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MIGRATION: AN ECONOMIC AND SOCIAL ANALYSIS

[OCTOBER 2000]

*A joint research study by the Home Office Economics and Resource Analysis Unit and
the Cabinet Office Performance and Innovation Unit*

FOREWORD

This Research Study has been produced by a joint team of researchers from the Performance and Innovation Unit (PIU) of the Cabinet Office and the Research Development and Statistics (RDS) Directorate of the Home Office. It aims to pull together the existing theory and evidence on the economic and social impacts of migration. The work has pulled together existing evidence in the UK and abroad, and has involved some new analysis of existing data, including the Labour Force Survey, to identify particular characteristics and labour market outcomes for the current migrant population. The work has also benefited from discussions with a number of experts in the migration field in academia and elsewhere.

One of the seven Aims of the Home Office is the “regulation of entry to, and settlement in, the United Kingdom in the interests of social stability and economic growth; the facilitation of travel by UK citizens; the support of destitute asylum seekers during consideration of their claims; and the integration of those accepted as refugees.” A fundamental requirement in delivering this Aim is a sound understanding of the impacts of existing policies affecting migration and migrants, and a framework for assessing the costs and benefits of potential alternatives. This is all the more important against the background of recent increases in migration to the UK and the globalisation of labour markets with employers increasingly seeking to fill labour shortages from overseas, and workers increasingly able to travel to meet demand.

This study represents a major attempt to identify the overall economic and social outcomes of migration policy in the UK, both in theory and in practice. The evidence indicates that, whilst migrants constitute a very diverse set of people, with different characteristics, contributing in different ways to the UK economy and society, overall migration has the potential to deliver significant economic benefits. It also makes clear that the issues are complex, and the data incomplete. One of the primary purposes of producing this Research Study is to encourage a debate and further serious research on how migration policy might be further developed in order to achieve the government’s objectives, to maximise the benefits of migration.

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ACKNOWLEDGEMENTS

This joint research report by the Home Office Economics and Resource Analysis Unit and the Cabinet Office Performance and Innovation Unit report was prepared by a research team consisting of the following:

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The team worked closely with others in the Research Development and Statistics Directorate of the Home Office, especially Richard Price and Carole Willis; and in PIU, especially Stephen Aldridge, Jonathan Deacon and Mark Ledbury.

In the course of the project, the team held two workshops, on the social and economic impacts of migration. These were particularly useful in developing the analytical framework used in the report. Attendance of these workshops, and details of all the others with whom we met and corresponded, is detailed in Annex 1.

We are very grateful for all of their time and assistance. Naturally, they have no responsibility for the opinions expressed in this report, or for any factual errors or omissions. We apologise to anyone who has inadvertently been omitted. In addition, a full list of sources is attached at Annex 2.

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EXECUTIVE SUMMARY

1. This document is the joint work of the Performance and Innovation Unit in the Cabinet Office and the Economics and Resource Analysis Unit of the Home Office. It attempts to look at migration in the round: beginning with theory and background trends, proceeding to a discussion of the current policy framework in the context of the Government's high level objectives, and examining the economic and social outcomes current policy delivers and their contribution to those objectives. **It concludes with suggestions for future policy development for further debate and discussion, inside and outside Government.**
2. This study is for discussion purposes only and does not constitute a statement of Government policy. In particular, this study is intended to be the start of a process of further research and debate – by identifying both what we know from existing data sources and analysis, and where further analysis is required. There is a real need for more research in this area – indeed, it is striking how little research on migration there has been in the UK.
3. Chapter 1 sets out the background to the report. There is an emerging consensus, in both the UK and the rest of the EU, that we need a new analytical framework for thinking about migration policy if we are to maximise the contribution of migration to the Government's economic and social objectives.
4. Chapter 2 discusses the economic theory of migration. This is similar to the theory of trade, but migration is a much more complex phenomenon than trade. Like trade, migration is likely to enhance economic growth and the welfare of both natives and migrants; and restrictions on migration are likely to have economic costs. However, people move for a variety of reasons, by no means all economic. And there are significant externalities – both social and economic – to migration. Moreover, migration is not a one-way, one-off process. We conclude this chapter by looking at the empirical evidence: while far from definitive, it appears to support the conclusion that migration tends to promote economic growth.
5. Chapter 3 argues that the conventional picture of UK post-war migration was never the whole truth; and is inadequate to describe current realities. Migration to the UK has recently risen. This rise appears to be largely driven by economic forces, and is occurring across all categories of migrants, from people entering with work permits to asylum seekers. It reflects a number of factors:
 - economic globalisation;
 - increasing economic integration and labour mobility within the EU;
 - increased political instability around the world;
 - the current strength of the UK labour market.
6. All but the last are related to globalisation; and are therefore not likely to reverse. Migration therefore appears to be on a secular upward trend. Indeed, over the medium to longer term, migration pressures will intensify in Europe as a result of demographic changes. But this should not be viewed as a negative: to the extent that migration is driven by market forces, it is likely to be economically beneficial.

