twenty report they cannot speak English at all. The same is true, though to a lesser extent, for migrants from Portugal, which contrasts

markedly with the average for migrants born in the EU15 countries overall and indeed for the accession countries from 2004 onwards.

Figure 9.3: Proficiency in English for migrants whose main language is not English by year of arrival in the UK by selected country/region of birth, 2011



Source: Nomis (2014b). England and Wales Census of Population, 2011

9.34 As we identified in Chapter 3, migrants from the countries cited above are more likely to work in low-skilled jobs. Yet the findings from research suggest language acquisition can have significantly positive effects on labour market outcomes. Chiswick and Miller (2014) report that for a number of countries learning the host country language can boost earnings by 20 per cent or more. Studies for the UK (Dustmann and Fabbri (2003); Miranda and Zhu (2013)) estimate a 15 to 20 per cent earnings gain for male migrants.

9.35 To date there is little equivalent research available examining the impact of language proficiency on outcomes beyond the labour market, such as social, family structure and civic life (Chiswick and Miller (2014)).

(ii) English language use in low-skilled occupations

9.36 During our visits some partners told us that in low-skilled jobs in particular languages other than English had become dominant in the workplace. We were told this had the effect of 'crowding out' native speakers because they were unable to converse with foreign-born, non-English speaking workers, often creating a barrier to employment.

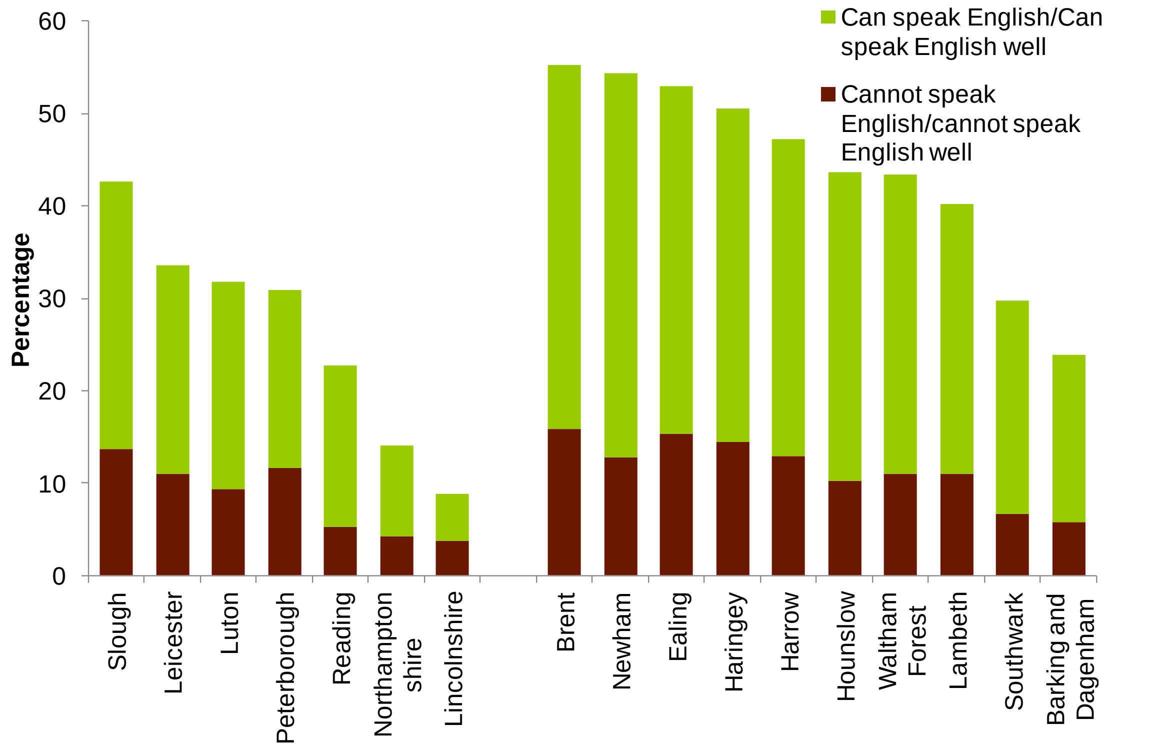
> *"Several respondents highlighted that a reasonable understanding of English was important to ensure that all workers complied with health and safety rules and regulations in the workplace."*
>
> Chartered Institute of Personnel and Development response to MAC call for evidence

9.37 These reports are anecdotal and difficult to substantiate, making it hard to gauge the scale of the issue and its impacts. In order to get a sense of the prevalence of non-English speaking in low-skilled occupations, we use Census 2011 data by local area. Again we focused on those areas where low-skilled migrant employment is highest.

9.38 Proficiency in English is poorest for elementary occupations. Across England and Wales as a whole around 28 per cent of those working in this occupation group do not have English as their main language and cannot speak English well or at all. This compares with 20 per cent for all low-skilled occupations combined and 13 per cent for high-skilled occupations.

9.39 Figure 9.4 provides an indication of the degree of English proficiency in elementary occupations by local authority and/or county in England. In a number of London boroughs (for instance, Brent, Newham, Ealing, and Haringey) around one in seven or more cannot speak English well or at all. Outside of London English language proficiency is better (though this reflects lower migrant shares), but it is still the case that around 10 per cent or more of elementary workers in Slough, Luton, Leicester and Peterborough do not speak English well or at all.

Figure 9.4: Proficiency in English in elementary occupations among employed whose main language is not English by selected local authority/county, 2011



Source: Nomis (2014a). England and Wales Census of Population, 2011

(iii) English language training for migrants

9.40 The Government provides funding for migrants to learn English for speakers of other languages (ESOL), though in the last couple of years this funding has been cut. ESOL funding is now targeted at:

> *"…adults in receipt of Jobseekers Allowance or Employment Support Allowance where English skills are identified as a barrier to entering employment. For other groups, the Government funds 50 per cent of the costs of English language training with individuals or employers expected to meet the remainder. Colleges and providers do have the discretion to provide fully funded training for other groups who are in receipt of other benefits where this will help them into employment."*
>
> Department for Business, Innovation and Skill response to MAC call for evidence

9.41 The Department for Business, Innovation and Skills (BIS) has recently introduced competitive tendering for £6m of funding to deliver English language training. The focus is on those areas across England where increasing the levels of spoken English will achieve the greatest results.

"The benefits will be far-reaching and have a wide impact on local areas by enabling more people to participate in their community, gain employment and increase their voluntary activity."

Department for Business, Innovation and Skill response to MAC call for evidence

9.42 We were told by a number of partners that tighter ESOL funding was resulting in insufficient supply of English language training for migrants.

"In Glasgow, provision of English language services is perhaps the most widely cited example of a service experiencing increased demand due to migration. The over-subscription of this service, in conjunction with budget restrictions, has contributed to a situation whereby demand substantially outstrips the provision. In turn, restrictions on the ability to access and acquire the necessary level of English language skills undoubtedly restrict an individual's ability both to access employment, and to progress when in employment."

Convention of Scottish Local Authorities response to MAC call for evidence

9.4 Impact on subjective wellbeing

9.43 Perceptions of the impacts of immigration at the local level may also potentially be captured using data on personal wellbeing. In 2011 the ONS introduced the first national survey of subjective wellbeing. This is based on four questions included in the Annual Population Survey (APS), which has a relatively large sample (122,000 for England):

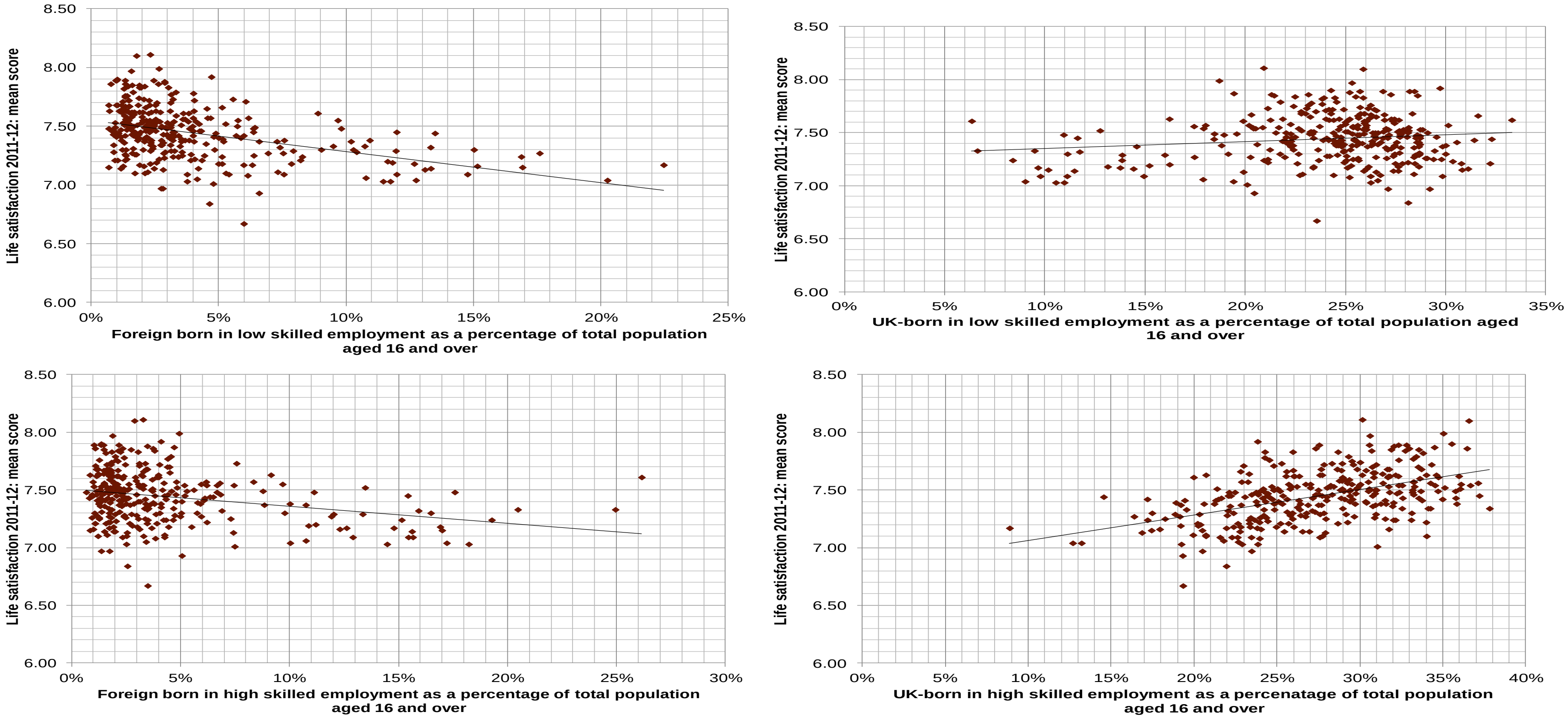
- Overall, how satisfied are you with your life nowadays?
- Overall, to what extent do you feel the things you do in your life are worthwhile?
- Overall, how happy did you feel yesterday?
- Overall, how anxious did you feel yesterday?

9.44 The ONS undertook econometric analysis to identify the main factors affecting wellbeing at the national and regional level (Office for National Statistics (2013h); Office for National Statistics (2013f)). Importantly this analysis controls for individual characteristics. Overall, the ONS found that measures of personal wellbeing are most strongly associated with self-reported health, work status and being in a relationship. Although migration and ethnicity were included in this analysis this was on the basis of reported personal wellbeing of migrants or individuals from different ethnic groups, rather than their impact on the wellbeing of others. The ONS found that life satisfaction was positive and higher among those

migrants who arrived before 2000, though new migrants (arrived since 2009) and medium-term migrants (arrived between 2000 and 2009) reported being happier than earlier migrants.

9.45 The ONS analysis of wellbeing indicators was carried out at the national and regional levels, but they suggest further exploration of the data at sub-regional level. Data for local authorities were produced both for 2011-12 and 2012-13 and have been published by ONS (Office for national Statistics (2013h)). The MAC is currently conducting further research examining the links between immigration generally, as well as for migrants in low-skilled work, and the four measures of personal wellbeing at local authority level. The aim is to analyse the effect by local authority of migrants on overall wellbeing.

Figure 9.5: Subjective wellbeing and shares of low- and high-skilled employment for migrants and UK-born, English local authorities 2011



Notes: Wellbeing is measured using mean life satisfaction score by local authority in England, 2011-12. Local authorities are denoted by dots. The black trend line indicates the degree and direction of association between wellbeing and the share of adult population by local authority employed in high or low-skilled work.

Source: Office for National Statistics (2013h) and Office for National Statistics (2014c). England and Wales Census of Population, 2011

9.46 We will publish our full findings in due course but present here some initial analysis. Figure 9.5 shows the association between wellbeing and migrants in low-skilled work as a share of total adult population by local authority in England. Once again we use measures of the UK-born in low-skilled work and foreign born and UK-born in high-skilled work as comparators.

9.47 As with the cohesion analysis, the non-causal picture from the raw data seems to show a negative association between subjective wellbeing and the share of local adult population who are migrants in low-skilled jobs. Unlike the analysis using the cohesion measure, this is not the case for the UK-born in low-skilled work. Again, an increasing share of UK-born in high-skilled jobs is strongly associated with higher personal wellbeing. For the foreign-born in high skilled work there is a negative association.

9.48 A full econometric analysis is required to establish the links here to give an indication of what is driving the variation in wellbeing scores across local authorities (similar results are found using measures of *happiness* or *perceptions of life being worthwhile,* since scores from these three wellbeing measures are highly correlated across local authorities. The association also appears to hold whether measured against migrants in low-skilled work or the change in migrant-native ratio). As in the case of the cohesion analysis, it may well be that other factors, such as socio-economic deprivation, explain much of this.

9.49 DCLG has also conducted a broader analysis of the local area wellbeing results (Gill and Green (2013)). Their regression analysis of the factors that explain the variation in mean life satisfaction scores finds that personal circumstances of the local population are important. These include the proportion of adults living as couples without dependent children, self-reported health, age, employment and hours worked, education level and ethnicity. They also find that the proportion of people living in rural areas is a positive and significant factor.

9.5 Public attitudes to migration

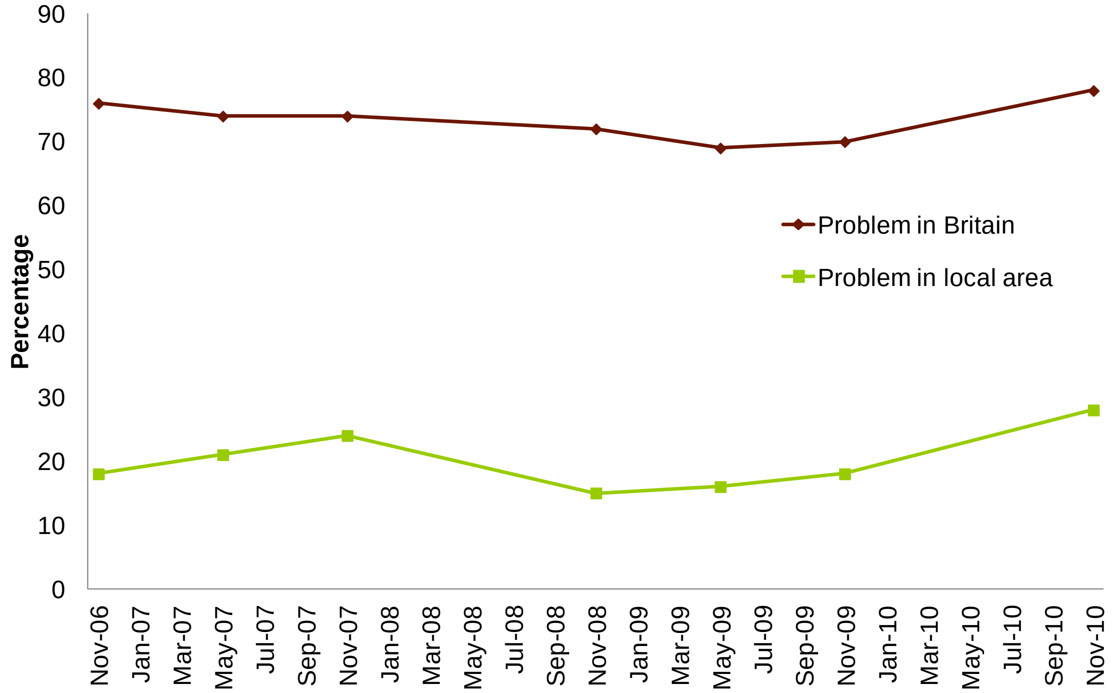
9.50 Measures of cohesion and wellbeing in relation to immigration rely on peoples' perceptions as well as their personal experience. These perceptions may reflect concerns about immigration on three key issues: job displacement, congestion and the potential drain on public resources (Ipsos MORI (2012), Figure 2.12).

9.51 To try and better understand these results in relation to cohesion and wellbeing we examine here public attitudes to, and perceptions of, immigration. We look at how these vary between the national and local levels, as well as variance by type of migrant and how these may be affected by public understanding of what a migrant is and their route of entry into the UK. We also look at research based on the European Social Survey to assess how the public views the economic and social impacts of immigration.

Immigration as a problem nationally and locally

9.52 It is interesting to compare the local and regional concentration of immigration with public attitudes. Research by Ipsos MORI shows a marked difference between those who think immigration is problem nationally (of the order of 70 to 80 per cent) and locally (around 20 to 30 per cent).

Figure 9.6: Percentage of respondents who reported immigration as being a problem in Britain and their local area



Notes: The graph presents the percentage of respondents who reported immigration as being a problem to the following question: "*Overall how much of a problem, if at all, do you think immigration is in Britain at the moment? And how much of a problem, if at all, do you think immigration is in your local area at the moment?*"
Source: Duffy *et al.* (2014); UK Border Agency public attitudes survey, waves 1 to 6 (January 2007 to September 2009)

9.53 A report by the Home Office (Poppleton *et al.* (2013)) suggested that areas that have historically received the largest share of immigration are better equipped to deal with the social and public service challenges of new migrants. Although public opinion expresses a clear preference for a reduction in immigration, it is also the case that the white British population in those areas that have experienced the biggest change in non-UK born population between 2004 and 2011 is least likely to favour a reduction in immigration (Duffy *et al.* (2014)).

Perceptions by type of migrant

9.54 Migrants come to the UK from all over the world under different immigration routes and research has shown that the public attitudes to immigration in the UK vary by type of migrant (Migration Observatory

(2011)). They also greatly over- or under-estimate the volumes of migrants, both overall and by type.

9.55 Blinder (2012) argues that public opinion on immigration is actually directed towards ‘imagined migration’, because of the divergence between these public perceptions and the statistical facts on immigration as measured by government and used to inform policy-making.

Attitudes towards low-skilled migrants

9.56 The public is most likely to think of asylum seekers as migrants (60 per cent), even though asylum accounts for only around one in twenty immigrants each year (Migration Observatory (2011)). Measuring public attitudes to refugees over time (before and after the rise in immigration and asylum in the 1990s) suggests a growth in intolerance (Crawley *et al.* (2013)).

9.57 Research suggests that the UK-born also have a ‘pecking order’ for shaping their attitudes towards migrants: a survey in 2011 found that public preference for a reduction in migration was twice as high for low-skilled migrant workers (around 60 per cent in favour), than it was for either high skilled migrants or international students (around 30 per cent in favour in each case) (Migration Observatory (2011)).

9.58 This preference for higher skilled migrants was also found in the British Social Attitudes Survey (Ford *et al.* (2012)), which found negative attitudes towards ‘unskilled migrants’ – either in work or looking for work (whether they come from Eastern Europe or from a ‘Muslim country such as Pakistan’). This contrasted significantly with attitudes towards skilled professionals from the same countries (Figure 9.7).

9.59 One of the implications from the result above is that the native population views lower skilled migrants as a threat to native workers. However, there is evidence from a study of European regional data suggest that this may not necessarily be the case. Markaki and Longhi (2012) analysed data of the differences in natives’ attitudes to immigration across 111 regions in 24 European countries between 2002 and 2008. They found that where the share of natives and immigrants with low-level qualifications was relatively high, feelings of threat from economic and employment competition from immigration were lower. Concerns about the impact of immigration were increased with a rise in regional unemployment rates of immigrants and the proportion of non-EU born migrants. Again, where natives over-estimate levels of migration this also resulted in higher anti-immigration attitudes.

Figure 9.7: Views of labour migrants, by migrant characteristics

Notes: Respondents were asked whether accepting these migrants is a bad thing or a good thing for Britain. [Highly qualified professionals/Unskilled labourers] from [East European countries like Poland/Muslim countries like Pakistan] [who have been recruited to fill jobs where there are labour shortages/who have come to Britain to search for work].
Source: Ford *et al*. (2012)

Perceptions of impact

9.60 Card *et al.* (2012) analysed data from 21 European countries, including the UK, to measure the relative importance of economic and social concerns in driving opinions about immigration policy. They find that concerns around changes in the composition of the local population – and how this impacts on neighbourhoods and schools for instance – are between two and five times more important in explaining individual attitudes to immigration[28] than economic concerns (e.g. wages and taxes). Furthermore, they demonstrate that these concerns also help to explain the more negative attitudes to migrants among the older population and those with lower levels of education.

9.61 These findings suggest that the social impacts of immigration have a greater influence on people's perceptions than the economic impacts. Most immigration research focuses on the economic impacts and generally finds that immigration has only modest effects. This is consistent with our findings in this report (Chapters 7 and 8).

[28] As measured by respondents who would like to see immigration reduced

9.62 Research carried out by Ipsos/MORI for the former Commission on Integration and Cohesion (Commission on Integration and Cohesion (2007)) identified a number of factors that were important for bringing local communities together. These included friendly neighbours and people, population stability, access to public services and employment opportunities. The Ipsos/MORI report highlighted the following points:

- The importance of increased interaction between people from different ethnic backgrounds and the role workplaces and educational institutions play;
- Shared values can help bring people together – such as respect for the law, tolerance and politeness towards others, freedom of speech;
- That not being able to speak English is a significant barrier to interaction and community cohesion;
- The perception of unfair competition for public services needs to be addressed, though here again perceptions of unfair treatment at the national level exceed those locally.

9.63 We consider that the public's perception of the social impacts of immigration has a determining role in their present attitude towards immigration. Whether this has a basis in reality is harder to determine, backing up Collier's assertion that the social impacts outweigh the economic impacts is not straightforward. We believe this area merits greater attention and the MAC will be researching this area further to try to establish whether there exists a relationship between immigration and perceived social effects.

9.6 Social impacts

Demographic change at local level

9.64 Before considering the impact of immigration on key public services, it is helpful to consider the impact of immigration on overall population change. This gives a sense of the extent to which population has grown across local areas and what its underlying drivers have been.

9.65 We focus again on the ten local authorities in London and the ten outside London that have the highest shares of migrants in low-skilled employment. For this analysis we use ONS annual data on internal migration for 2001 to 2012 for local authorities, which splits overall population change into natural change (the difference between births and deaths), internal migration (to and from other parts of the UK) and international migration (to and from other parts of the world).

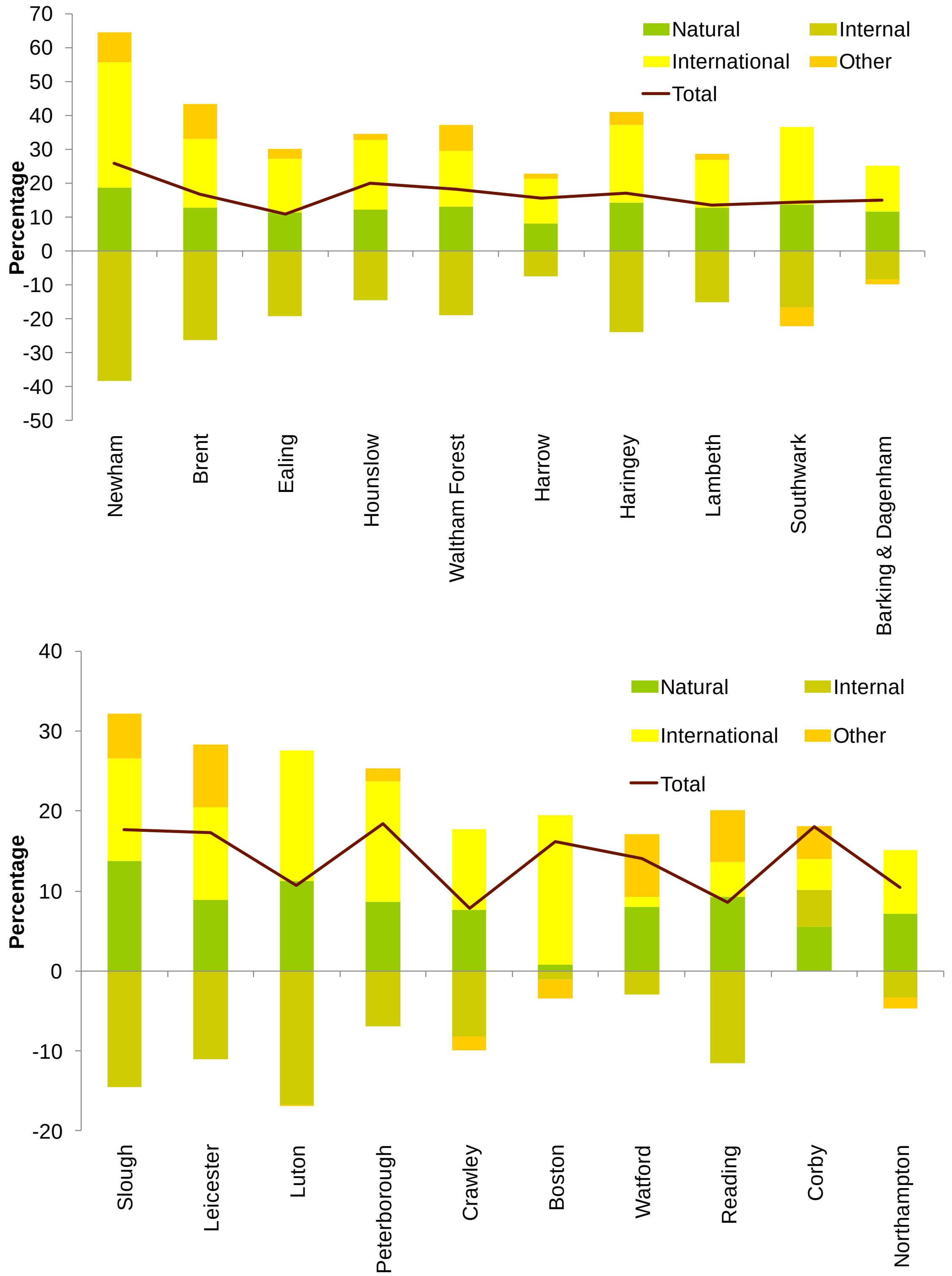
9.66 What we found (Figure 9.8) is that net inflows of international migrants over the period have, by and large, been offset by net outflows to other parts of the UK. In terms of migration flows alone, overall volumes of migrants are effectively cancelled out thereby resulting in no or very little

population change. By and large this is true for all local authorities we looked at, though Boston, Corby and Northampton are exceptions.

9.67 These data do not distinguish between UK born and non-UK born migrants (either internal or international), so there is little we can say about changing composition of the population by country of birth. But migrant flows themselves have not caused much change in total population – and so migrant flows in themselves also should not have altered demand for public services much.

9.68 However, in all the areas we looked at, except for Boston, the overall population has increased markedly. We found that this was mostly due to increased natural change, itself mainly explained by rising fertility. ONS (2012) analysis shows considerably higher birth rates for non-UK born women suggesting that this rise in fertility is due to the arrival of migrants. General fertility rates (GFR - the number of births in a year per 1,000 women aged 15-44) of migrants can be more than twice those for UK-born women. The GFR is around 140 for every 1,000 women born in Pakistan or Nigeria, but only 60 per 1,000 UK-born women. For women born in Bangladesh, India and Poland the GFR is around 100. In all cases the GFR is higher still for non-UK born women living in London.

Figure 9.8: Components of population change in London (upper panel) and outside London (lower panel) areas of migrant low-skilled employment, 2001-2012

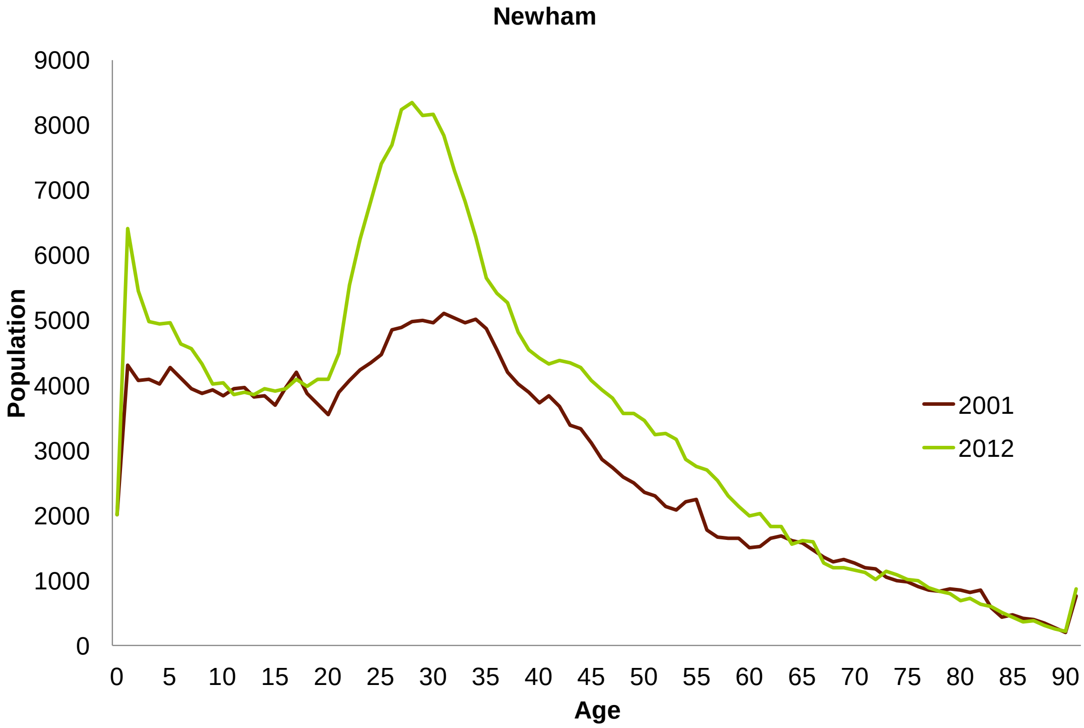


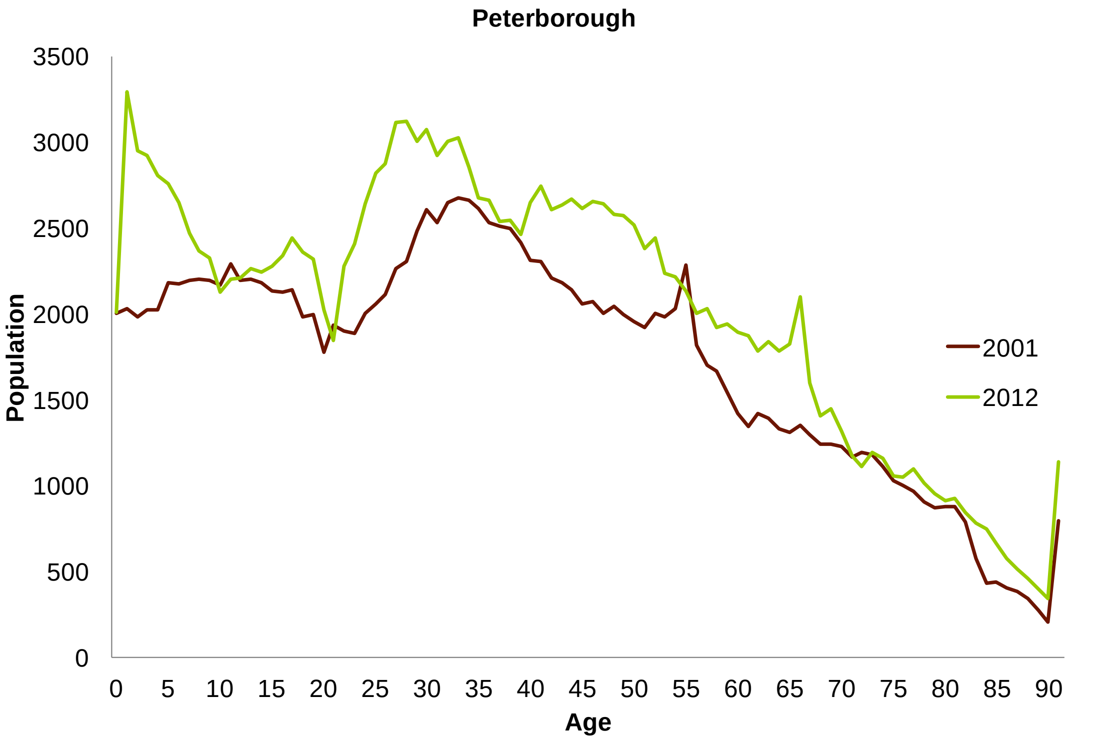
Notes: The components of population are: 1) natural change: births minus deaths; 2) internal: migration of population into and out of local authorities within the UK; 3) international: migration of population into and out of local authorities from/to abroad; 4) other: includes unattributed components of change and other statistical adjustments. Aggregate change by component as per cent of base population in 2001.
Source: Office for National Statistics (2013i)

9.69 It is also possible to look at the changing composition of the population by varying age structures over time (Figure 9.9). We compare two local authorities (one in London, one outside London) showing the distribution of population by single year of age. Newham and Peterborough both have experienced a marked increase in the population of young children (aged around ten or less), with most of the rest of the increase falling on the working-age population. However, where Newham and Peterborough differ is that in Newham the increase in population has been much more concentrated in the 20 to 35 age range.

9.70 Based on these data, we find that those local authorities with the largest proportions of migrants in low-skilled work have experienced considerable international migrant flows. These have generally been offset by outflows of population to the rest of the UK but the population of the area has still grown due to increased fertility.

Figure 9.9: Population by single year of age in Newham and Peterborough, 2001 and 2012





Notes: Population volumes by single year of age, 2001 and 2012
Source: Office for National Statistics (2013i)

9.7 Impact on housing

9.71 Concern about the impact of migrants on housing has featured in much of the recent debate about migration at both the local and national level: *"increased population and household growth means more housing is required, resulting in higher house prices, overcrowding, and the loss of green space"* (Whitehead (2011)). There is also a common perception and concern about the demands that immigrants place on the welfare system through their access to publicly provided housing in the UK, otherwise known as social housing.

> *"Between 2008 and 2033 the number of households in England was projected by DCLG to grow by 5.8 million, or 232,000 per year. Of this increase, 36% will be a result of immigration. Demand for housing is high and the government is failing to build houses at the rate that they are required. The result is higher rents and property prices as well as lengthening waiting lists for social housing."*
>
> Migration Watch UK response to MAC call for evidence

9.72 In this section we explore some of these issues using available data. In particular, we consider how migrants use different types of housing tenures relative to UK-born residents and how this varies across regions and particular local authorities that have high shares of migrants in low-skill jobs. We will then consider the impacts this may have on public finances and house prices using existing literature in these areas.

9.73 Throughout the section, we are limited by the data available to us. In most cases, while it is possible to identify the impact of migrants as a whole, it is difficult to separate out the impact of migrants in low-skilled occupations. Consequently, the majority of the analysis presented considers all migrants, split by EU and non-EU. Where the data allows, we try to identify the impacts of migrants in low-skilled occupations.

Migrant residents in England and Wales

9.74 When considering the impacts of migrants, it is important to understand the proportion of people we are considering in the context of the entire population. Whilst migrants may have significant impacts in absolute terms, these impacts may not be as significant relative to the entire population.

9.75 Whitehead (2011) noted household projections from DCLG, which suggested that over the period 2009 to 2013 (and based on several assumptions), the increase in the number of households would be of the order of 260,000 per annum, with almost 40 per cent of this increase possibly being attributable to migration.

9.76 We use data from the 2011 census, which counts the number of Household Reference Persons (HRPs) by country of birth, in order to estimate the proportion of the resident population that are migrants[29]. Based on this data, migrants account for 14.5 per cent of all residents in England and Wales. 4.6 per cent are EU born migrants, with the remaining 9.8 per cent being non-EU born. This is in line with the overall shares of the total population.

Table 9.2: Composition of residents in England and Wales, 2011

Country of birth	Number of household reference persons (millions)	Percentage of total (%)
UK born	20	85.5
Foreign born	3.4	14.5
EU born	1.1	4.6
Non-EU born	2.3	9.8
Total	*23.4*	*100*

Notes: The figures above are in relation to all Household Reference Persons (HRPs)
Source: Office for National Statistics (2014n). England and Wales Census of population 2011

Migrants' use of housing tenures

9.77 Migrants and natives differ in the types of tenure they occupy, particularly recent migrants. There are three main categories of tenure:

- owner occupier;
- private tenant; or
- social tenant.

9.78 An important factor which tends to differ between migrants and UK-born residents, and which may therefore be driving the difference in tenure occupancy, is income distribution. Migrants tend to be worse off than UK-born residents, even though they may be relatively better educated, and this plays a role in the type of tenure they occupy (Whitehead, 2011).

9.79 A number of other factors have also been identified as influencing migrants' tenure decisions. These include demographic factors such as family size, immigration status and local housing market (Rutter and Latorre, 2009).

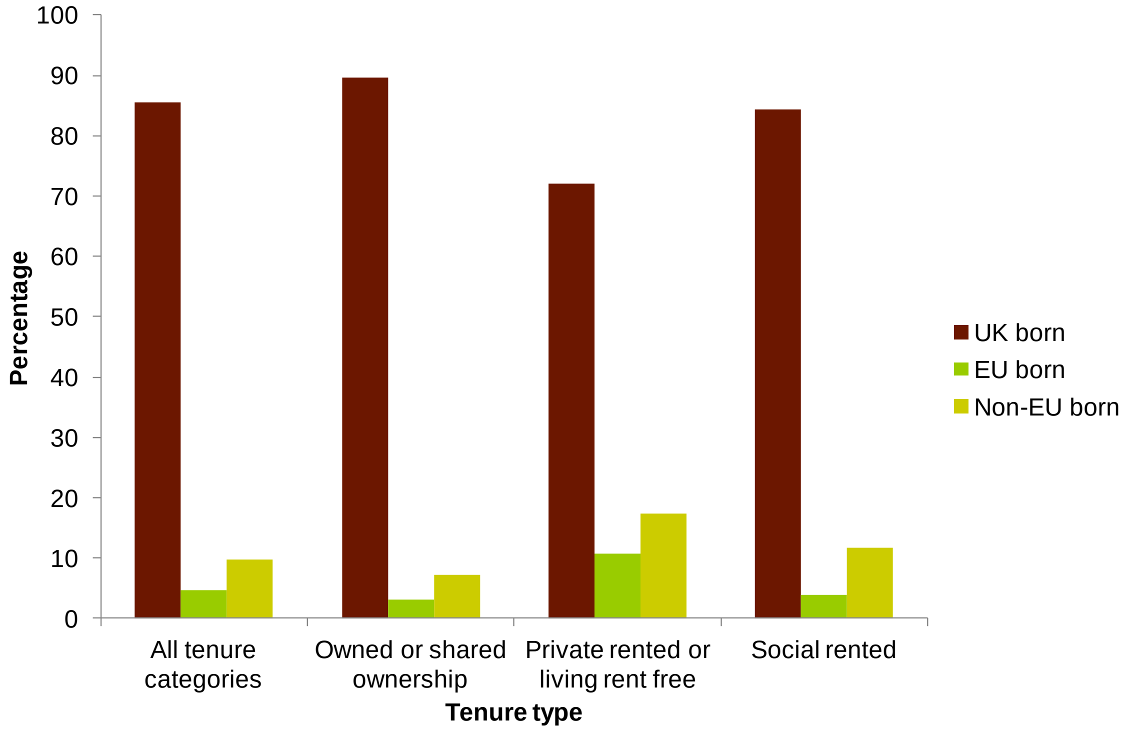
Migrants across different tenures

9.80 In England and Wales, the tenure category with the highest migrant representation is the private rented sector. Here, migrant residents

[29] Household Reference Persons provide an individual person within a household to act as a reference point for producing further derived statistics and for characterising a whole household according to characteristics of the chosen reference person. See *2011 Census Definitions and Output Classifications*, *p.17.*

account for 28 per cent of all residents. 11 per cent of these are EU born whilst 17 per cent are non-EU born.