On the other hand, trying to halt or reverse market-driven migration will be very difficult (perhaps impossible) and economically damaging.

7. Chapters 4 and 5 examine the policy framework. Chapter 4, focusing on the Home Office's aim to regulate migration to the UK in the interests of social stability and economic growth, argues that it is clearly correct that the Government has both economic and social objectives for migration policy. However, the current aim could be further developed, and made more operational, to reflect better the overall objectives of the Government, and the role of other Departments. Chapter 5 summarises the current immigration system. It views migration policy as a continuum, running from entry controls to settlement to integration; thus, it covers not only entry control and settlement policy, but also reviews other policies that the post-entry integration of migrants into UK economy and society impacts upon.
8. Chapter 6 then analyses the economic and social outcomes of policy, both for the migrants themselves and for the UK as a whole. The principal findings are the following:
 - **Migrants are very heterogeneous**, differing at least as much from each other as they differ from the general population. There is some evidence that migrants are concentrated at the upper and lower ends of the skill and income spectrums.
 - **Migrants are reasonably successful in the labour market**, with higher average incomes than natives, though lower activity rates. The key determinants of success are education and English language fluency, which interact in complex ways. Key barriers to migrant labour market success are lack of general knowledge about the UK labour market; restrictions on access to employment; and lack of recognition of qualifications and/or access to certification/re-certification.
 - **Migrants tend to flow to areas where there is excess demand for labour** (notably in London and the South-East) and are often adept at taking advantage of labour and skills shortages; however, many migrants live in neighbourhoods with relatively high levels of unemployment.
 - **There is little evidence that native workers are harmed by migration**. There is considerable support for the view that migrants fill labour market gaps, hence improving productivity and reducing inflationary pressures. However, continued skill shortages in some areas and sectors, and substantial presence of irregular migrants in others, suggests that legal migration is, at present, insufficient to meet demand at either the low or high-skill ends of the labour market. Migrants' impacts on congestion and other externalities are difficult to estimate, but may be important.
 - **Migration also has implications for the countries of origin**. The migration of skilled workers might in some circumstances have a negative impact on development and poverty reduction in poor countries, though the effects are complex and will vary by country, by sector and over time.
 - **The broader fiscal impact of migration is likely to be positive**, because of migrants' favourable age distribution. Again, employment is a key determinant.
 - **Not enough is known about migrants' social outcomes**. Migrants are not disproportionately involved in crime, nor do they disproportionately claim benefits, although once again there is considerable heterogeneity. As with natives, lack of employment is highly likely to be correlated with exclusion; in the case of migrants,

this may be exacerbated by, and interact with, lack of English language fluency and more general lack of knowledge about UK society.