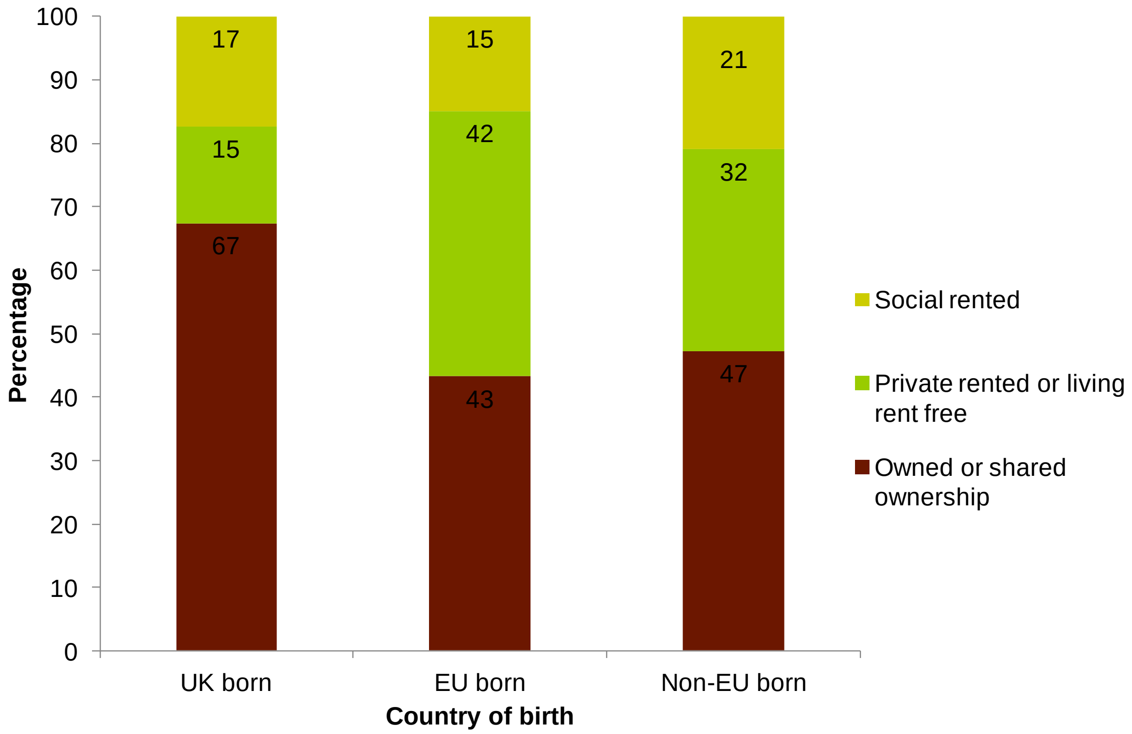
Figure 9.10: Proportion of UK-born and migrant residents by tenure category in England and Wales, 2011



Notes: The figures above are in relation to all Household Reference Persons (HRPs)
Source: Office for National Statistics (2014n). England and Wales Census of population 2011

9.81 The data also suggest that a larger share of migrants, as compared to UK-born residents, use the private rented sector. 67 per cent of all UK-born residents in England and Wales own properties, with 15 per cent privately renting and 17 per cent in social housing. By contrast, of all migrant residents, 46 per cent own properties, 35 per cent privately rent and 19 per cent are in social housing. Data from the most recent English Housing Survey also show that migrants are more likely to be in privately rented properties compared to UK-born residents. This varies when we consider EU and non-EU migrants separately.

Figure 9.11: Share of residents in different tenure categories by country of birth in England and Wales, 2011



Notes: The figures above are in relation to all Household Reference Persons (HRPs)
Source: Office for National Statistics (2014n). England and Wales Census of population 2011

9.82 Perry (2012) notes that new migrants are much more likely to be in the private rented sector than in any other sector and access to this sector is usually gained through their employers, agents that find them work, friends or local contacts. Whitehead (2011) also found that *"the proportion [of migrants] remaining in the private rented sector, or moving into it, were very much higher than for those born in the UK"*.

Housing occupation

9.83 This use of the private rented sector suggests that on average the consumption of housing by migrants is considerably less than that of UK-born residents. This results in housing being used more effectively as migrant households live at higher densities than equivalent UK born households (Whitehead (2011)).

9.84 Whitehead (2011) noted the findings of a DCLG survey (2008) which found that *"there is strong evidence that newly arriving migrants are far more likely than others to live within or share with another household, often a family member"*.

9.85 Our engagement with stakeholders and visits to local authorities has also raised this issue of overcrowding in houses occupied by low-skill migrants, as discussed in Chapter 6.

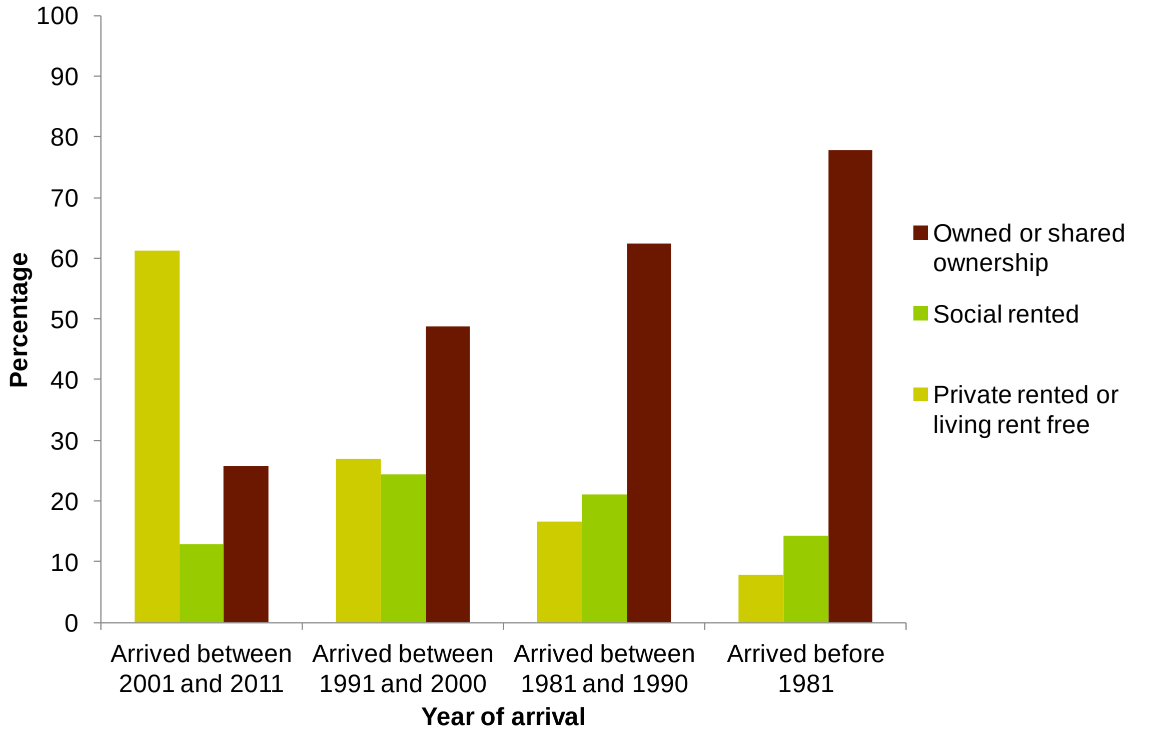
Migrants' tenure over time

9.86 Whilst, in general, migrants tend to make greater use of the private rented sector, this varies between old and new migrants. Robinson (2008) suggests that due to stringent eligibility criteria for social housing and migrant workers being unaware of their rights, there is a reliance of migrant workers on the private rented sector, particularly in the early years of settlement. This coincides with the finding from Battiston *et al.* (2014): "*recent immigrants are much less likely to be in social housing than equivalent natives but that after about 10 years this probability rises above that of natives before falling back to the native level*".

9.87 This pattern can be seen from the latest Census data. A much higher share of migrants who arrived most recently are in the private rented sector compared to those who arrived before 1981. Most of the migrants who arrived before 1981 are owner occupiers.

9.88 The share of migrant residents in social housing is highest for those who arrived between 1991 and 2000, with the lowest share being for those who arrived before 1981.

Figure 9.12: Share of migrant residents in tenure categories by year of arrival in England and Wales, 2011



Notes: The figures above are in relation to all Household Reference Persons (HRPs)
Source: Office for National Statistics (2013b). England and Wales Census of population 2011

Regional and local patterns

9.89 Using ONS data we can explore whether this national picture varies at the regional and local level. Migrants are unevenly distributed across regions,

with particularly large concentrations of migrants in London and the South East. Based on Census 2011 data, 20 per cent of migrant residents across England and Wales live in inner London. Of all residents in inner London, half are migrants.

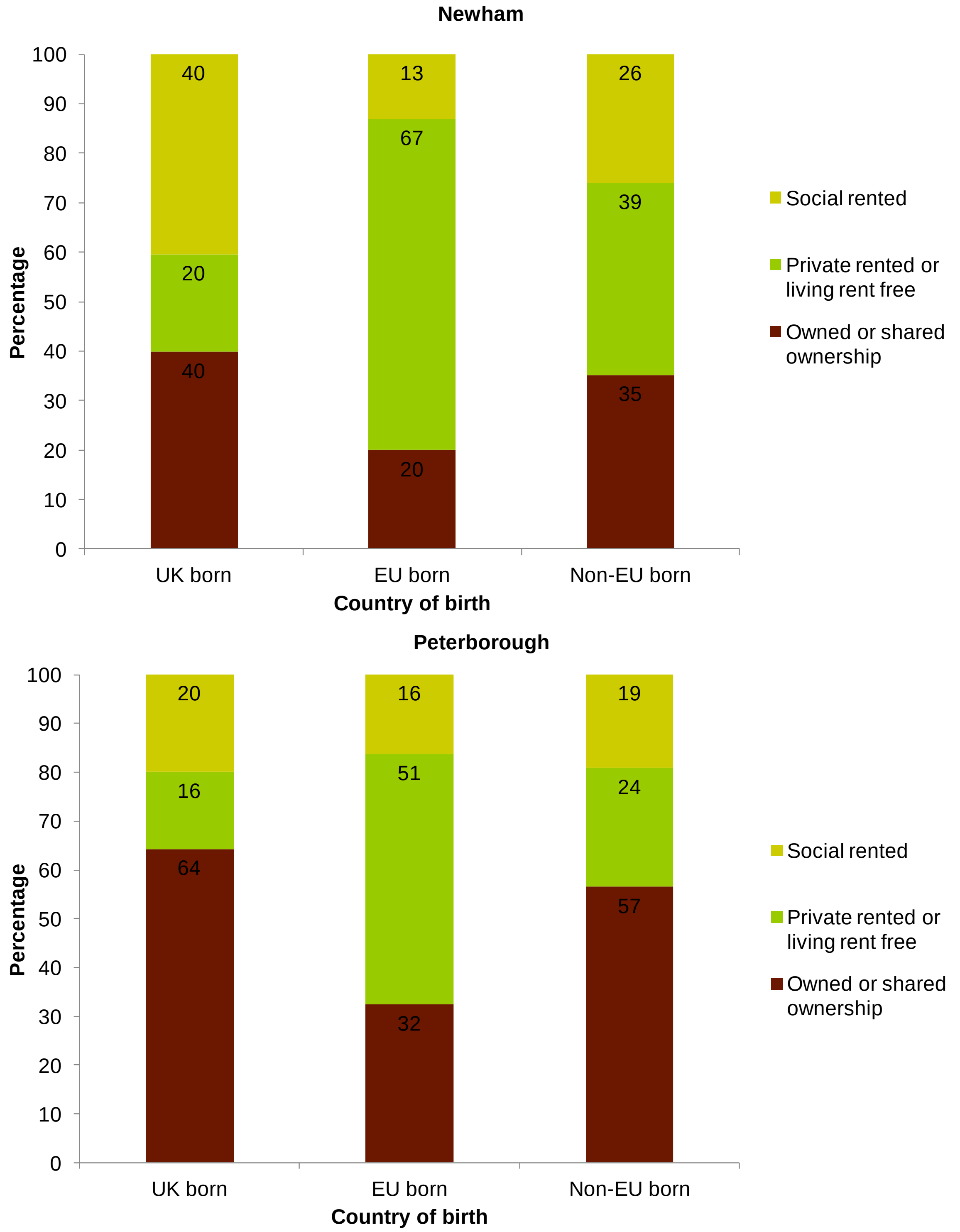
9.90 The distribution of migrant social tenants is even more disproportionate. Of all migrant social tenants living in England and Wales, 34 per cent are in inner London. When comparing migrant and UK-born residents' tenures in inner London, the share of UK-born residents who are owners is larger than the share of migrants who are owners. The share of residents living in social housing for both migrants and the UK-born is exactly the same at 33 per cent.

9.91 Using ONS data on migrants in low-skill jobs and migrant residents by local authorities, we can also look at how migrants' use of tenures varies at the local level. As before, we focus on two local areas, one in London and one outside of London, exhibiting high shares of migrants in low-skill jobs.

9.92 When looking at the proportion of migrant residents in different tenure categories, the highest proportion of migrants for both Newham and Peterborough are in the private rented sector in line with the national picture. Migrants make up 80 per cent of the private rented sector in Newham and 40 per cent in Peterborough. The smaller proportion in Peterborough reflects the relatively smaller migrant share here as compared to Newham as seen in Chapter 3. In Newham, non-EU migrants make up a significantly higher proportion than EU migrants and UK-born residents in each of the tenure categories except for social housing. In Peterborough, UK-born residents make up the majority of residents in each of the tenure categories.

9.93 As before, we can also compare the share of migrants and UK-born residents across tenure categories. For EU migrants, the shares are similar in both local areas, and are in line with the national picture, with the majority being in the private rented sector. For non-EU migrants in Newham, there is a much more even split between residents in the private rented sector and those owning, whereas in Peterborough the majority of non-EU migrants are owners.

Figure 9.13: Comparing share of residents by country of birth across tenure categories in Newham and Peterborough, 2011



Notes: The figures above are in relation to all Household Reference Persons (HRPs).
Source: Office for National Statistics (2014n). England and Wales Census of population 2011

Migrants in social housing

9.94 When looking at migrants' use of housing tenures over time, our analysis showed that migrants tend to start off in the private rented sector followed by the social rented sector before becoming owner occupiers. "*The most direct potentially negative impact of long-term immigration lies in the potential cost of housing support...and access to subsidised social housing*" (Whitehead, 2011). Given the low rents and greater stability of tenure in the social sector, migrants' use of the social renting sector has implications for certain parts of the native population.

9.95 UK citizens and migrants from the European Economic Area (EEA) who have the right to reside in the UK are eligible for social housing. For non-EEA migrants, access to social housing is only granted once they receive indefinite leave to remain in the UK, typically after five years lawful residence in the UK. Based on data on citizenship and length of time resident in the UK, Manning (2014) shows that according to these eligibility criteria, most migrants in the UK are in households eligible for social housing.

Table 9.3: Percentage of individual migrant residents and migrant households in the UK by different characteristics, 2007 to 2013

	Individual migrant residents (per cent)	Migrant households (per cent)
UK-born	0	31
Foreign-born UK citizen	42	28
EEA non-A8 citizen	17	12
A8 citizen	11	9
Non-EEA, in the UK for more than five years	18	12
Non-EEA, in the UK for five years or fewer	13	8

Notes: A8 citizens are those from the eight Eastern European countries that joined the EU in 2004.
Source: Manning (2014)

9.96 Battiston *et al.* (2014) compare migrant and native households between 2007 and 2013 and find that based on the raw data, most of the migrant groups considered are more likely than UK-born residents to be in social housing. There is, however, considerable heterogeneity among migrants: those with A8 citizenship are less likely than UK-born residents to be in social housing whereas migrant households containing at least one foreign-born British citizen and those without any EEA citizens are more likely than those comprised of UK-born residents to be in social housing.

9.97 The study goes on to control for certain characteristics (demographic, economic and regional circumstances; all factors that are likely to influence the probability of being in social housing) so as to compare equivalent migrant and UK-born households. The results for this (Table 9.4 column (2)) show that migrants are less likely than equivalent UK-born residents to be in social housing. Battiston *et al.* (2014) conclude from this

that *"there is no evidence of discrimination in favour of immigrant households as is believed by a sizeable fraction of the white British population"*. The controls do indicate though, that households with certain demographics such as more children, and lower economic status are more likely to be in social housing. The latter in particular applies to migrants in low-skill jobs.

Table 9.4: Differences in the probability of being in social housing for immigrant households relative to UK-born households

	Comparing raw data (1)	Comparing equivalent households (2)
UK citizen, foreign born	+7.9	-2.2
EEA non-A8 citizen, foreign born	+1.1	-8.4
A8 citizen, foreign born	-3.5	-12.7
Non-EEA citizen, foreign born	+5.2	-7.1
Controls	*none*	*Demographic, economic and regional*

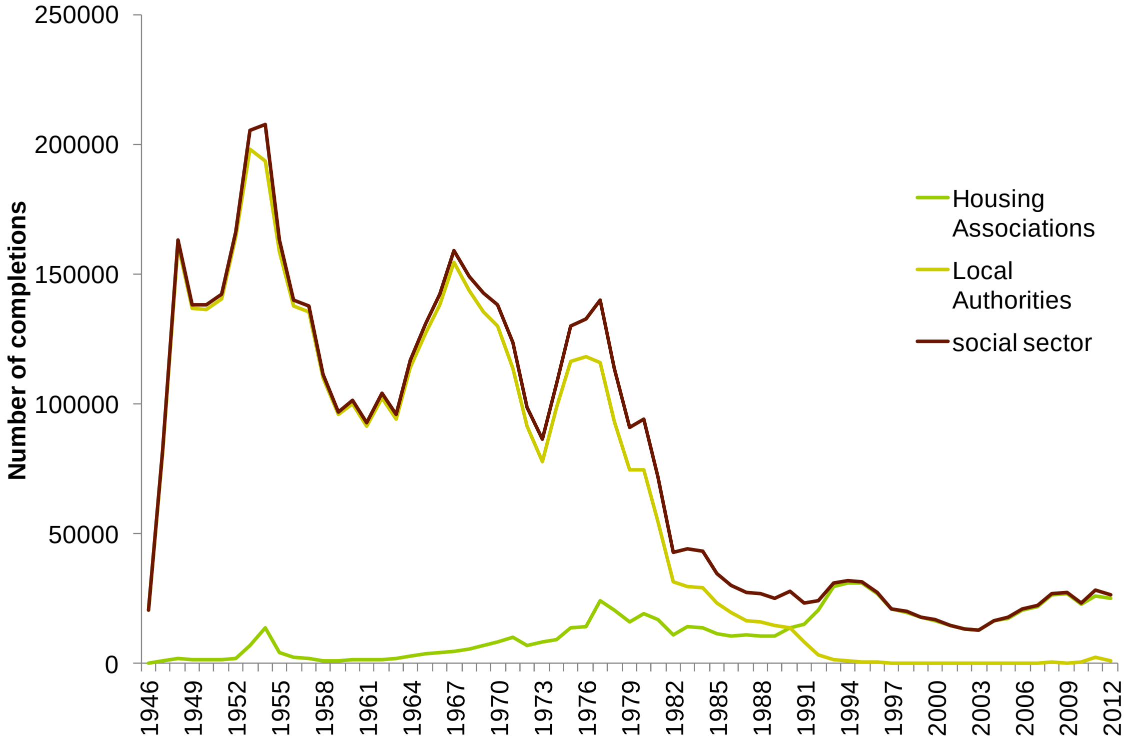
Notes: (i) All coefficients are significant at the 5 per cent level or better; (ii) demographic controls are the number and age of adults and children in a household; regional controls divide the country into 20 regions; economic controls are the number of working adults and the highest paid occupation of any adult; (iii) the numbers in column (2) represent differences in the probability of being in social housing for immigrants relative to natives evaluated for a single adult workless household with two children living in the south east of England.
Source: Manning (2014)

9.98 Battiston *et al.* (2014) also considered the changes in access to social housing over the period 1985 to 2013. They find that *"from the perspective of a white native household, the chances of being in social housing have fallen".* In the late 1980s, the UK-born were much more likely than migrants to be in social housing. This trend reversed in the late 1990s and has since remained this way. This is a result of three factors:

- An increase in the number of migrant households
- Alterations to the allocation rules, designed to eliminate discriminatory practices, which raised the probability of a migrant household being allocated social housing.
- No increase in the stock of social housing

9.99 The study finds that only one third of this reduced likelihood for the UK-born can be explained by the increase in migrants and changes in the allocation rules. Over the period considered, the construction of social housing dropped to a very low level. At the same time, the actual stock of social housing was also decreasing (see Figure 1 in Battiston *et al.* (2014)). Two-thirds of the fall is therefore attributed to a reduction in the stock of social housing.

Figure 9.14: Total completions of social housing construction, 1950 to 2010



Notes: (i) The social sector is made up of social rented housing owned by local authorities and private registered providers/housing associations; (ii) Housing associations in England are independent societies, bodies of trustees or companies established for the purpose of providing low-cost social housing for people in housing need on a non-profit-making basis; (ii) All local authority dwellings are public sector dwellings.
Source: Manning (2014)

The impact on house prices

9.100 Our analysis of Census data showed that over time, migrants are more likely to become owner occupiers thereby increasing the demand for owner occupancy properties. As with any other increase in demand combined with an extreme inelasticity of supply, this results in an impact on prices.

9.101 Sá (2011) looks at the effect of migration on the house price index in the UK at local authority level over the period 2003 to 2010. The results suggest that migration has a significant negative association with house prices at the local level (i.e. it reduces house prices). Specifically, an immigration inflow equal to 1 per cent of the local authority's initial population leads to a reduction of 1.6 to 1.7 per cent in house prices compared with what it otherwise would have been.

9.102 Sá (2011) explains this result in two ways. First, *"immigration may be associated with offsetting native out-migration"* if the migrant inflows and UK-born outflows are equal, the size of the local population will be unchanged. However, if the wage of the departing UK-born is higher than the wage of the migrants who arrive, there would be a reduction in the local wealth, resulting in a fall in demand and therefore house prices. Second, if migrants and the UK-born are substitutes in the local labour

market, the inflow of migrants would lead to a fall in UK-born wages. This would again reduce local wealth and therefore house prices (assuming migrant wages are not large enough to compensate for the fall in UK-born wages).

9.103 Braakmann (2013) also looks at the effect migration has on house prices at the local level. This study looks at the effect across the distribution of house prices. The results suggest that an increase in the share of migrants decreases prices at the lower end of the distribution up to the median, and has almost no effect on mean property prices or prices above the mean. This effect is found to be caused by an outflow of UK-born in response to an increase in the number of migrants combined with migrants accepting more crowded living conditions, leading to a fall in demand.

9.104 Whilst these studies suggest that migration is associated with reduced house prices at the local level, there could still be upwards pressure from displaced UK-born residents in the housing markets they move in to. Migration could therefore push up prices at the UK level.

9.105 To sum up our conclusions in this section, we find that in general, migrants tend to make greatest use of the private rented sector compared to other tenures and compared to UK-born residents. However, this changes over time. Those migrants who arrived most recently are more likely to reside in the private rented sector compared to those who arrived in earlier years who are most likely to be owner-occupiers.

9.106 The impact on UK-born residents could come through migrants obtaining greater access to social housing and pushing up house prices. The modest literature in these areas tentatively suggests that in fact the opposite is true: migrants are less likely than equivalent UK-born residents to be in social housing and migrants reduce house prices.

9.8 Impact on welfare participation

9.107 In Chapter 3 we discussed how generous welfare systems can act as a pull factor in attracting migrants, based on the so-called '*welfare magnet hypothesis*' (Borjas 1999).

9.108 As Drinkwater and Robinson (2011) note "*welfare participation is an important indicator of how successfully immigrants perform in the host country*". Their research for the UK finds welfare participation varies considerably by immigrant group as well as by type of benefit claimed and so an overall assessment of benefit claiming by immigrants is very difficult to make. What the authors do find is that across all migrant groups those with lower levels of education are much more likely to claim benefits, as are those whose English language skills are weaker.

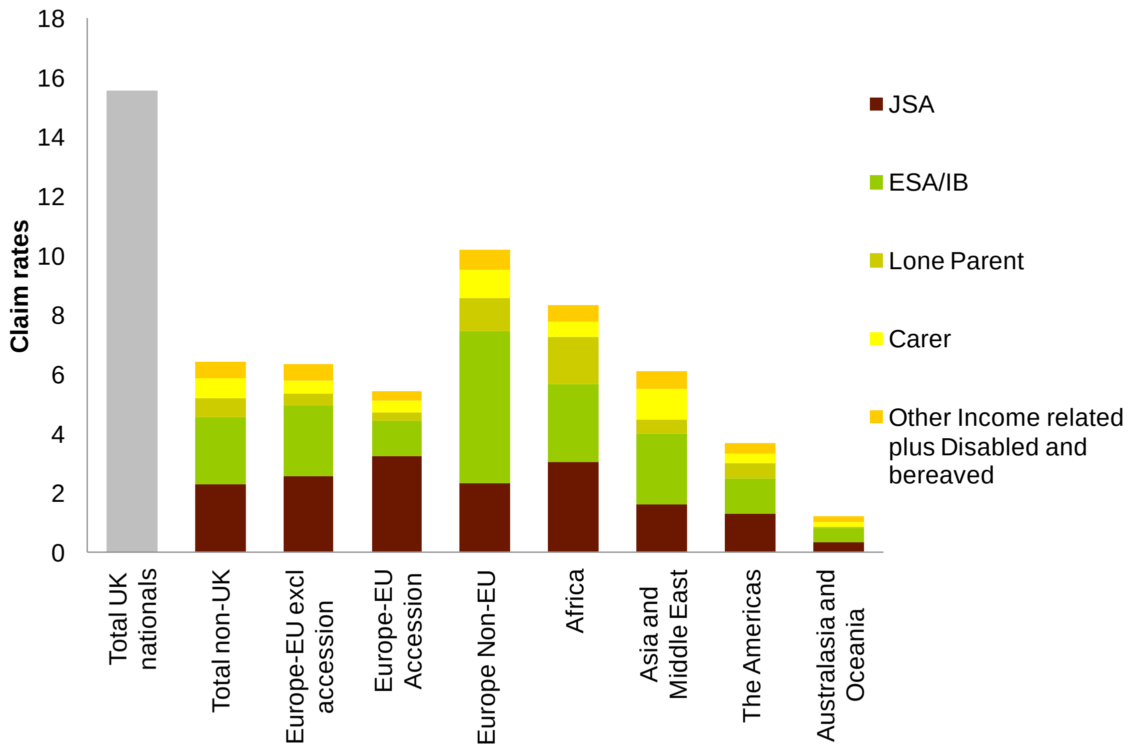
9.109 In this section we focus on three welfare benefits, but stress the information we consider provides a snapshot only of welfare participation:

- Department for Work and Pensions (DWP) out-of-work benefits (jobseekers allowance (JSA), employment support allowance (ESA)/Incapacity Benefit (IB), lone parent, carer, disabled and bereavement benefits);
- tax credits; and
- child benefit.

Out-of-work benefits

9.110 Data on benefits claimants by country of birth are not published by the DWP and data by nationality are not routinely published either. This is because eligibility for contributory benefits is not based on nationality, while for other income-related benefits nationality is only a factor where residency requirements apply. However, DWP has published ad-hoc analyses (DWP (2012); DWP (2013a)) providing an indication of the rate of benefit claiming among non-UK nationals. The most recent published data relates to February 2013.

Figure 9.15: Claim rates for out of work benefits by type and by world area, February 2013



Notes: Data provide an estimate of those claiming benefits who were non-UK nationals when they first registered for a National Insurance Number (NINo), rather than current nationality. Claim rates are calculated by dividing NINo claimants by nationality (and benefit type) by population aged 16 to 64 by region of birth.
Source: Department for Work and Pensions (2013a) and Annual Population Survey, January-March 2013

9.111 Around 15 per cent of the UK-born working-age population claimed DWP out-of-work benefits in February 2013. At 6 per cent, claim rates for

migrants by broad world group are less than half the UK level (Figure 9.15). It should be noted that migrants in this case are measured according to nationality at first registration for a National Insurance Number (NINo). Some will have acquired British nationality since then. Jobseekers Allowance (JSA) and Employment Support Allowance (ESA) are the main benefits claimed (between 65 per cent and 82 per cent of the total).

Tax credits

9.112 Tax credits are in-work benefits paid to support people in lower income work, subject to them working at least 16 hours a week. There are two elements to tax credits – *working tax credits* plus *child tax credits* for those working tax credit claimants with children.

9.113 This benefit is administered by Her Majesty's Revenue and Customs (HMRC). Information on claimants by either country of birth or nationality is not published by HMRC, though some information relating to the situation in March 2013 has recently become available following a Freedom of Information request (O'Connor (2013)).

9.114 This information showed that almost 17 per cent of all tax credit claimants were non-UK nationals at the time of NINo issue – 415,000 out of the total 2.45 million claimants were not UK nationals (the data does not distinguish between EU and non-EU nationals). As tax credits are targeted at those in lower paid work, comparing this proportion with the share of low-skilled employment that is non-UK born (16 per cent) suggests migrant workers are only *marginally* more likely to be tax credit claimants than UK nationals.

9.115 As with our analysis of the DWP out-of-work benefits data above, we assume that nationality at the point of NINo issue equates with our country of birth measure. Claim rates are not markedly different for foreign nationals/foreign-born (Table 9.5). Tax credit expenditure in 2012-13 was £30bn (HMRC 2013) and these data would suggest around £5bn is claimed by non-UK nationals.

Table 9.5: Tax credit claimant rates – UK and non-UK nationals, March 2013

	UK Nationals	Non-UK nationals
Total Tax Credits	**6.0%**	**6.7%**
...of which Working Tax Credit only	*1.4%*	*1.3%*
...of which Working Tax Credit + Child Tax Credit	*4.6%*	*5.3%*

Notes: Nationality at the time of NINo issue. Total tax credit claimants are expressed as a proportion of population aged 16 to 64 by country of birth.
Source: O'Connor (2013) and Annual Population Survey, January to March 2013

Child benefit

9.116 HMRC is also responsible for the payment of child benefit. HMRC statistics record the number of families and children receiving child benefit by country and by region. The total number of recipient families and

children was 7.55 million and 13.11 million respectively (HMRC 2013). Payments to families and children not in the UK accounted for 0.4 per cent of recipients in 2013 – 32,000 families responsible for 51,000 children. It should be noted that it is not possible to tell from these data whether all of these recipients are non-UK born or indeed if this total includes some UK-born families and children, who were living abroad at the time of receipt of child benefit.

9.117 Since 2009 the number of families and children receiving child benefit outside of the UK has been falling. In the last year some of this was due to those who have opted out (1,750 foreign families and 3,000 children) following the policy change to partially or completely withdraw this benefit for claimants (or their partner) of child benefit where an individual's income exceeds £50,000 per year.

9.9 Impact on use of public services

Education

9.118 The impact of migration on the demand for education can manifest itself in a number of ways. Here we focus on four key issues in state-provided primary and secondary education:

- How migrants impact on the total number of pupils in an area in terms of absolute volume, hence affecting both available expenditure per pupil and the responsiveness in terms of the supply of school places;
- How the rate of turnover of pupils during the school year can impact on schools operationally and financially;
- How pupils whose first language is not English are accommodated in the schools system and the impact this may have;
- How non-English speaking pupils impact the academic performance of native-born pupils.

Impact on pupil numbers

9.119 The Department for Education (DfE) produces statistics annually on the numbers of pupils in state-funded primary and secondary schools. This is available at local authority level for England since 2004 and provides information too (discussed below) on the school population who do not have – or are believed not to have – English as their first language.

9.120 Over the period the total primary school population fell by just under 1.5 per cent in England or by around 50,000 to 3.382 million pupils. The number of native speakers fell by 284,000, while those without English as their first language increased by 234,000.

9.121 Secondary school pupil population fell by 3.2 per cent or 104,000 to 3.2 million. Again this was driven by a fall in native-speaking pupils of

244,000, which was partially offset by an increase in non-native speakers of 135,000.

9.122 Within London, overall pupil populations have grown in both primary and secondary education, by 8 per cent and 11 per cent respectively, or by 87,000 pupils overall. Again, this was driven by those without English as their first language, for whom the numbers increased by 75,000 in primary education and by almost 50,000 in secondary. Only inner London saw an increase in pupils with English as their first language and this was confined to secondary education and occurred mostly in Hackney, Southwark and Lambeth.

Impact of pupil turnover

9.123 We were told during our partner visits that one of the main challenges faced by schools was the much higher turnover of pupils throughout the school year. This could be as high as a third of all pupils during the school year and was itself sometimes linked to greater mobility of migrants within an area. Such mobility could be voluntary, but often it was out of necessity due migrants being tied to short-term (6-month) tenancy agreements.

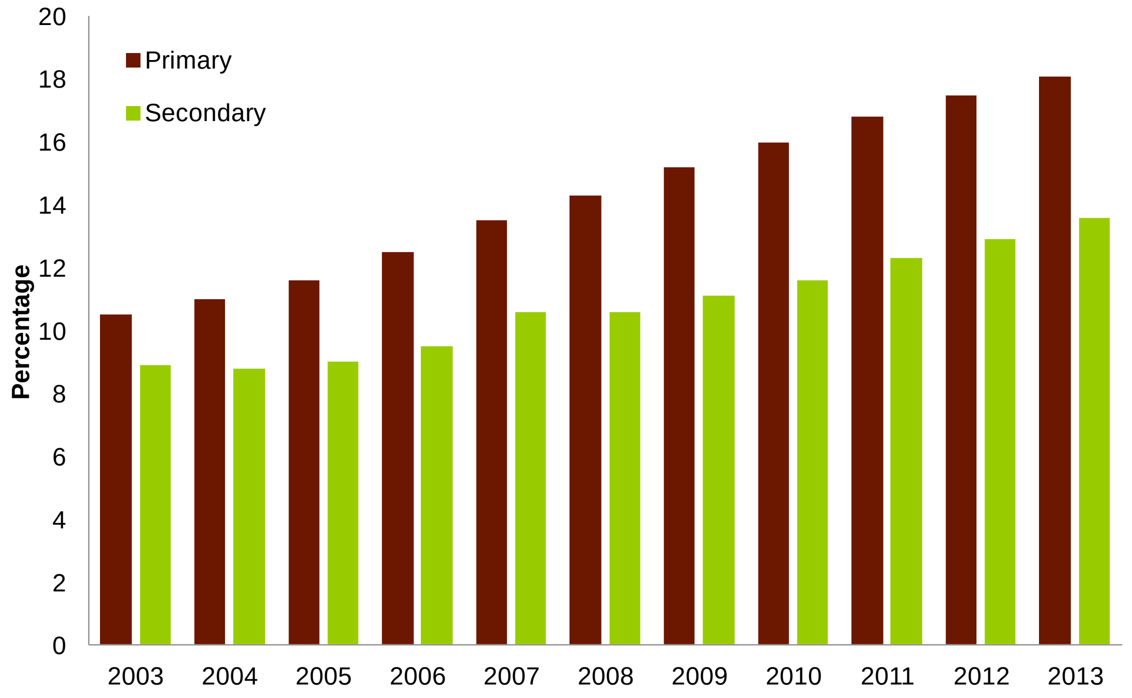
Impact of pupils whose first language is not English

9.124 According to statistics from DfE the number of all primary and secondary school pupils who do not have English as their first language has risen from 660,000 in 2003 to just under 1 million by 2013.

9.125 These pupils accounted for 18 per cent of all primary school pupils in 2013, rising from around 10 per cent in 2003. This is broadly in line with the increase in overall non-UK born population. Among secondary school pupils the shares are lower, but have still risen over the past decade from around eight to 14 per cent.

9.126 What is important to note is that migrants' proficiency in English will often improve quickly; some partners told us that the lack of language skills might only be a *temporary barrier* (often a matter of a few months) to their full participation in the education system. In this case the additional costs that must be borne by schools to accommodate this would mainly be associated with new intake. However, other partners told us that children with English as an addition language (EAL) now only receive additional funding for the first two years of UK education, but that it takes between five and seven years to develop academic English. So it appears that the non-English speaking children of migrants may pick up basic English quickly but struggle later with academic concepts such as in mathematics.

Figure 9.16: Share of pupils in state-funded primary and secondary schools whose first language is not English, 2003-2013



Source: Department for Education (2003) and (2013)

9.127 We did obtain some results for those areas we have identified as having particularly high shares of migrants in low-skilled employment. The share of pupils whose first language was not English in primary schools in Peterborough increased from 16 per cent in 2004 to 36 per cent in 2013. In Barking and Dagenham the increase was over 31 percentage points (from 17 to 48 per cent). Three-quarters of primary school pupils in Newham and Tower Hamlets do not have English as their first language. For secondary school pupils the shares are 68 and 69 per cent respectively.

9.128 During our partner visits we found that schools were employing migrants as teaching assistants to help with the transition to speaking English.

Impact on academic performance of UK-born pupils

9.129 A common concern is that inflows of migrant pupils (especially those whose first language is not English) may be detrimental to the academic performance of native pupils. Geay *et al.* (2013) found that the raw data on educational outcomes appeared to demonstrate a detrimental impact. But further investigation of the impact on the educational outcomes of native English speakers at the end of primary school refutes this. The research found that the explanation lies in the effects of selection, as non-native speakers are more likely to attend schools with disadvantaged native speakers. They find no causal impact of changes in the percentage of non-native speakers on native educational performance. Similar results are also found for the Netherlands (Ohinata and van Ours, (2013)).

Health care

9.130 We wished to estimate migrant demand for health services, but from the perspective of longer-term migrants. We do not discuss here issues related to health tourism by short-term migrants (for more information on this see Migration Observatory (2014); Prederi (2013) and Hanefeld *et al.*, (2013)).

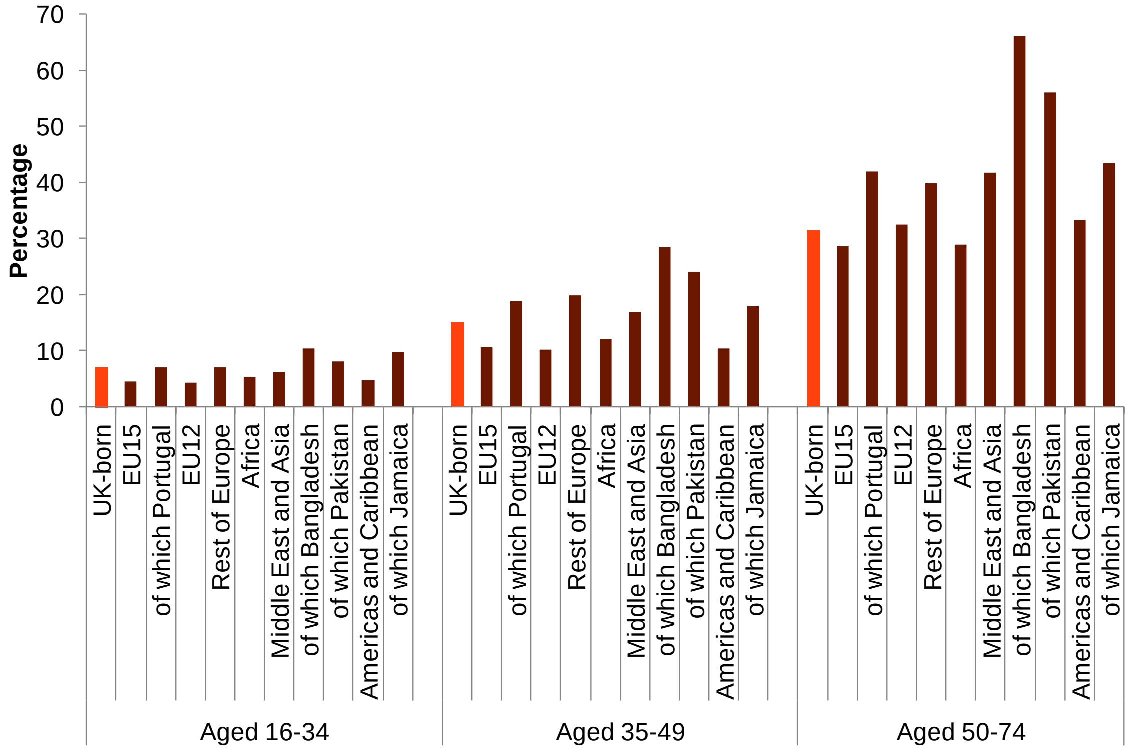
9.131 We follow the approach used by George *et al.* (2011) by focusing on three aspects of health impacts:

- Migrant impact on levels of demand for health services;
- Migrant access of health services; and
- Public health impacts of migration.

Migrant impact on levels of demand for health services

9.132 The analysis we carried out considers potential demand for healthcare as given in self-reported responses to the 2011 Census.

Figure 9.17: Share of adult population by broad age group reporting general health as 'not good' by world region and selected country of birth, 2011



Notes: 'not good' is a combination of people who report their general health as being fair, bad or very bad, i.e. excludes those who report their health as being very good or good.
Source: Office for National Statistics (2014b). England and Wales Census of Population, 2011

9.133 Using data from the 2011 census on self-reported general health we can get an idea of differences in health for different age groups by region or country of birth. Figure 9.17 shows the percentage of each group who

reported their general health as 'not good', that is, where they rated their own health as 'fair', 'bad' or 'very bad'.

9.134 Comparing self-reported health of the UK-born population against that from other parts of the world might give an indication of relative demand for health services by migrants in the UK. Clearly the proportion reporting their health as 'not good' rises by age group, but within age groups it does vary by country of birth. Seven per cent of the UK-born population aged 16 to 34 reported that they did not have good health in 2011. This was higher than for most other world regions (including the rest of the EU, which was around five per cent, though the self-reported health of those aged 16 to 34 born in Bangladesh or Jamaica was worse. A similar pattern emerges for other age groups, though rates of poor health are higher for those born in Portugal and Pakistan as well (the published census data provides data only for selected countries).

9.135 Around 1.5 per cent or less of those aged 16 to 34 reported their health as 'bad' or 'very bad', though among those born in the EU12 this was only 0.7 per cent. For the 35 to 49 and 50 to 74 age groups the shares reporting bad health or worse were around five per cent and 10 per cent respectively.

9.136 Although we do not have data by occupation and country of birth, an ONS analysis (Nov 2013) of the total population aged 16 and over in England and Wales by socio-economic classification found that self-reported poor health is much higher (around 30-35 per cent) for men and women working in routine or semi-routine occupations, than in managerial occupations (around 15 per cent). Some partners also told us that working conditions and the long hours worked by migrants can lead to deteriorating health and/or a worsening of existing health conditions.