- The more general social impact of migration is very difficult to assess. Benefits include a widening of consumer choice and significant cultural contributions; these in turn feed back into wider economic benefits.
9. Chapter 7 and 8 assess the policy framework in the light of these outcomes, and make some suggestions about options for future policy development. In Chapter 7, several broad themes emerge about the present system:
- the entry control system is quite flexible in some areas, but not in others, and the different entry controls are sufficiently not joined up;
 - the entry control system is not closely related to the stated policy objectives. This is particularly true in the social area, where in the past the implicit assumption has largely been that keeping people out promotes stability;
 - there has been more consideration of economic objectives, but only in some areas, and in no great depth;
 - securing the successful integration of migrants has not generally been a priority either in designing entry and settlement controls or post-entry policies.
10. Chapter 8 argues that, as a consequence, while the flexible nature of policy in some areas yields economic benefits, performance in relation to objectives is likely to be sub-optimal in three key areas:
- The labour market: current policy does not meet demand either at the low or the high skill end of the labour market. This inflicts significant economic costs.
 - Irregular migration: because current policy does not meet the demands of the labour market at the lower end, it has led to high and increasing levels of irregular migration. This is both unsustainable and undesirable in economic and social terms. Improvements to the control system are necessary, but not sufficient.
 - The entry control system is not sufficiently joined up with other areas of government policy, and post-entry policies do not sufficiently address socio-economic objectives. In practice, entry controls can contribute to social exclusion, and there are a number of areas where policy could further enhance migrants' economic and social contribution, in line with the Government's overall objectives.
11. Finally, the report briefly outlines some suggestions for future policy development. Options that might be considered include:
- building on the recent review of the work permit system, a move to a simpler, more transparent and market-driven system for high-skilled workers;
 - the introduction of a legal channel for low-skilled migration;
 - a coherent post-entry migration policy, designed to ensure that migration does indeed contribute to the Government's economic and social objectives.
12. This will require policies on migration to be better integrated with other Government policies – in particular, in the labour market and on social exclusion. Migration is neither a substitute nor an alternative for other labour market policies, notably those on skills, education and training; rather, migration policies should complement other

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policies and contribute to a well-functioning labour market. In doing so, it is important to build on those areas of migration policy that are relatively successful – like the work permit system – and address those areas that are less successful.

1. Introduction

“We have the chance in this century to achieve an open world, an open economy, and an open global society with unprecedented opportunities for people and business”

Rt. Hon. Tony Blair, Prime Minister, Davos, January 2000

“At a time of great population movements we must have clear policies for immigration and asylum. We are committed to fostering social inclusion and respect for ethnic, cultural and religious diversity, because they make our societies strong, our economies more flexible and promote exchange of ideas and knowledge.”

*Communique of Heads of Government,
Berlin Conference on Progressive Governance, June 2000*

- 1.1 As these two statements demonstrate, there is an emerging consensus – in both the UK and the rest of the EU – that we need a new analytical framework for thinking about migration policy if we are to maximise the economic and social benefits of migration to the UK. This report is the joint work of the Home Office Research Department and the Performance and Innovation Unit (PIU) of the Cabinet Office. It builds on the analysis of the long-term drivers of change undertaken by the PIU’s Strategic Challenges Project¹, as well as other work inside and outside government.
- 1.2 This paper does not attempt to present a statement of government policy, either present or future. It is a report prepared by civil servants to help inform future policy development. In view of public interest in this topic, and of the value of an informed and constructive debate, Ministers have taken the view that it would be helpful for this material to be in the public domain. **In particular, the analysis of possible future policy development contained in Chapter 8 is for discussion purposes only, and does not represent government policy.**
- 1.3 The impetus for this work came from a view that policy-oriented research and analysis about migration had not kept up with developments. This omission is particularly visible and important in the context of the debate about globalisation. While migration is an integral part of globalisation, many discussions of globalisation focus exclusively on trade, investment and capital flows, and ignore the movement of people.²
- 1.4 A good framework exists, both theoretical and policy-oriented, for thinking about globalisation when it comes to trade and capital flows. That framework recognises that globalisation is both inevitable – the UK cannot shut itself off from the rest of the world – and desirable – there are significant economic gains to be had. But it also recognises that a purely laissez-faire attitude would also be a mistake. Globalisation must be managed to maximise its helpful effects and to mitigate its