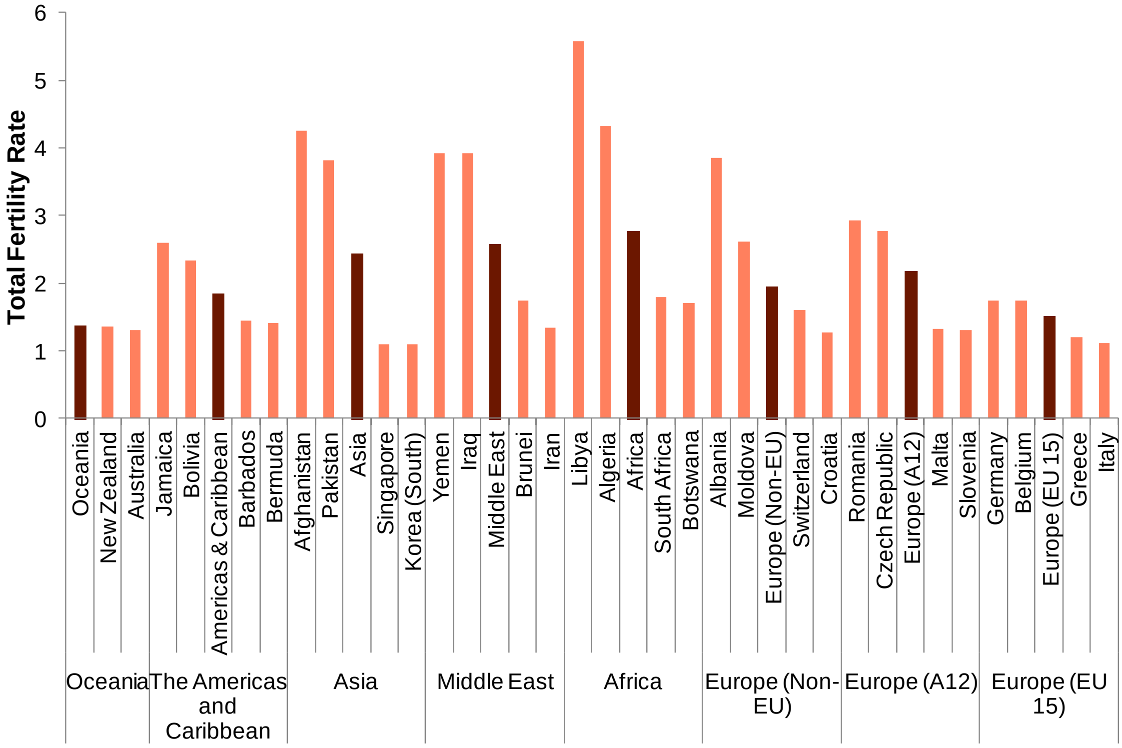
9.137 The ONS also finds that health inequality tends to be greater in large population centres, such as inner London. While there is no direct evidence here of migrants in lower skilled work in such areas having poorer health (and potentially placing greater demands on healthcare services as a result), the evidence does tentatively suggest in some cases a higher risk of poor health in low-skilled occupations overall as well as in urban areas with high migrant concentration.

9.138 From our discussions with, and visits to, partners, it was clear that demand for healthcare can be as much a function of qualitative as quantitative factors. We were told of different cultural approaches to and expectations of healthcare services provided.

Demand for maternity services

9.139 One area where it is possible to identify the direct impact of health service usage by migrants is for maternity services. Foreign-born women, and especially those from developing countries, tend to have higher fertility rates and therefore would place a greater demand on maternity services. This should be seen as illustrative rather than providing a representative measure of all healthcare usage by migrants.

Figure 9.18: Total fertility rates for women resident in England and Wales in 2011, by selected world region of birth



Note: The Total Fertility Rate (TFR) is the average number of live children that a group of women would each bear if they experienced the age-specific fertility rates of the calendar year in question throughout their childbearing lifespan. It provides a snapshot of the level of fertility in a particular year and does not necessarily represent the average number of children that a group of women will have over their lifetime.
Source: Dormon, O. (2014) *Childbearing of UK and non-UK born women living in the UK - 2011 Census data*.

9.140 Data from the 2011 census (Figure 9.18) show that total fertility rates – that is, how many children a woman might have if she experienced current rates of childbearing throughout her reproductive years[30] – are higher for foreign-born women (2.21 versus 1.84 for UK-born women). To some extent this is explained by a higher concentration of foreign-born women aged 25-34, the age range where age-specific fertility rates are highest (Zumpe *et al.*, 2012).

9.141 Of the 724,000 births in 2011, a quarter (185,000) were to foreign-born women. By comparison, less than 18 per cent of women aged 15 to 44 in

[30] Dormon (2014)

the UK are foreign-born. Polish-born mothers (almost 20,500) were the largest single foreign-born group, though their birth rates are in fact lower (2.13) than the average for all foreign-born women (2.21). Fertility rates for other women born in the EU accession countries can be somewhat higher than average, as well as being considerably higher than fertility rates for women still living in the country of origin. For instance, for women born in Romania (2.93), Czech Republic (2.77) and Latvia (2.51) and living in England and Wales in 2011 fertility rates are not only above the average for foreign born women, but around twice the rate or more for women still living in their countries of birth (Dorman (2014)).

Migrant access to health services

9.142 While the discussion above gives a sense of the relative health among migrants and those working in low-skilled jobs generally, it does not actually tell us anything about actual usage of healthcare services.

9.143 The evidence here is quite limited generally and does not usually distinguish by country of birth. The UK, along with most EU countries, does not produce registry data on migrants' healthcare utilisation (Nielsen *et al.* (2009)). Examining use of hospital and GP services Wadsworth (2012) found that migrants access these services to a similar degree to natives. Other studies (see George *et al.* (2011), for a summary) found that GP registration rates among migrants tend to be lower, which the authors attribute to language and information barriers. George *et al,* also present some evidence that this may result in higher usage of hospital accident and emergency services instead.

9.144 Partners also told us about differing cultures and expectations regarding healthcare. We were told that migrants use some healthcare services in the UK, but for other health needs they use services in their country of origin. Migrants, especially those from the EU, may be less likely to engage pro-actively with health services generally, though at the same time expected a more rigorous service (such as an annual health check). We were also told of informal use of medication within migrant communities, where migrants would discuss symptoms with each other and then share prescribed medication.

Public health impacts of migration

9.145 George *et al.* (2011) also summarise the available evidence on public health impacts, though this tends to be more general for migrants or ethnic groups as a whole.

9.146 One issue in particular that was raised by partners related to the public health impacts arising from overcrowded housing for migrants. We discuss the issue of Houses of Multiple Occupation (HMO) in Chapter 6, which highlights a continuum of economic and social risks that can result from the poor treatment and exploitation of migrant workers. Poor quality and cramped conditions inevitably increase the risks and spread of disease within local communities.

9.147 Some studies have, for instance, noted both the much higher incidence and the increased prevalence of tuberculosis for non-white ethnic groups in England and Wales between 2001 and 2005, which is attributed to over-crowded accommodation and the social and economic marginalisation of immigrants generally (MEHO (2011); Sarjeant *et al.* (2009)). Local authority partners also reported problems with tuberculosis as a result of increasing population and congestion.

9.148 Concerns were raised by partners about the wider health consequences associated with the nature of migrant work in low-skilled sectors. Migration often results in family disruption, where the partner and child(ren) of the migrant worker remain in the country of origin. But also where migrant families are in the UK, the long working hours by both partners can again disrupt family life and lead to inadequate and sometimes unsafe childcare arrangements. This can have significant physical and mental health implications, sometimes leading to drug and alcohol abuse.

"In Perth and Kinross, health services have been impacted with increasing numbers of migrants in need of care where the language barrier makes it difficult to provide it effectively. There is now an additional concern coming to light with increasing numbers of migrants that are in need of mental health support and therapy which can be extremely difficult to provide due to language barriers."

Convention of Scottish Local Authorities response to MAC call for evidence

9.10 Impact on crime

9.149 In MAC (2012) we reported the results from emerging research of the impact of immigration on crime. Often a causal link is made between the two. In fact the research suggests no link between foreign-born share of population and violent crime.

9.150 Property crime has fallen dramatically in England and Wales since 2001. Bell *et al.* (2013) find no evidence of detrimental crime impact following the accession of the EU8 countries in 2004. In fact they find that a one per cent increase in share of population born in the EU8 countries leads to a 0.4 per cent fall in property crime. By contrast though they also find that a one per cent increase in the asylum seeker share of the local population is associated with a 1.1 per cent rise in property crime. The authors suggest this was associated with the increase in asylum seekers in the late 1990s.

9.151 For the period since 2001 research by Jaitman and Machin (2013) found no evidence of an average causal impact of immigration on criminal behaviour, either for EU8 or other migrants. Equally when considering London on its own there was no evidence of an impact.

9.152 Jaitman and Machin also examine arrest data by nationality for London for the period June 2009 to June 2012. The data suggest that the arrest rate

for immigrants is 3.8 per 1,000 migrants. This compares with 2.8 arrests per 1,000 UK nationals. Some of this difference is explained by arrests for immigration related offences, but this only reduces the arrest rate to 3.5 per 1,000. The most common offences for UK and foreign nationals alike are theft and assault. The authors suggest that because most crime of this nature is committed by younger adults, once the age profiles of immigrants and UK nationals are taken into account, then the difference in arrest rates disappears.

9.153 Based on our partner evidence we were told of crime associated with recent immigration. This ranged from very serious organised crime aimed at exploiting migrants (see Chapter 6) to smaller scale criminal activity related illegal importing of alcohol, cigarettes and prescription drugs.

9.11 Conclusions

9.154 From the analysis in this chapter we conclude that:

9.155 Since 2000 cohesion has risen across England, even in those regions experiencing significant increases in immigration. At a more local level, preliminary analysis of cohesion and wellbeing indicate a small but negative relationship with migrants in low-skilled work. However, further analysis is needed to factor in the effects of socio-economic deprivation, which are often found to explain the apparent negative relationship between cohesion and diversity.

9.156 It is important to bear in the mind the public's perceptions of and attitudes towards immigration and how these may help explain feelings around cohesion and wellbeing. Immigration is considered by the public to be a problem at the national level, but much less so locally. Attitudes to migrants vary significantly by migrant type, but tends to be negative for lower skilled migrants. Often perceptions of scale and impact of immigration can differ considerably from the reality.

9.157 Learning the native language is a key predictor of successful integration, but our analysis shows that some migrant groups with a particular propensity for low-skilled employment still have relatively poor English even after having been in the UK for a decade or longer.

9.158 The impact of immigration on population growth in areas of high concentration of migrants in low-skilled work may in numerical terms at least be offset by outflows of population to other parts of the UK. What seems to drive population growth is increased fertility and this, along with the younger age profile of immigrants, affects the age composition of the population in these areas.

9.159 Migrant use of housing is primarily in the private rented sector. Over time, they move into the social rented sector before owning their own properties. In terms of the impact migrants have on the UK-born through housing, the limited literature available suggests that migrants are less likely than

equivalent UK-born residents to be in social housing and that migrants reduce house prices.

9.160 We found little evidence of greater welfare participation by migrants. Claim rates for out-of-work benefits by migrants are well below those for UK nationals when considered by world region. Migrants are only marginally more likely to claim tax credits (because they are slightly more likely to be in low-skilled work).

9.161 Self-reported general health is in some cases worse for migrants than for the UK-born population and this tends to be for migrants from countries with a greater likelihood of working in low-skilled jobs in the UK. Although this may indicate greater demand on healthcare, the available evidence suggests little disproportionate access by migrants to health services (such as hospital visits, GP registration). Qualitative factors such as language and cultural expectations around healthcare seem to also play a role here. There do seem to be considerable public health risks arising from overcrowded migrant accommodation.

9.162 In terms of usage of education there has been a marked increase in the number of migrant pupils in state-funded primary and secondary schools and this may impose additional costs although it also attracts additional funding. However, some – such as the proportion of pupils without English as their first language – are short-term and temporary. The main challenge seems to be in terms of actual turnover of pupils. The evidence also suggests there is no detrimental impact on educational outcomes for native pupils.

9.163 Again, the evidence on the impact on crime finds little difference in outcomes between migrants and the UK-born population. This appears to hold true when comparing migrants more likely to be associated with low-skilled employment (e.g. EU8) with the UK-born. It is important to note what the overall assessment of the data finds, even when more anecdotal evidence from partners suggests the emergence of serious organised crime following immigration.

9.164 Assessing the social impacts of migration is not straightforward. Research in this area has certainly lagged behind that for economic and labour market impacts, due no doubt to difficulties around measurement and data availability. That said, the recent availability of data on issues such as cohesion and wellbeing at the local level should hopefully allow more of this research to be taken forward. But it should do so with great care given the complexity of the dynamics underpinning social cohesion and being clear that the cohesion and wellbeing measures used are subjective (based on individual perception) rather than objective.

9.165 Comparing the behaviour of migrants and the UK born population in terms of more tangible areas such as housing, crime and use of public services and the welfare state highlight little difference: migrants do not on the whole exert disproportionate pressure in these areas.

Chapter 10 Areas for policy focus

10.1 Introduction

10.1 This final chapter reflects on the key findings from the rest of this report and suggests areas of particular focus for the Government and policy makers. The Government's commission included a request for the MAC to consider:

"*the interaction of factors including skills, housing, education provision, the benefits system and the labour market regulation, with a view to making recommendations as to possible actions here",* particularly in terms of their impact on *"the recruitment of UK-born workers, including issues such as motivations and attitudes to work.*"

10.2 We do not make specific policy recommendations as the evidence was not sufficiently developed to enable us to do this. Rather, we make suggestions as to where the focus of policy on the area of migrant low-skilled employment should be.

10.2 Summary of our findings from the evidence

10.3 Our report is in three parts:

- The first part (Chapters 2 to 4) is a review of the evidence around migrants in low-skilled work and the evolution of the wider labour market for low-skilled employment over the previous 15 years;
- The second part (Chapters 5 and 6) looks at how employers recruit migrant workers and whether there are any issues with the compliance and enforcement of relevant rules and regulations;
- The third part (Chapters 7 to 9) focuses on, respectively, the impact of migrants in low-skilled work on the labour market, the wider economy and the social environment.

10.4 We summarise here the key findings from the evidence in relation to each of these parts.

Migrants and UK-born in low-skilled employment

10.5 In this report, we define migrants by country of birth (rather than on the basis of nationality) and define low-skilled employment according to the ONS skills definition.

10.6 In 2013 some 12.9 million people aged 16-64 were working in low-skilled occupations, amounting to 45 per cent of total employment (16-64). Of these, 2 million were foreign-born, the majority from outside the EU. A million have arrived in the UK since 2004 and half of these were from Central and Eastern Europe. Most EU-born migrants in low-skilled work came to the UK for work reasons, while the largest proportion of non-EU born came for family or study reasons, though most did so more than a decade ago.

10.7 While the increase in migration to the UK since the mid-1990s is largely due to economic drivers, the role of immigration policy has been key in shaping this. In particular, major developments were the increase in non-EU migration at the end of the 1990s, and the UK opening its labour market to the EU8 immediately upon those countries' accession in 2004 while others (notably Germany) did not do so. The latter inevitably led to a diversion of EU8 migrants towards the UK.

10.8 Migrants in low-skilled jobs are concentrated in certain parts of the country. This means some areas are likely to experience possibly significant impacts, while other areas (together containing the majority of the UK population) may experience very little or almost no impact at all. A key objective in our approach has been to focus on impacts at the disaggregated level.

10.9 The occupational composition of the UK labour market has undergone significant change in the last 20 years or so, with increasing job polarisation resulting in the *absolute* expansion of skilled occupations and, to a lesser extent, low-skilled jobs; but with a hollowing out of intermediate skilled jobs. However, there has still been a *relative* decline in low-skilled jobs, but the picture is mixed. Some low-skilled occupations, for example, in the care and in the personal services sectors, are continuing to expand.

10.10 Most migrants in low-skilled employment came to the UK from outside the EU prior to 2004. Most of those who came from the EU12, came for work reasons and were incentivised to do so because of economic opportunity (better wages and improved chances of finding work). Network effects are also relevant to determining how migrants become concentrated in certain countries or localities.

Recruitment methods, and enforcement and compliance

10.11 The evidence around recruitment of migrants and compliance and enforcement is central to our report. A key objective for us was to dig beneath desk-based research to learn more about how this part of the labour market works. We relied on partner evidence and visits to

employers and areas with high concentrations of migrants in low-skilled work. While the findings provide more detail and colour as to what is happening on the ground, there is an inevitable trade-off with how representative this information is. This is an important caveat to bear in mind.

10.12 The incentives that act upon the decisions of employers, workers and intermediaries (including labour providers) are critically influenced, and in many ways constrained, by the wider public infrastructure and operating environment, and associated institutional, policy and regulatory framework. We also look to see what some of these are.

10.13 Based on the evidence we consider, migrants provide additional numerical flexibility to meet a changing and, in some occupations, seasonal demand and, as such, encourage employers' reliance on a transient workforce. The evidence from employers appears to confirm that they have found in migrants a readily available supply of labour that is highly flexible, mobile and reliable. Employers were adamant, in their response to our call for evidence, to stress they do not discriminate on the basis of nationality when recruiting.

10.14 However, employers did tell us that:

- Migrants are more flexible and more geographically mobile than British workers. Migrants – especially those from Central and Eastern Europe – are more willing to move accommodation or live on site than British workers who, for several understandable reasons, face more barriers to geographical mobility. However, migrants are also more willing to take shift work and to work more unsociable hours than British workers.

- Many British workers applying for low-skilled jobs lack basic numeracy and literacy skills and many migrants have higher level qualifications than required by their low-skilled employment. This is true especially of newly arrived migrants, who may be prepared to accept jobs whose skills requirement are below their actual skills and qualifications while they work their way towards their longer-term aspirations.

- Migrant workers have a better work ethic. Migrants from Central and Eastern Europe in particular are perceived to work harder and be more reliable than British workers. These positive attributes may derive from their different frame of reference and consequent willingness to accommodate employers' demands and also their readiness to accept pay and working conditions that would not be acceptable to local British workers.

- On average, migrants are stronger than British applicants in terms of "soft skills" including reliability, team-working and confidence. We found widespread concern among employers about the attitude of young British workers towards low-skilled work.

10.15 All the above factors suggest that employers may exhibit a preference for certain groups of workers.

10.16 Migrants in low-skilled work, particularly from EU8 and EU2 countries, are more likely than UK workers to have found work through agencies and to be over-represented among agency workers. Labour providers, such as gangmasters and private employment agencies, play a key role in the immigration process. Labour providers supply a flexible workforce where required, and we found some evidence that they select migrants based on the social and cultural norms that they have identified as significant to their clients. They also provide other services to the migrant workers such as information, assistance, and logistical support. It is mostly through these additional services that unscrupulous labour providers and employers exploit migrants.

10.17 The availability of migrant workers combined with the low level of labour market regulations has enabled some employers to maximize the advantages to them and, at the same time, allowed migrants to acquire a significant place in the UK labour market, particularly in low-skilled sectors.

10.18 The counter-balance to a flexible labour market is to ensure that employers comply with the minimum protections for workers and that these are enforced. Although there are a number of bodies and mechanisms in place that seek to do this (such as HMRC for enforcing the minimum wage, and the Gangmasters Licensing Authority (GLA) for licensing some labour providers), we found that the incentives to comply are weak and the overall enforcement effort could be made more effective through more resourcing and increased collaboration between enforcement agencies. From our visits it was clear that there are some serious gaps in protection, especially for migrant workers, who for a number of reasons can be more vulnerable than British workers. There was evidence that this can lead to migrant exploitation that goes well beyond the workplace. More work is needed to better assess the scale of this issue.

Evidence on impacts

10.19 The evidence on **labour market impacts** suggests these are mainly quite modest .We offer an analysis of the existing economic literature; the MAC is conducting further research in this area and this will be published in due course. The evidence to date suggests little effect on employment and unemployment of UK-born workers, but that wages for the low paid may be lowered as a result of migration, although again this effect is modest. We also looked in detail at key occupations where there is a concentration of migrant workers and reported on qualitative evidence we received from partners. This showed that migrants can be concentrated in a few specific occupations; for instance, practically half of all *packers, bottlers, canning and fillers* jobs are carried out by the foreign-born. In volume terms, well over 100,000 migrants are employed as care workers, in sales and retail or as cleaners and domestics.

10.20 On **wider economic impacts**, the evidence suggests that while the economy grows overall due to immigration, this is mainly as a result of the increase in population. The effect of immigration on income per head – a better measure of economic contribution – is often far smaller or zero, though the available evidence for the UK following the 2004 enlargement suggests this may still be positive. We found a very small depressive effect on prices for non-tradable services and the small boost to productivity is inconclusive as to whether this derives from high or low-skilled immigration (though probably the former). It is not possible to be conclusive about the trade-generating effects with migrant-sending countries, though there was some evidence that the UK economy experiences a leakage due to net outflows of remittances vis-à-vis those countries most likely to provide labour for low-skilled sectors. Finally, on the fiscal effects of low-skilled immigration, these may be positive or negative depending on whether one considers recent or older migrants. However, the effects are again small, and also turn on just how the fiscal impact is measured.

10.21 **Social impacts** are complex, difficult to measure and can often be based on perception as much as reality. We looked at the impacts on cohesion and wellbeing at local authority level of migrants in low-skilled work. Prima facie evidence suggested a negative association with migrants, but previous research, which examined ethnicity rather than immigration per se, found this is often conflated with socio-economic deprivation. In other words, the fact that the areas are disadvantaged explains the negative association, rather than immigration (or ethnicity) itself. Once again, we are conducting further research in this area. Other evidence around attitudes towards, and perceptions of, migration suggests social impacts may be seen as being far greater than economic impacts. At the same time, though, there do seem to be significant differences between the public's perceptions of immigration and how it affects them locally and what that impact is in measurable terms.

10.22 Our analysis, as well as other available research, of the social impacts suggests little impact *overall* in terms of housing, claims for welfare benefits, crime and use of education and healthcare services. But, our visits to areas such as Wisbech and Boston highlighted the considerable change and social impacts in those areas. It may well be that other areas are similarly affected.

10.3 Areas for policy focus, further actions and research

10.23 Following on from our findings, we highlight six areas that we think warrant further consideration and, in our view, the translation of this consideration by Government, employers and/or individuals into action. The areas we highlight are:

i. **Recruitment, and compliance and enforcement**

ii. **Labour market outcomes for the native population, especially for younger groups**

iii. **Greater recognition of, and support for, the local impacts of migration**

iv. **The role of institutions and other public policies**

v. **Flows of migrants into low-skilled work in the future**

vi. **The role of evidence in the wider migration debate**

i. Recruitment, and compliance and enforcement

10.24 The UK has one of the most flexible labour markets in the world and this has contributed to its relatively strong economic performance over recent decades. But flexibility should allow firms to compete and grow while simultaneously protecting workers, especially vulnerable groups.

10.25 UK labour law therefore has a number of safeguards in place to provide this protection – such as the minimum wage, and health and safety legislation. These should provide a minimum level of protection for all. Some of the evidence we present in this report suggests that this is not happening in all cases. Failure to enforce the minimum protection results in a playing field that is not level. Our findings do not provide an overall measure of the scale of the shortfall in protection, but we did see evidence of shortcomings in both compliance and enforcement in some areas that we visited.

10.26 As we highlight in Chapter 6, many of these shortcomings are, or become, inter-related: there is the risk of a continuum of exploitation starting with failure to pay minimum wages and ensure decent working conditions, leading to workers being forced to accept sub-standard accommodation, being forced to pay for things that they do not need through deductions from their wages, having their passport retained, and losing both work and accommodation with no prior notice.

10.27 The linkages between all these areas require a more joined-up enforcement response. One solution that the Government may wish to consider is an over-arching labour inspectorate. At the very least there is clearly scope for existing agencies to re-focus efforts and seek to work more collaboratively to tackle these issues.

10.28 Doing so implies at least four key changes.

- First **resourcing for enforcement activities needs to be enhanced**. It was clear from our visit to Wisbech that, despite the excellent job being done by the authorities, available resources fell well short of what was required. Equally, the central government resource given to employment agency enforcement seems particularly inadequate (just 2 or 3 people dealing with non-wage related issues nationally).

- Second, incentives to encourage compliance need to be improved. There seems to be **little incentive for rogue employers to be compliant** given the minimal chance of inspection and even smaller risk of prosecution. Penalties – either financial or reputational (naming and shaming) – are either little used or not strong enough.

- Third, **organisational incentives among enforcement authorities would need to change**, along with the re-focusing on tackling the wider issue. For instance, the HMRC incentive to recover tax revenue can result in sub-optimal outcomes as the costs of recovery often outweigh the benefits.

- Fourth, **more collaborative working among enforcement agencies should be promoted. This would inevitably require more sharing of data and intelligence**. Presently the structures are not in place for this to happen either at all or at least efficiently.

10.29 Of course, all of this requires, in the first instance, is a better identification of the scale and nature of the problem. Our own work has hopefully highlighted some evidence of the latter, but we are not in a position to provide systematic and generalisable advice on the former. By its very nature, this sort of issue is difficult to investigate in any representative way, but we recommend the Government does pursue this further to arrive at a firmer evidence base.

10.30 The position of workers in low-skilled sectors and occupations generally, as well as for migrants specifically, is arguably more precarious given the lack of formal union coverage for these sectors. Collective bargaining coverage has been falling over time and the employment relations system is now predicated on individual rather than collective employment rights. In theory this can be an efficient model working for the interest of both employers and employees alike. In practice, though, some of the evidence we have come across suggests it does not. There exist real disincentives in the system for individuals to challenge poor employment practices and to raise grievances. Migrant workers in particular face, at least initially, barriers in relation to language, information (lack of awareness of employment rights) and cultural differences (distrust of, and unwillingness to engage with, state authorities). Society should be as concerned about the welfare of migrant workers as about that of UK workers. The exploitation of migrant workers can pose a threat to fair competition in the labour market.

10.31 The evidence we found is consistent with increasing migrant exploitation enabled by insufficient regulation of recruitment practices. There is, therefore, a need for sufficient and co-ordinated regulation, which, in turn, will enable the labour market to work more efficiently while preventing abuses. At the same time, there is a strong case for extending the scope of the GLA into other sectors such as construction, cleaning, care and hospitality.

10.32 The evidence we received about enforcement, compliance and exploitation was mostly qualitative in nature and, therefore, cannot be generalised to the UK labour market as a whole. Nevertheless, based on our analysis of the information we received and our direct engagement with partners, we are concerned that there is a danger that non-compliance and exploitation are no longer marginal and exceptional issues but instead moving toward becoming structural features of the UK's low-wage labour markets, at least in certain areas and sectors.

ii. Youth labour market outcomes

10.33 The situation of young people on the fringes of the labour market is rightly a priority for Government policy at the moment. High youth unemployment and the scale of NEETs generally are, it is often argued, a direct result of immigration following EU expansion from 2004 onwards. However, we did not find much evidence to support this (Chapter 4). From one angle, the issue of youth unemployment and NEETs more generally, is no worse than it was 20 years ago. The rise of participation in full-time education (especially among 16 to 17 year olds) and the cyclical nature of unemployment among those aged 18 to 24, suggests this is an issue that might be resolved to a greater or lesser extent as the economy and labour market continue to improve. From another angle though, 600,000 NEETs remains an unacceptable situation. There is no room for complacency here.

10.34 The labour market has undergone significant change in recent decades that has seen a shift from traditional trades to an expansion of service sector employment. The demand for skills has changed too, and it has been argued that this has resulted in fewer opportunities for career progression. At the same time, though, there is a real skills supply issue affecting young people, brought out with stark clarity by the OECD last year when it found that England (plus Northern Ireland) was the only OECD country where skills attainment by young adults was inferior to that of older workers.

10.35 In the course of responding to this commission we did see evidence telling us of poor academic performance and of weak softer skills among some of the younger population. This will put younger workers at a disadvantage whether there is migrant competition for low-skilled jobs or not. From the research we have carried out the following seem to be particularly important:

- Schools have been operating with the wrong incentive structure. The focus on achievement at grades A*-C at GCSE level leaves those students at the lower end at a disadvantage and diverts focus onto subjects which may be of less use in the workplace;

- Apprenticeships have not been stretching enough. Most are below A-level, but even then apprentices are failing to meet these lower standards. There would also seem to be a need for a shift to more employer input in apprenticeship design. Apprenticeships should be

targeted better at the youth labour market; the over 25s have disproportionately benefited from apprenticeships. Courses should be longer and involve more off-the-job training;

- Better careers advice would help manage the expectations and aspirations of new entrants to the labour market. Further, there is a need for more targeted help such as work placements for those young people lacking confidence and basic softer skills. Some sectors (such as agriculture and hospitality) struggle to attract young British workers. Although the UK is not the only country to experience this, there is a question around the extent to which the sectors promote the job and career opportunities available.

iii. Greater recognition of, and support for, the local impacts of migration

10.36 Over the last census period the non-UK born population in England and Wales increased by almost 2.9 million. Three-quarters of this increase occurred in just over a quarter of all (95 out of a total 348) local authorities. Migrants are concentrated in a relatively small number of areas across the country. Therefore the impacts of migration will be mainly felt locally rather than nationally.

10.37 Many of the studies looking into the impacts of immigration report an overall national level impact. Because of migrant concentration by area, it is likely that the (possibly considerable) impacts at the local level become lost in the national average.

10.38 Our understanding of the social impacts of migration generally lags behind that of economic and labour market impacts. On our visits we witnessed how migration has clearly had a major social effect on some local communities. Many local authorities have undergone major and rapid population change and they have struggled to keep up.

10.39 In the longer term, we would hope to see a greater degree of integration of migrants, though the evidence suggests it takes longer for some migrants to integrate than others. Two key factors in this are the acquisition of English language and participation in the labour market, and more needs to be done to integrate those migrants who have been here for some time but are still effectively segregated from wider society.

10.40 It is important to recognise that this integration can cause problems in the initial years but improve over a longer time span. The question is how to manage this transition. The longer-run benefits of migration may well be felt at the national level, but in the short-term it is often local areas that bear the costs of adjustment.

10.41 Therefore in the short term – and especially in relation to any future EU expansion (see below) – local authorities clearly need additional help to ease the transition. This is particularly important where local areas are undergoing significant social change. It also raises questions about exactly

where this help should come from. From central government? Or, should there be greater recognition of these local social impacts by the EU as part of the enlargement process?

10.42 Of equal importance is the speed of such a response. A common issue raised by every local authority with a major inflow of migrants we spoke to was that official population estimates for local areas were not accurate. As additional funding is very often based on population counts, it is not clear just how robust population measures will be achieved either with sufficient frequency or sufficient accuracy, especially with changes proposed for the next census.

10.43 All of these issues were recognised following the 2004 accession. First, by the House of Commons Communities and Local Government Committee (2008) and, secondly, by the then Government who introduced a Migration Impacts Fund in 2009, though a full five years after the 2004 accession. This provided £35m a year (funded by a £50 levy on non-EU visas) to local communities across the UK to help manage the transitional impacts of migration. There were questions over its effectiveness: the Commons Committee described the Fund as *a drop in the ocean*[31] and the Fund was abolished by the current Government in October 2010. From our visits, transitional impacts are still being felt in some areas – and will continue to be felt for some time to come (see point v below) – which suggests not only a need to continue assistance, but to enhance it as well.

iv. The role of institutions and other public policies

10.44 In public debates, labour immigration is often viewed as a discrete area of policy, and the relationships between immigration, labour demand and other public policy areas typically remain unexplored and poorly understood (Anderson and Ruhs, (2012)). It is clear that the increasing demand for migrant workers in the UK is influenced by a broad range of institutions and public policies. Reducing the growth in the reliance on migrant labour in certain occupations will not happen without fundamental changes to the policies and the way these institutions operate. This may include greater labour market regulation in some sectors, more investment in education and training, better wages and conditions in some low waged publicly-funded sector jobs, improved job status and career tracks, a decline in low waged agency work, and addressing any abuse of zero-hours contracts.

10.45 As a result of the current policy and regulatory framework, the use of migrant workers in some sectors may be higher than it otherwise would be. Examples include construction, where increased migrant labour may

[31] *".the money that this fund will generate is very limited; press reports suggest that the fund would raise only £15 million. If this figure is correct, it is a drop in the ocean, in comparison to the needs of local government – equating to only 0.001 per cent of total local government expenditure in 2005-06."*

be the consequence of inadequate vocational training, or the care sector, where under investment and structural change discourages labour supply from the UK-born population.

10.46 The key policy question is whether the UK really wants to make these kinds of changes in wider public policies in exchange for fewer new migrants. This is an important question for public and policy debates.

v. Flows of migrants into low-skilled work in the future

10.47 We have shown in this report that most of the migrants in low-skilled work are from outside the EU. The fact that there has been no specific route of entry to the UK for non-EU migrants for the purpose of engaging in low-skilled employment, explains why most of this is accounted for by earlier migration. That said, around ten per cent (107,000) of the non-EU total in low-skilled jobs arrived in the UK from 2010 onwards. The Government controls the policy levers in relation to non-EU migration and can determine the rate of inflow and subsequently the degree to which these new migrants are permitted to work, either at all or in lower skilled jobs. From an economic point of view, once here these migrants ought to be able to work to make a productive contribution to the UK economy. System abuse should of course be tackled but, equally, low labour market participation for some migrant groups can be costly and hinder integration.

10.48 A small but sizeable share (15 per cent) of migrants who arrived from 2010 onwards and who were in low-skilled work in 2013 came from EU15 member states such as Spain, Italy and Portugal. Much of this seems to be cyclical as a result of the relatively poor economic performance of the Euro zone. As those economies pick up (and they are now starting to show signs of doing so) these flows may well begin to subside.

10.49 Half of those migrants in low-skilled work who arrived in the UK since 2004 have come from the new member states of Central and Eastern Europe. We have argued that this is primarily explained by income differentials between the UK and those countries, and that these are likely to persist for some years to come. The incentive to migrate will remain, but now that transitional controls have ended (for EU8 from May 2011 and for EU2 from January 2014) these migrants will be able to exercise full freedom of movement rights across the EU. In other words, migrant flows from these countries to the UK may dissipate to some extent. It is also the case that within the new member states differential economic growth across regions may induce internal migration instead: for instance, once adjustment is made for local living costs, per capita income in the Bucharest region in Romania is the same as that for the UK as a whole (Eurostat, 2013).

10.50 The experience of the 2004 EU enlargement provides lessons for any future EU expansion for both the UK and other member states. There are

five countries currently with *candidate status*[32]. Between them they have a combined population of 84 million, though Turkey (74 million) accounts for most of this. Average incomes for most of these countries are between a third and a half of the EU average. In addition, there are also three *potential candidate countries*[33] – Albania, Kosovo and Bosnia and Herzegovina (combined population 9 million) – where incomes are a quarter of the EU average.

10.51 Once again, on the basis of income differentials there will be an incentive for migration from these countries towards existing EU member states. The questions are: where will they go and how will the UK be affected? It has been argued that the differential application of transitional controls in 2004 was due to a policy co-ordination failure between the then EU15 member states (Brücker, (2007)). This led to a significant diversion of migration from countries with more restrictive controls to ones with less restrictive or no controls. In 2000, almost 70 per cent of EU8 citizens already living in the EU15 were in Germany or Austria. Between 2004 and 2006, the UK and Ireland received over 60 per cent of EU8 migrants (Brücker, (2007)).

10.52 This migration diversion helps explain why initial estimates for EU8 migration to the UK after 2004 were so low compared to what actually occurred (Dustmann *et al.,* (2003)). These estimates have been heavily criticised but they were based on the assumption that all EU15 member states would open their labour markets at the same time (Brücker, (2007)), in which case the largest proportion of flows would have been towards Germany, not the UK. A number of other studies made the same assumption and reached similar conclusions[34]. In the event, Germany retained controls until 2011, by which time the initial flows of EU8 migrants had already sought alternative destinations.

10.53 The scale and direction of migrant flows from any future EU enlargement – again mainly from Central and Eastern Europe, and again with very low (cost-adjusted) incomes vis-à-vis the UK – are likely to be heavily influenced by the individual and collective decisions taken by member states to open up labour markets and the timing of these. It is likely migrants from these countries would once again find work initially in low-skilled occupations, either for income gain in the short run or as a stepping stone to more skilled occupations in the long run. In order to minimise negative economic and social impacts on certain localities, especially in the short run, the aim must be to manage these economic flows in a much more co-ordinated fashion across the existing EU member states.

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[32] Candidate status is granted to those countries which are ready to begin EU accession negotiations. Those countries with candidate status are the Former Yugoslav Republic of Macedonia, Montenegro, Serbia, Iceland and Turkey.
[33] Potential candidate countries are those promised the prospect of joining the EU when they are judged ready to do so by the EU.
[34] See Table 4.9 of European Integration Consortium (2009) for summary of the various studies undertaken and the scale of migrant flows estimated.

vi. The role of evidence in the wider migration debate

10.54 The MAC was set up in 2007 to provide evidence and analysis on migration issues. As an independent body our aim has been to do this as impartially as possible. The methods of working we have followed during the production of over 20 reports to Government have been based on economic research and analysis on the one hand, and a proactive approach to partner engagement on the other.

10.55 Our discussions with, and visits to, partners across the country are invaluable for improving our understanding of the broader research and analysis we carry out. We are particularly grateful therefore to all the individuals and organisations who have engaged with us on this commission.

10.56 At the same time though there were aspects of our partner engagement for this particular commission which gave us great cause for concern. In a number of cases, key partners whom we approached were very reluctant to engage fully or even at all. This was true of public and private sector organisations alike. Among such organisations there was a palpable unease about speaking – and of being identified – publically on these issues.

10.57 While disappointing, it is also perhaps quite understandable that commercial operators should be inclined to safeguard their business interests. Where we did succeed in engaging with the private sector (but on an anonymous basis) what we found was good evidence to support a very strong case of fair and proper treatment of migrant and UK workers with absolutely no indication of discrimination against UK workers. This was completely at odds with the portrayed perception of such employers.

10.58 On our engagement with the public sector, mainly central and local government, we encountered excellent and helpful engagement from Government departments (such as the Department for Communities and Local Government, the Department for Business Innovation and Skills and the Department for Education, HM Revenue and Customs) and from local authorities (such as Newham, Peterborough, Boston, Fenland, Hull, Southampton and Southwark). By contrast our efforts to source views, information and expertise from some other Government departments and local authorities bore very little fruit despite our repeated attempts to engage. This poor response was particularly disappointing when the policy areas in question were central to this commission. At local authority level our objective was to gain a much better understanding of the dynamics of recent immigration and how issues related to employment, housing and social cohesion are inter-linked, especially in those areas experiencing rapid increases in EU and non-EU migrant populations. But some local areas that would have served as ideal case studies were clearly unwilling to engage with us.

10.59 It is, therefore, rather worrying that the state of the migration debate is effectively forcing employers to hide the good work many of them are in

fact doing. More worrying still is the lack of engagement displayed by some public sector organisations, who are funded by, and who represent the interests of, the taxpayer.

10.60 Furthermore, as we have highlighted in this report, there can often be a gap between public perceptions of migration and the reality. Barriers to accessing and presenting the actual evidence merely serve to perpetuate this misunderstanding and may lead to poor policy choices in the longer term.

10.61 Alongside this full report the MAC is also publishing, for the first time, a shorter version summarising the key findings from the evidence. The intention has been to bring greater transparency to the evidence and our findings in the hope we can reach a wider audience and thereby contribute to a more constructive debate.

Annex A Consultation

A.1 List of organisations that responded to the call for evidence

APEX Care

Association of Labour Providers

Association of Schools and College Leaders

Boston Area Partnership

Bradford District Care Trust

British Hospitality Association

Care Homes of Distinction

Chartered Institute of Personnel and Development

Construction Industry Training Board

Convention of Scottish Local Authorities

Communication Service for the Deaf

Department for Environment Food and Rural Affairs

Department for Business Innovation and Skills

Department for Transport

Department for Education

Department for Health

Department for Work Pensions

Dundas & Wilson LLP

East England LGA

English Community Care Association

EEF (the manufacturers' organisation)

Employment and Learning

Energy and Utility

Federation of Small Businesses

Five Star International Ltd

Forced Labour Monitoring Group

Fresh Catch

50 Club

Greater London Authority

Global Resource Bureau Ltd

Green Close Hotel

GS Fresh

Independent Healthcare Advisory Service

London Chamber of Commerce and Industry

Mayor of London

Migrants' Right Network

Migration Watch

Ministry of Defence

National Farmers Union

National Health Service

Northern Ireland Office

Northern Ireland Strategic Migration Partnership

Northern Ireland Council for Ethnic Minorities

Orchard Lodge

Park Lodge Villa Care

People 1st Re Tragus Recruitment

Recruitment & Employment Confederation

Rail Maritime and Transport

Southwark

St Luke Hospital

Talbot Woods Lodge

Teikyo Foundation

The Childcare Recruitment Company

The NHS Employers

The University of Exeter

Tiptree

Trade Union Congress

UK Air Operator Certificates

Unite the Union

University of Gloucestershire

Welsh Government

Annex B Analysis defining low-skilled jobs and migrants

B.1 Introduction

B.1 In this Annex we compare definitions of the term low-skilled jobs, consider the use of pay thresholds and set out our approach to identifying relevant industrial sectors for this commission.

B.2 In Section B.2 we review the following definitions of low-skilled jobs: occupations not skilled to National Qualifications Framework level three (NQF3); the Organisation for Economic Co-operation and Development (OECD) definition of incidence of low-pay; and the age at which a person left full-time education. We then compare the occupations that these three methods identify as low-skilled with the low-skilled occupations identified by the Office for National Statistics (ONS) Standard Occupational Classification (SOC) skill classification.

B.3 Section B.3 looks at earnings across ONS SOC skill levels in order to compare the occupations that an earnings threshold might identify with those identified by the ONS SOC skills classification, the aim being to test earnings as a proxy for skill.

B.4 The ONS SOC skill classification is not suitable for all of our analysis, and so we use alternative definitions of low-skilled where relevant. In particular, the Standard Industrial Classification (SIC), which was created to classify business establishments and other statistical units by the type of economic activity in which they are engaged, is not organised according to skill level. When engaging with partners in certain industrial sectors, we wished to focus on those sectors where a high proportion of people in employment were in low-skilled occupations. Section B.4 sets out the analysis which helped us to identify those sectors.

B.5 In section B.5 we set out the sources of migration data we use in our analysis.

B.2 Ways of defining low-skilled occupations

B.6 Either wages or skill levels are typically used to define low-skilled jobs. There are other definitions which take into account broader occupational

characteristics, such as employment uncertainty and unsocial hours. Bernstein and Hartmann (1999) provide an overview of the concepts that might be used to define the low-skilled section of the labour market, and this is set out in Box B.1.

Box B.1: Concepts used to define the low-skilled section of the labour market

Education

Defining the low-skilled section of the labour market as the part employing individuals with a low level of qualification has intuitive appeal. But this does not take into account that some highly skilled jobs require few formal qualifications for entry and rely on on-the-job training.