¹ See http://www.cabinet-office.gov.uk/innovation/2000/Strategic/strategic_mainpage.htm

² Two notable exceptions are “A Future Perfect: The Challenge and Hidden Promise of Globalization”, John Micklethwait and Adrian Wooldridge, May 2000; and “Globalization and Its Discontents: Essays on the New Mobility of People and Money”, Saskia Sassen and Kwame Anthony Appiah, June 1999.

downsides. To do that, government needs to take an active and progressive role – not least in explaining the globalisation process, why it is happening, why it is beneficial, and what government is doing to manage it.³

- 1.5 However, that framework is not yet in place when it comes to migration. This report aims to help remedy that deficiency in the UK context, by providing an analytical framework for policy thinking on this topic.

³ See, for example, the Prime Minister's Speech to the Global Ethics Foundation, Tübingen University, Germany, 30 June 2000.

2. The economics of migration

The determinants of migration

- 2.1 Labour mobility is much more complex, and less subject to the currently available tools of economic analysis, than capital mobility. Even very large differences in economic returns (measured by wages) are not sufficient to induce migration in most people. And factors other than the economic – including personal ties, cultural affinities, etc – are also very important in the decision whether or not to migrate.
- 2.2 Simple economic models suggest that – in the highly unrealistic world of perfect information, zero transaction costs, free movement of factors of production, and so on – people would simply move to wherever their marginal productivity was highest. Based on this underlying approach, economic models of migration, not surprisingly, tend to be based around the economic incentives facing migrants.⁴ This is very likely to be inadequate and other factors that enter into the migration decision are likely to include:
- labour market conditions in both the source and destination countries;
 - laws and policy in both countries;
 - information and information flows (which may be accurate or otherwise);
 - chain migration effects (at the ethnic group, local/village, or family level);
 - transport and transaction costs;
 - capital constraints (which may influence potential immigrants' ability to pay transport costs); and
 - almost anything else that affects the desirability of living/working in the destination as opposed to source country, from ethnic or political violence to climate.
- 2.3 Given this long list, it is incorrect to see immigration to the UK as entirely determined by policy, operating via the legal and administrative mechanisms of immigration controls. There is an image, sometimes presented in the press and public debate, of a pent-up “flood” of immigrants; if the tap is opened a little bit, more will come in, while if it is closed a little bit, fewer will come in. As the discussion in this report shows, this is not the case. Economists' models of migration focus on individuals' decisions and the incentives they face; immigration policy and immigration controls are an influence, and a constraint, on those decisions, but not necessarily the only determining factor.
- 2.4 Another conceptual trap is the view of “the migration decision” as a one-off. In practice, people migrate, for economic, family, or other reasons; they may initially intend to stay temporarily and then return or move on to a third country, or to settle; in any of these cases, they may subsequently change their minds and do something else. Globalisation increases the number and complexity of these flows: for this reason, we refer wherever possible to migration and migrants, rather than immigrants.

⁴ For general discussion of these issues, see for example “The economics of immigration”, Julian Simon; “Heavens Door”, Borjas (1994).

Does migration promote economic welfare?

- 2.5 Economic migration is normally a voluntary market transaction between a willing buyer (whoever is willing to employ the immigrant) and a willing seller (the immigrant), and is hence likely to be both economically efficient and beneficial to both parties. Indeed, the basic economic theory of immigration is very similar to that of trade; and, like trade, immigration generally is expected to yield welfare gains. “As long as the marginal productivity of labour differs in various countries, the migration of labour is welfare improving.”⁵ If all markets are functioning well, there are no externalities, and if we are not concerned about the distributional implications; then **immigration is welfare-improving**, not only for immigrants, but (on average) for natives.
- 2.6 One key difference between immigration and trade, however, is that – unlike goods or capital - immigrants are, as discussed above, economic and social agents themselves, with a degree of control over the immigration decision. So unlike goods or capital, immigrants are self-selected. Partly as a result, **immigration is most likely to occur precisely when it is most likely to be welfare-enhancing**. Countries which are abundant in labour will have lower wages than countries which are abundant in capital; workers will, if labour is mobile, have an incentive to migrate from the former to the latter, improving resource allocation overall.