Segmented labour markets

This analysis divides the labour market into two segments to distinguish between those occupations which offer good opportunities for career progression and increases in wages, and those that do not. Occupations in the primary labour market are marked by employment stability and opportunities for career progression, whereby employees can seek to improve their wages over time. In contrast, jobs in the secondary labour market offer less stability in terms of hours worked, with high staff turnover, and fewer opportunities for progression and development. There tends to be more labour mobility within segments than between.

Wages

It is reasonable to expect that wage levels will generally be positively correlated with the skill level of a job, as more highly skilled workers add relatively more value to the economy. Groups of occupations that share characteristics will compete for the same workers to the extent that wage levels converge within an identifiable range. This will mean that wages in these groups move in a similar manner over time. For example, low-skilled occupations with similar characteristics will compete for workers who perform similar tasks, and the wages offered may converge on or just above the minimum wage. However, this approach does not allow for skilled jobs that, for a variety of possible reasons, attract a relatively low wage.

Source: Bernstein and Hartmann (1999)

B.7 These concepts have a range of strengths and weaknesses. In particular, some of the job characteristics outlined under the segmented labour markets concept would be difficult to assess empirically, as few data sources contain the level of job-based information required.

B.8 Therefore, alternative definitions based on earnings, education and skill are considered, as these factors are the most accessible in terms of analysis. The two alternative definitions of low-skilled occupations we consider in particular are:

- occupations not skilled to National Qualifications Framework level 3 (NQF3); and
- the Organisation for Economic Co-operation and Development (OECD) definition of a low-paid (rather than low-skilled) occupation.

MAC methodology

B.9 In the course of our work to recommend jobs for inclusion or removal from the government's shortage occupation list, we developed a methodology for identifying the skill level of the jobs that we were considering. We could use this same methodology to identify those occupations not skilled to NQF3 or above. Examples of qualifications classified as NQF3 include AS/A Levels, International Baccalaureate and Advanced and Progression Diplomas (Office for Qualifications and Examinations Regulation, (2014)). Therefore, NQF3 could be said to be equivalent to post-compulsory education, which puts it in line with the OECD definition of a low-skilled individual as set out in Chapter 2.

B.10 Our shortage methodology uses three indicators to determine the skill level of an occupation. These are:

- the skill level as defined in the SOC 2010 hierarchy;
- formal qualifications; and
- earnings.

B.11 All three indicators are assessed against a threshold value, at or above which an occupation is considered to demonstrate skill. An occupation is skilled if it passes at least two out of the three top-down indicators. We determine the passing thresholds for qualifications and earnings through analysis of data from the Labour Force Survey (LFS) and Annual Survey of Hours and Earnings (ASHE).

B.12 The skill methodology is explained in detail in Migration Advisory Committee (2012a). In brief, using the earnings indicator as an example:

- The proportion of full-time employees in the UK qualified at NQF3 and above is estimated to be 58.8 per cent (Labour Force Survey, Q1 2011 - Q4 2012).
- The 369 SOC 2010 occupations are ranked by median hourly earnings for full-time employees, taken from ASHE (2012). This ranking produces a distribution of median hourly earnings, from highest to lowest.
- Starting at the top of the ranking and working down, the proportion of the distribution represented by the full-time *employees* in each occupation are added in turn. This process is continued until the point where this cumulative proportion just exceeds 58.8 per cent. This assumes that the number of full-time jobs skilled to NQF3 and above is broadly equal to the number of full-time employees skilled at this level.
- The earnings threshold is set at this point. The same approach is used to calculate the qualifications threshold.

B.13 As in previous iterations of this methodology, where data for 4-digit SOC occupations are missing from the ASHE the equivalent data from the associated 3-digit occupation are used instead. The passing threshold values for each indicator are presented in Box B.2.

Box B.2: Minimum threshold values used to identify occupations skilled at NQF3+

- **Earnings:** We require median hourly earnings for full-time employees within an occupation to be £11.53 per hour or more. This is measured using the ASHE (2012).
- **Formal Qualifications:** We require 51.69 per cent of full-time employees within an occupation to be qualified to NQF3+. This is measured using the LFS covering Q1 2011 - Q4 2012.
- **SOC skill level:** We require an occupation to be classified at level 3 or 4 in the SOC skill hierarchy.

B.14 Based on the threshold values presented in Box B.2, we found that 172 out of the 369 SOC 2010 occupations are not skilled at NQF3 or above. These 172 occupations are listed in Table B.1 later in this Annex, and represent 41.9 per cent of full-time employees, calculated using the eight quarters of the LFS to Q4 2012. The most significant difference between the NQF3 and SOC skill definitions is that the former excludes all skilled trades but includes a number of administrative occupations.

B.15 This definition has the advantage of taking into account three different indicators of skill. Occupations identified as low-skilled by other definitions fail at least two indicators using this methodology, indicating that the methodology is accurate.

B.16 Nonetheless, it is an issue whether the basis of this analysis (the assumption that the number of full-time jobs skilled at NQF3 and above is equal to the number of full-time employees skilled at this level) holds true. Given that the participation rate in post-16 education has increased in recent years, it could be conjectured that employers might raise their formal qualification requirements in response. Using the findings from the Skills and Employment Survey (SES) 2012, Felstead *et al.* (2013) point out that jobs requiring no qualifications on entry fell from 28 per cent in 2006 to 23 per cent in 2012, while jobs requiring a degree or higher increased from 20 per cent in 2006 to 26 per cent in 2012.

B.17 While there may have been some increase in the complexity of tasks associated with occupations, it is also possible that employers require new recruits to hold qualifications that are not strictly necessary to be able to perform the job. This implies that there is a gap between the number of employees holding qualifications at NQF3 and above and the number of jobs where such qualifications are necessary.

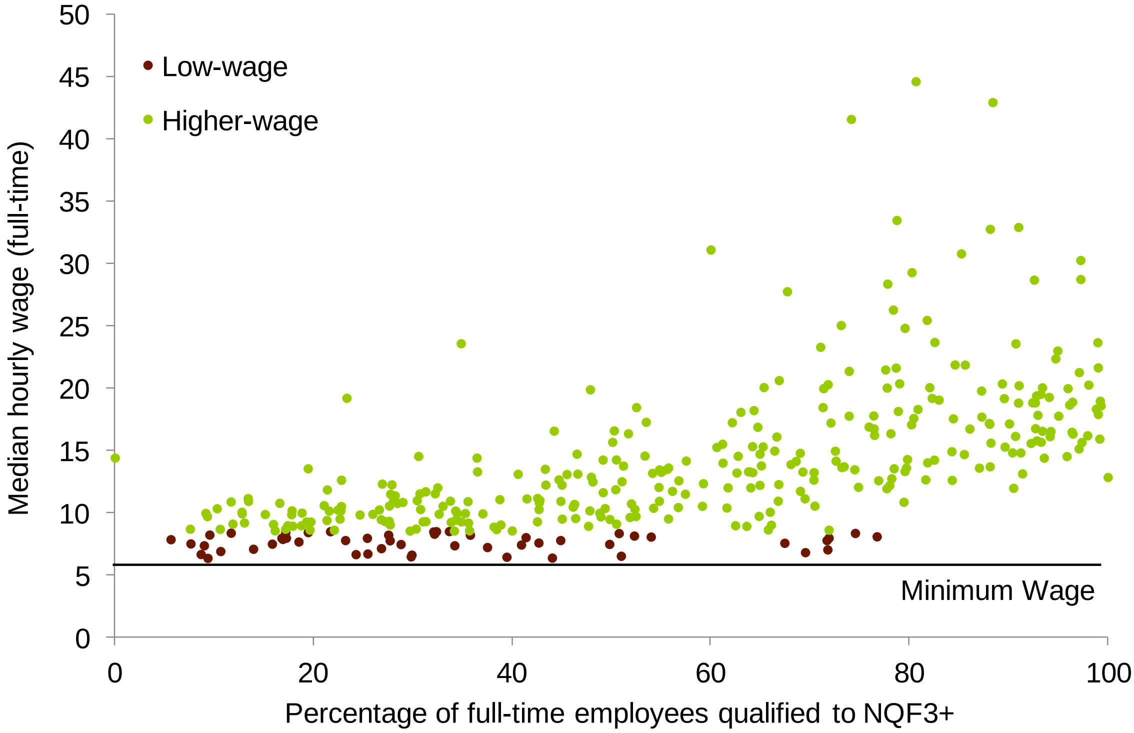
B.18 Under our skill methodology this would have the effect of indicating that more occupations are skilled than is actually the case. While this is worth bearing in mind, the SES found no evidence that such a practice was widespread: three quarters of respondents who reported that new recruits would need a degree to get the job also said that a degree was essential or fairly necessary to do the work. We therefore determine that the central assumption of our skill methodology is a fair one.

OECD definition

B.19 Another definition of low-skilled occupations that we looked at is the OECD definition of a low-paid job: one where workers earn less than two thirds of median earnings (OECD, (2011)). According to the ASHE (2012), median hourly pay for all full-time employees was £12.82. Two thirds of this is £8.55. Taking this level of hourly pay as a passing threshold, 52 of 369 occupations are identified as low-skilled. These 52 occupations collectively employ 15.5 per cent of full-time employees.

B.20 Figure B.1 plots unskilled and skilled occupations according to the OECD earnings definition by median hourly earnings for full-time employees taken from the ASHE (2012) and the proportion qualified to NQF3 and above. There is a clear band of occupations paid below £8.55, but above the minimum wage. This definition has the advantage of avoiding the non-recognition of on-the-job training that occurs under the qualification based definitions. However, it does not recognise that some skilled jobs may attract a relatively low premium.

Figure B.2: Occupations paid above and below two-thirds median hourly pay (£8.55) for full-time employees and proportion qualified to NQF3+



Sources: Labour Force Survey and Annual Survey of Hours and Earnings

Low Pay Commission definition

B.21 The Low Pay Commission (LPC) defines low-paid workers as those paid at or below their age-related minimum wage plus 10 per cent (Low Pay Commission, (2013)). SOC 4-digit occupations are then ranked according to the proportion of low-paid workers in employment and "*those sectors which include the 25 per cent of occupations with the largest proportions of low-paid workers are classified as low-paying sectors*". This definition results in SOC 4-digit occupations in sectors such as cleaning, non-food processing and retail being classified as low-skilled.

Definition based solely on the age at which an individual left full-time education

B.22 Using data from the LFS, we also considered a definition which identifies occupations as low-skilled if more than 50 per cent of those in employment left full-time education at the age of 16 or younger.

Comparison of definitions

B.23 4-digit SOC occupations identified as skilled according to the definitions discussed above are listed and compared in Table B.1. The occupations identified by the ONS SOC skill classification and the NQF3 definitions are almost identical, the main difference being the inclusion of skilled trades (construction, electricians, tailors) as low-skilled under NQF3 but not under the ONS SOC skill classification.

B.24 The OECD and LPC definitions are based on a sufficient proportion of workers in an occupation being paid at or above a specific pay threshold. The LPC definition identifies more occupations as low-skilled than the OECD definition, although both identify far fewer than the ONS SOC skills classification.

B.25 The number of occupations identified as low-skilled by the age at which a person left full-time education is very similar to the number identified by the ONS SOC skills classification. However, the composition is different, primarily because the age definition identifies skilled trades as low-skilled and excludes administrative and secretarial occupations.

B.26 All of the definitions above rely on the use of thresholds to identify those occupations classified as low-skilled. The number of occupations classified as low-skilled is therefore dependent on where the threshold is set. While these thresholds are quite specific and well-reasoned, where to set the exact threshold will always be to some degree arbitrary, and slight adjustments may result in occupations being classified as low-skilled or not.

Table B.1: 4-digit SOC occupations defined as low-skilled according to one or more definitions (continued on next page)

		SOC	NQF3	OECD	LPC	Age leaving full-time education
Total occupations defined as low-skilled		**140**	**172**	**52**	**84**	**134**
1122	Production managers and directors in construction					x
1161	Managers and directors in transport and distribution					x
1213	Managers and proprietors in forestry, fishing and related services				x	
1224	Publicans and managers of licensed premises		x			
1242	Residential, day and domiciliary care managers and proprietors					x
1252	Garage managers and proprietors					x
1253	Hairdressing and beauty salon managers and proprietors					x
1254	Shopkeepers and proprietors – wholesale and retail				x	
1255	Waste disposal and environmental services managers					x
3113	Engineering technicians					x
3116	Planning, process and production technicians					x
3311	NCOs and other ranks					x
3314	Prison service officers (below principal officer)					x
3413	Actors, entertainers and presenters				x	
3441	Sports players		x		x	
3443	Fitness instructors			x	x	
4112	National government administrative occupations	x	x			
4113	Local government administrative occupations	x				
4114	Officers of non-governmental organisations	x				
4121	Credit controllers	x	x			
4122	Book-keepers, payroll managers and wages clerks	x				
4123	Bank and post office clerks	x	x			
4124	Finance officers	x				
4129	Financial administrative occupations n.e.c.	x	x		x	
4131	Records clerks and assistants	x	x			

Table B.1: 4-digit SOC occupations defined as low-skilled according to one or more definitions (continued on next page)

		SOC	NQF3	OECD	LPC	Age leaving full-time education
4132	Pensions and insurance clerks and assistants	x	x			
4133	Stock control clerks and assistants	x	x			
4134	Transport and distribution clerks and assistants	x	x			
4135	Library clerks and assistants	x	x			
4138	Human resources administrative occupations	x	x			
4151	Sales administrators	x	x			
4159	Other administrative occupations n.e.c.	x	x			
4161	Office managers	x				
4162	Office supervisors	x	x			
4211	Medical secretaries	x	x			
4212	Legal secretaries	x	x			
4213	School secretaries	x	x			
4214	Company secretaries	x	x			
4215	Personal assistants and other secretaries	x	x			
4216	Receptionists	x	x	x	x	
4217	Typists and related keyboard occupations	x	x			
5111	Farmers		x			x
5112	Horticultural trades		x	x	x	x
5113	Gardeners and landscape gardeners		x		x	x
5114	Groundsmen and greenkeepers		x	x	x	x
5119	Agricultural and fishing trades n.e.c.		x		x	x
5211	Smiths and forge workers		x		x	x
5212	Moulders, core makers and die casters		x			x
5213	Sheet metal workers		x			x
5214	Metal plate workers, and riveters					x
5215	Welding trades		x			x
5216	Pipe fitters					x
5221	Metal machining setters and setter-operators					x
5222	Tool makers, tool fitters and markers-out					x
5223	Metal working production and maintenance fitters					x

Table B.1: 4-digit SOC occupations defined as low-skilled according to one or more definitions (continued on next page)

		SOC	NQF3	OECD	LPC	Age leaving full-time education
5224	Precision instrument makers and repairers					x
5225	Air-conditioning and refrigeration engineers					x
5231	Vehicle technicians, mechanics and electricians		x		x	x
5232	Vehicle body builders and repairers		x			x
5234	Vehicle paint technicians		x			x
5235	Aircraft maintenance and related trades					x
5236	Boat and ship builders and repairers					x
5237	Rail and rolling stock builders and repairers					x
5241	Electricians and electrical fitters					x
5242	Telecommunications engineers					x
5244	TV, video and audio engineers		x			x
5245	IT engineers					
5249	Electrical and electronic trades n.e.c.					x
5250	Skilled metal, electrical and electronic trades supervisors					x
5311	Steel erectors		x			x
5312	Bricklayers and masons		x			x
5313	Roofers, roof tilers and slaters		x			x
5314	Plumbers and heating and ventilating engineers					x
5315	Carpenters and joiners		x			x
5316	Glaziers, window fabricators and fitters		x			x
5319	Construction and building trades n.e.c.					x
5321	Plasterers		x			x
5322	Floorers and wall tilers		x			x
5323	Painters and decorators		x			x
5330	Construction and building trades supervisors					x
5411	Weavers and knitters		x	x		
5412	Upholsterers		x		x	x
5413	Footwear and leather working trades		x		x	x
5414	Tailors and dressmakers		x	x	x	

Table B.1: 4-digit SOC occupations defined as low-skilled according to one or more definitions (continued on next page)

		SOC	NQF3	OECD	LPC	Age leaving full-time education
5419	Textiles, garments and related trades n.e.c.		x		x	
5421	Pre-press technicians		x			x
5422	Printers					x
5423	Print finishing and binding workers		x			x
5431	Butchers		x	x	x	x
5432	Bakers and flour confectioners		x	x	x	
5433	Fishmongers and poultry dressers		x	x	x	x
5434	Chefs		x	x	x	
5435	Cooks		x	x	x	x
5436	Catering and bar managers		x			x
5441	Glass and ceramics makers, decorators and finishers		x		x	
5442	Furniture makers and other craft woodworkers		x			x
5443	Florists			x	x	x
5449	Other skilled trades n.e.c.		x			x
6121	Nursery nurses and assistants	x	x	x	x	
6122	Childminders and related occupations	x	x	x	x	
6123	Playworkers	x	x	x	x	
6125	Teaching assistants	x	x			
6126	Educational support assistants	x	x			
6131	Veterinary nurses	x	x		x	
6132	Pest control officers	x	x			x
6139	Animal care services occupations n.e.c.	x	x	x	x	
6141	Nursing auxiliaries and assistants	x	x			
6142	Ambulance staff (excluding paramedics)	x	x			x
6143	Dental nurses	x	x			
6144	Houseparents and residential wardens	x	x			x
6145	Care workers and home carers	x	x	x	x	x
6146	Senior care workers	x	x	x		
6147	Care escorts	x	x		x	x
6148	Undertakers, mortuary and crematorium assistants	x	x			x
6211	Sports and leisure assistants	x	x	x	x	
6212	Travel agents	x	x		x	

Table B.1: 4-digit SOC occupations defined as low-skilled according to one or more definitions (continued on next page)

		SOC	NQF3	OECD	LPC	Age leaving full-time education
6214	Air travel assistants	x				
6215	Rail travel assistants	x	x			
6219	Leisure and travel service occupations n.e.c.	x	x		x	
6221	Hairdressers and barbers	x	x	x	x	x
6222	Beauticians and related occupations	x	x	x	x	
6231	Housekeepers and related occupations	x	x	x	x	x
6232	Caretakers	x	x			x
6240	Cleaning and housekeeping managers and supervisors	x	x		x	x
7111	Sales and retail assistants	x	x	x	x	
7112	Retail cashiers and check-out operators	x	x	x	x	
7113	Telephone salespersons	x	x			
7114	Pharmacy and other dispensing assistants	x	x	x	x	
7115	Vehicle and parts salespersons and advisers	x	x	x	x	
7121	Collector salespersons and credit agents	x	x			x
7122	Debt, rent and other cash collectors	x	x			x
7123	Roundspersons and van salespersons	x	x		x	x
7124	Market and street traders and assistants	x	x		x	x
7125	Merchandisers and window dressers	x	x		x	
7129	Sales related occupations n.e.c.	x	x			
7130	Sales supervisors	x	x		x	
7211	Call and contact centre occupations	x	x	x		
7213	Telephonists	x	x		x	x
7214	Communication operators	x	x			
7215	Market research interviewers	x	x	x		
7219	Customer service occupations n.e.c.	x	x		x	
7220	Customer service managers and supervisors	x				
8111	Food, drink and tobacco process operatives	x	x	x	x	

Table B.1: 4-digit SOC occupations defined as low-skilled according to one or more definitions (continued on next page)

		SOC	NQF3	OECD	LPC	Age leaving full-time education
8112	Glass and ceramics process operatives	x	x		x	x
8113	Textile process operatives	x	x		x	x
8114	Chemical and related process operatives	x	x		x	x
8115	Rubber process operatives	x	x		x	x
8116	Plastics process operatives	x	x		x	x
8117	Metal making and treating process operatives	x	x			x
8118	Electroplaters	x	x			x
8119	Process operatives n.e.c.	x	x			x
8121	Paper and wood machine operatives	x	x			x
8122	Coal mine operatives	x	x			x
8123	Quarry workers and related operatives	x	x			x
8124	Energy plant operatives	x	x			x
8125	Metal working machine operatives	x	x		x	x
8126	Water and sewerage plant operatives	x	x			x
8127	Printing machine assistants	x	x			x
8129	Plant and machine operatives n.e.c.	x	x			x
8131	Assemblers (electrical and electronic products)	x	x	x	x	x
8132	Assemblers (vehicles and metal goods)	x	x			x
8133	Routine inspectors and testers	x	x			x
8134	Weighers, graders and sorters	x	x	x	x	
8135	Tyre, exhaust and windscreen fitters	x	x	x	x	x
8137	Sewing machinists	x	x	x	x	x
8139	Assemblers and routine operatives n.e.c.	x	x		x	x
8141	Scaffolders, stagers and riggers	x	x			x
8142	Road construction operatives	x	x			x
8143	Rail construction and maintenance operatives	x	x			x
8149	Construction operatives n.e.c.	x	x			x
8211	Large goods vehicle drivers	x	x			x
8212	Van drivers	x	x		x	x
8213	Bus and coach drivers	x	x			x

Table B.1: 4-digit SOC occupations defined as low-skilled according to one or more definitions (continued on next page)

		SOC	NQF3	OECD	LPC	Age leaving full-time education
8214	Taxi and cab drivers and chauffeurs	x	x		x	x
8215	Driving instructors	x	x			x
8221	Crane drivers	x	x			x
8222	Fork-lift truck drivers	x	x			x
8223	Agricultural machinery drivers	x	x			x
8229	Mobile machine drivers and operatives n.e.c.	x	x			x
8231	Train and tram drivers	x	x			
8232	Marine and waterways transport operatives	x	x			x
8233	Air transport operatives	x	x			x
8234	Rail transport operatives	x	x			x
8239	Other drivers and transport operatives n.e.c.	x	x			x
9111	Farm workers	x	x	x	x	
9112	Forestry workers	x	x			x
9119	Fishing and other elementary agriculture occupations n.e.c.	x	x	x	x	x
9120	Elementary construction occupations	x	x		x	x
9132	Industrial cleaning process occupations	x	x	x	x	x
9134	Packers, bottlers, canners and fillers	x	x	x	x	
9139	Elementary process plant occupations n.e.c.	x	x	x	x	x
9211	Postal workers, mail sorters, messengers and couriers	x	x			x
9219	Elementary administration occupations n.e.c.	x	x	x	x	
9231	Window cleaners	x	x	x	x	x
9232	Street cleaners	x	x			x
9233	Cleaners and domestics	x	x	x	x	x
9234	Launderers, dry cleaners and pressers	x	x	x	x	x
9235	Refuse and salvage occupations	x	x		x	x
9236	Vehicle valeters and cleaners	x	x	x	x	x
9239	Elementary cleaning occupations n.e.c.	x	x	x	x	x
9241	Security guards and related occupations	x	x			x

Table B.1: 4-digit SOC occupations defined as low-skilled according to one or more definitions

		SOC	NQF3	OECD	LPC	Age leaving full-time education
9242	Parking and civil enforcement occupations	x	x			x
9244	School midday and crossing patrol occupations	x	x	x	x	x
9249	Elementary security occupations n.e.c.	x	x			
9251	Shelf fillers	x	x		x	x
9259	Elementary sales occupations n.e.c.	x	x	x	x	x
9260	Elementary storage occupations	x	x	x	x	x
9271	Hospital porters	x	x			x
9272	Kitchen and catering assistants	x	x	x	x	
9273	Waiters and waitresses	x	x	x	x	
9274	Bar staff	x	x	x	x	
9275	Leisure and theme park attendants	x	x	x	x	
9279	Other elementary services occupations n.e.c.	x	x	x	x	

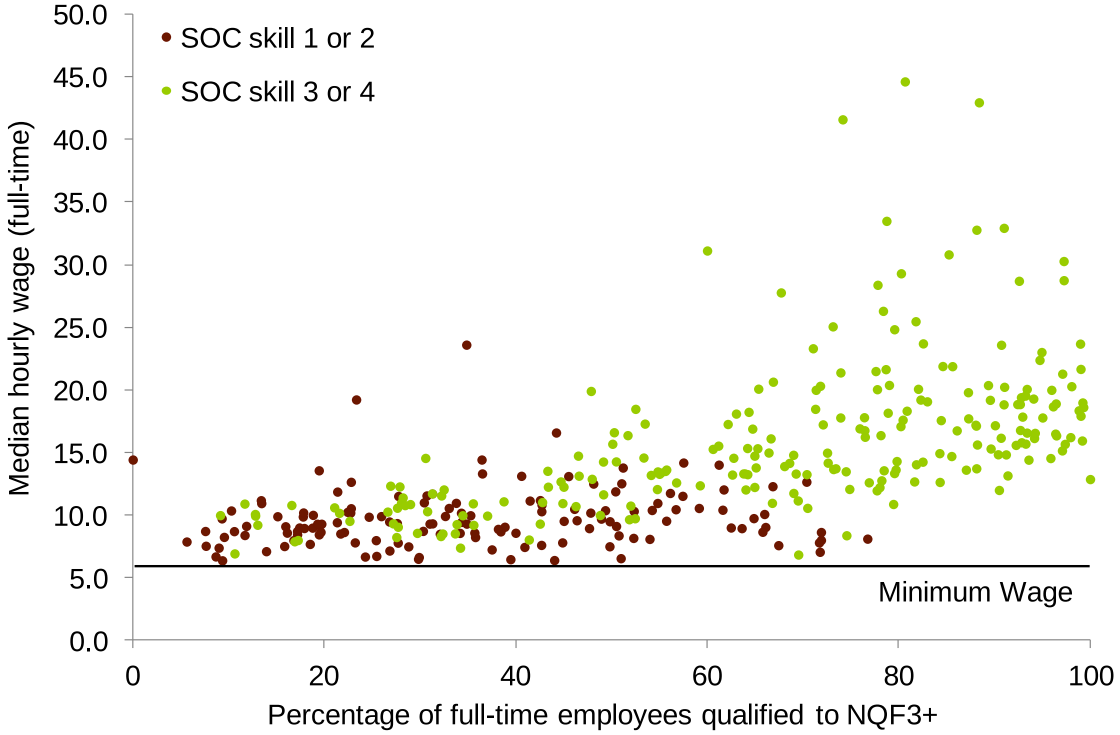
Note: For age leaving full-time education, occupations marked 'x' are those where more than 50 per cent of those in employment left full-time education at age 16 or younger.
Sources: Annual Survey of Hours and Earnings. Labour Force Survey, Low Pay Commission, (2014) and Office for National Statistics (2010)

B.3 Using an earnings threshold to define low-skilled jobs

B.27 Another way to define a low-skilled occupation is to set a pay threshold at a particular level, and identify all occupations where median pay for full-time employees fell below this level as low-skilled. Figure B.3 plots low-skilled and skilled occupations (according to the SOC definition) by median hourly earnings for full-time employees taken from the ASHE 2012 and the proportion qualified to NQF3 and above. NQF3 is defined as post compulsory education but not higher level. So it includes A level, for example, but not degree level.

B.28 There are some skilled occupations where a very small proportion of full-time employees are skilled to NQF3 and where wages are relatively low. For example, only 10.6 per cent of SOC 5433 Fishmongers and Poultry Dressers were qualified to NQF3 or above while the occupation attracts a relatively low wage of £6.93 an hour. Nonetheless, this occupation is defined as skilled by Office for National Statistics (2010) as it is classified as a skilled trade and generally requiring *"a substantial period of training, often provided by means of a work based training programme"*.

Figure B.3: Occupations classified at ONS skill level 1 or 2 and skill level 3 or 4 by median hourly earnings for full-time employees and proportion qualified to NQF3+, 2011 and 2012

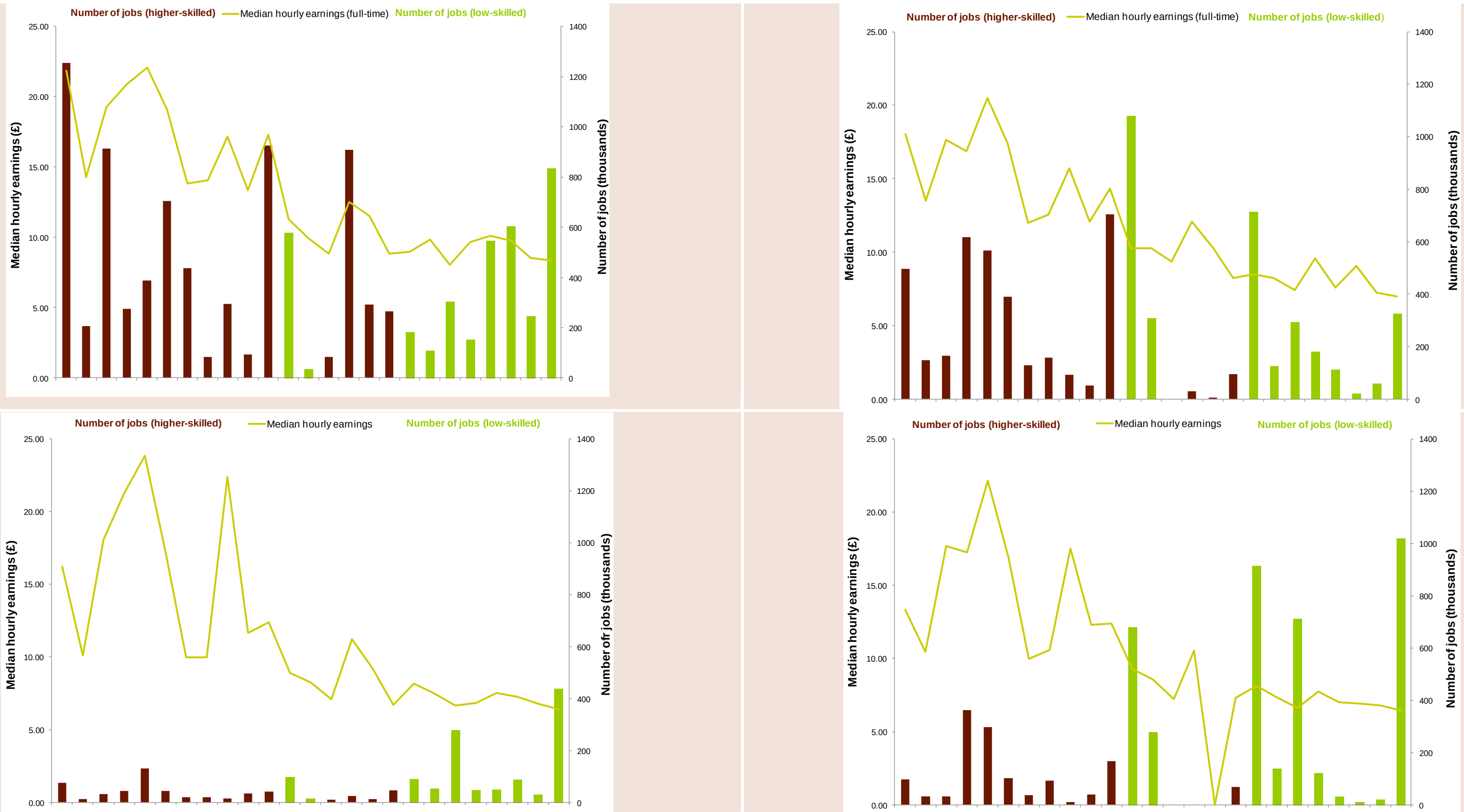


Sources: Labour Force Survey and Annual Survey of Hours and Earnings

B.29 With the exception of skilled trades, an earnings measure would likely identify as low-skilled similar jobs to those identified by the ONS SOC skill classification as earnings are a good proxy for skill. Figure B.3 provides further evidence of this. Earnings are higher for managerial and professional occupations and decline considerably in the case of low-skilled and, especially, elementary occupations. It also shows that the distribution of the number of jobs varies considerably between males and females, and also between those employed full and part-time. Female employees are more likely to work in administrative and secretarial occupations, and a high number work part-time in caring personal service and elementary administrative and service occupations.

Figure B.3: Median hourly earnings and number of jobs for men/women and full-time/part-time workers by occupation, 2012

	Men	Women
Full-time		
Part-time		



Horizontal axes

11 Corporate managers and directors; 12 Other managers and proprietors; 21 Science, research, engineering and technology professionals; 22 Health Professionals; 23 Teaching and education professionals; 24 Business, media and public service professionals; 31 Science, engineering and technology associate professionals; 32 Health and social care associate professionals; 33 Protective service occupations; 34 Culture, media and sports occupations; 35 Business and public service associate professionals; 41 Administrative occupations; 42 Secretarial and related occupations; 51 Skilled agricultural and related trades; 52 Skilled metal, electrical and electronic trades; 53 Skilled construction and building trades; 54 Textiles, printing and other skilled trades; 61 Caring personal service occupations; 62 Leisure, travel and related personal service occupations; 71 Sales occupations; 72 Customer service occupations; 81 Process, plant and machine operatives; 82 Transport and mobile machine drivers and operatives; 91 Elementary trades and related occupations; 92 Elementary administration and service occupations

Notes: The columns in each of the four graphs refer to the occupation titles set out alongside the label 'Horizontal Axes' at the bottom of the page. Observations of earnings or jobs which appear to have a value 0, indicates that the estimate was unreliable, not that the actual value was zero.
Source: Annual Survey of Hours and Earnings (provisional results)

B.4 Industrial sectors and occupations

B.30 While the SOC skill definition of a low-skilled occupation works well for top-down analysis of national level datasets, for the purposes of consulting with partners we also identified industrial sectors with a high percentage of those in employment in low-skilled occupations. This enabled us to better target our call for evidence.

B.31 Table B.2 below lists 2-digit SIC industrial sectors where more than 50 per cent of those in employment work in low-skilled occupations according to the SOC skill definition. This was calculated using the LFS from Q2 2011 to Q1 2013. The choice of 50 per cent was arbitrary and for illustrative purposes only. All industrial sectors employ individuals from skilled and low-skilled occupations: for example, all sectors employ persons in management grades. However, Table B.2 below gives an indication of which sectors employ the highest concentration of those in low-skilled occupations.

Table B.2: Industrial sectors with more than 50 per cent of those in employment in low-skilled occupations, 2012 Q4 to 2013 Q3

Industrial Sector		Total number in employment (thousands)	Percentage in low-skilled occupations
53	Postal and courier activities	312	88.2
98	Undifferentiated goods	11	85.1
96	Other personal service activities	413	84.0
49	Land transport inc via pipelines	685	82.4
97	Domestic personnel	46	81.9
87	Residential care activities	837	77.2
38	Waste collection, treatment, disposal	122	76.2
80	Security & investigation activities	186	74.9
47	Retail trade, except vehicles	2,755	73.4
52	Warehousing & support for transport	327	70.6
37	Sewerage	9	70.2
92	Gambling and betting activities	89	67.5
81	Services to buildings and landscape	546	67.3
10	Manufacture of food products	317	66.7
82	Office admin, support and other	187	63.9
55	Accommodation	333	63.6
08	Other mining and quarrying	22	63.3
56	Food and beverage service activities	1,153	63.2
05	Mining of coal and lignite	6	61.7
79	Travel, tour operator, reservation	102	61.5
51	Air transport	57	60.6
14	Manufacture of wearing apparel	43	58.6
17	Manufacture paper & paper products	52	55.8
88	Social work without accommodation	939	54.0
46	Wholesale trade, except vehicles	699	53.2
75	Veterinary activities	55	52.3
13	Manufacture of textiles	66	51.6
11	Manufacture of beverages	52	51.0
77	Rental and leasing activities	109	50.7
22	Manufacture rubber plastic products	154	50.3
27	Manufacture of electrical equipment	78	50.2
All sectors		**28,699**	**45.2**

Source: Labour Force Survey

B.32 We commissioned the Institute for Employment Research (IER) to look in more detail at the care, construction, food and accommodation services and retail sectors. Additionally, in our call for evidence we stated that we would particularly like to receive evidence from employers in the cleaning services and from those that employ process operatives. Table B.3 presents the data that led us to focus on these occupations and sectors:

they had a relatively high proportion of low-skilled jobs and/or a relatively high proportion of migrant workers. We were also interested in the recruitment practices and working patterns within these occupations and sectors, and that also influenced our choice.

Table B.3: Percentage of low-skilled workers and migrants in occupations and sectors of interest, 2012

Industrial Sectors		Total employment (thousands)	Percentage of low-skilled workers in total workforce Definition:		Percentage of migrant workers in total workforce
			ONS*	Age at which left full-time education^	
C	Manufacturing	2,806	40	51	14
F	Construction	2,028	22	59	11
I	Accommodation and food services	1,425	63	34	27
Q	Health and social work	3,797	50	37	16
S	Other service activities	723	58	43	13
Occupations					
61	Caring personal service occupations	2,000	-	48	14
71	Sales occupations	1,805	-	41	12
81	Process, plant and machine operatives	780	-	65	19
91	Elementary trades and related occupations	476	-	56	28
92	Elementary administration and services occupations	2,605	-	51	21

Notes:*Since the preferred definition of low-skilled is based on occupation, 100% of the jobs in these occupations would be classified as low-skilled. ^If age at which left full time education is 16 or younger. Industrial sectors are classified according to the Standard Industrial Classification 2007 (SIC 2007). Occupations are classified according to the Standard Occupational Classification 2010 (SOC 2010) at the 2 digit level.
Source: Annual Population Survey

B.5 Sources of migration data

B.33 We use different sources of data on migration to conduct our analysis and these are described in Box B.3.

Box B.3: Sources of migration data

The International Passenger Survey (IPS) is a quarterly survey of passengers arriving in, and departing from, the UK. Migrants can be identified according to their country of birth, nationality, intended purpose of visit, and length of stay. Approximately one in every 500 passengers travelling through UK ports is surveyed, but the migrant sample (i.e. those intending to change their usual place of residence for a year or more) is only a fraction of this. In 2008 3,216 immigrants and 1,901 emigrants were surveyed. The small sample size means that the confidence intervals around IPS estimates are significant.

Long-Term International Migration (LTIM) is defined as those persons intending to change their place of residence for a year or more, which matches the UN definition of a migrant. The figures for LTIM are based on the results from the IPS with certain adjustments made to account for flows to and from the Irish Republic, asylum seekers, and migrant and visitor switchers. Results are available quarterly.

The Labour Force Survey (LFS) is a quarterly survey of around 60,000 households. The LFS provides estimates of the stock of foreign-born individuals in the UK and their labour market status. Immigrants can be identified according to their country of birth, nationality and length of stay in the UK, but not by their immigration status. Results are available quarterly.

The Annual Population Survey (APS) is an annual household survey based largely on the LFS. The APS includes additional regional samples that make it more appropriate for regional and local analysis, as well as more accurate population estimates. Results are available quarterly.

Immigration Statistics (previously published as Control of Immigration Statistics) include the number of entry clearance visas granted by category to non-EEA nationals, the number of extensions of leave to remain in the UK, grants of settlement and citizenship and estimates of passengers admitted to the UK. It is now possible to distinguish between those granted leave under different tiers of the PBS and between main applicants and their dependants. Entry clearance visas can be used to proxy inflows of migrants, although not all individuals who are issued visas will actually come to the UK.

National Insurance Number allocations (NINo) describe the volume of citizens of different nationalities gaining a National Insurance number, which is required for legal employment, to pay tax and to claim some welfare benefits. These data may be used as a proxy for inflows of some types of immigrants to the UK, both from within and outside the EEA. Figures are published quarterly by the Department for Work and Pensions.

Census of Population is an official count of a population carried out at set intervals, usually once every decade, and provides information on the characteristics of the population in an area. Population samples across regions allow analysis at the local authority level to be conducted.

Abbreviations

Acas	Advisory, Conciliation and Arbitration Service
APS	Annual Population Survey
ASHE	Annual Survey of Hours and Earnings
BHA	British Hospitality Association
BIS	Department for Business, Innovation and Skills
CBI	Confederation of British Industry
CCIS	Connexions' Client Caseload Information Systems
CCRT	Community Cohesion Review Team
CIPD	Chartered Institute of Personnel and Development
DCLG	Department for Communities and Local Government
DfE	Department for Education
DWP	Department for Work and Pensions
EAL	English as an Additional Language
EASI	Employment Agencies Standards Inspectorate
EEA	European Economic Area
EHRC	Equality and Human Rights Commission
EPRC	Economic Policy Research Centre
ERA	Employment Rights Act
ESA	Employment Support Allowance
ESOL	English for Speakers of Other Languages

ESS	Employers' Skills Survey
EU	European Union
FLMG	Forced Labour Monitoring Group
FTE	Full-Time Education
GCSE	General Certificate of Secondary Education
GDP	Gross Domestic Product
GFR	General Fertility Rates
GLA	Gangmasters' Licensing Authority
GP	General Practioner
HEE	Health Education England
HMO	Houses in Multiple Occupation
HMRC	Her Majesty's Revenue and Customs
HO	Home Office
HSE	Health and Safety Executive
IER	Institute for Employment Research
ILO	International Labour Organisation
IMF	International Monetary Fund
IPS	International passenger Survey
JRF	Joseph Rowntree Foundation
JSA	Jobseeker's Allowance
LCCI	London Chamber of Commerce and Industry
LFS	Labour Force Survey
LPC	Low Pay Commission
LTIM	Long Term International Migration
MAC	Migration Advisory Committee
MPI	Migration Policy Institute
NEET	Not in Employment, Education or Training

NHS	National Health Service
NIESR	National Institute of Economic and Social Research
NINo	National Insurance Number
NMWA	National Minimum Wage Act
NMW	National Minimum Wage
NMWI	National Minimum Wage Inspectorate
NQF	National Qualifications Framework
OBR	Office for Budget Responsibility
OECD	Organisation for Economic Co-Operation and Development
ONS	Office for National Statistics
PBS	Points Based System
PIAAC	Programme for the International Assessment of Adult Skills
PWD	Posting of Workers Directive
REC	Recruitment and Employment Confederation
SAWS	Seasonal Agricultural Workers Scheme
SES	Skills and Employment Survey
SIC	Standard Industrial Classification
SOC	Standard Occupational Classification
TUC	Trades Union Congress
TULCRA	Trade Union and Labour Relations (Consolidation) Act
TUPE	Transfer of Undertakings (Protection of Employment)
UCL	University College of London
UK	United Kingdom
UKCES	UK Commission for Employment Skills
UN	United Nations
US	United States
USB	Unemployment Benefit Spending

WRS	Workers Registration Scheme
WTR	Working Time Regulations

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