Distributional implications

- 2.7 However, like trade, immigration has distributional implications. In general, immigration increases the supply of labour (and human capital); this is likely to reduce wages for workers competing with immigrants, and increase returns to capital and other factors complementary to immigrant labour. In general, this redistribution will favour natives who own factors of production which are complementary to immigrants; and hurt those who own factors of production which are substitutes, so a key question is whether migrants’ skills are substitutes for or complement those of native workers.

Market failures and externalities

- 2.8 The analysis above assumes that markets are functioning well; in particular, that the labour market matches workers to jobs without generating unemployment. If this is not the case, then the result may be different. For example, if there is a binding floor under wages (for example, because of a minimum wage) and immigration leads to the market wage for some native workers falling below that floor, then immigration could in theory lead to an increase in native unemployment. While overall output will not fall, output per head and output attributable to natives may do so. Whether this happens in any particular case is of course an empirical question. As set out in Chapter 6, there is no evidence that it occurs in the UK, with its relatively flexible and well-functioning labour market.
- 2.9 **Immigration may also have externalities** – that is, positive or negative effects beyond those which impact on the migrant and his or her employers directly. These might impact on the native population in a number of ways:

⁵ Zimmermann, K., Labour Market Impact of Immigration, in Immigration as an Economic Asset: The German Experience, IPPR, 1994.

- congestion: immigrants could increase congestion in some areas, imposing costs directly on native workers and businesses;
- neighbourhood benefits or disbenefits: immigrants could help to regenerate depressed neighbourhoods, or the reverse;
- intangible social and human capital: immigrants may have attributes – entrepreneurialism, for example – that generate benefits for natives;
- crime: immigrants might increase or decrease the crime rate if for whatever reason they were more or less prone to engage in crime or to become victims of crime;
- diversity: natives may gain (tangible or intangible) benefits from interacting with immigrants from different backgrounds and cultures.

2.10 **Immigration will also generate costs and benefits for government**, which can be viewed as another (collective rather than individual) form of externality for natives:

- on the cost side, immigrants will consume public services, and may be entitled to some social security benefits;
- on the benefit side, immigrants will pay taxes, both direct (if they are in work) and indirect.

Long-run and Dynamic Effects

2.11 In general, conventional equilibrium analysis would suggest that supply responses would act to mitigate the effects of immigration in the long run.⁶ However, it is possible to imagine cases (generally reflecting increasing returns to scale) in which the long-run impact of immigration is greater than the short-run. For example, immigrants might bring with them the knowledge/entrepreneurial ability to start a new industry/industry cluster, which then expanded to employ natives and to encourage natives to start their own businesses in the same sector.⁷

The bottom line...

2.12 Theory suggests that immigration should have a positive effect on growth, but an ambiguous one on growth per capita (depending on the capital level of immigrants: if immigrants' capital – human and physical – is on average similar to or superior to that of natives, the effect should be positive). However, as with trade, static estimates of the magnitude of such effects are small.

2.13 It is extremely difficult to estimate empirically the effect of migration on economic growth across countries, for two reasons. First, migration does not “cause” growth: the relationship is likely to run in both directions. Second, growth is affected by numerous other factors, and identifying the effect of migration is far from trivial. There is a substantial economic literature directed at this type of analysis – for example, looking at the effects of educational expenditure, or political freedom, on economic growth. This literature has not looked at migration (probably for data reasons). Of some indirect relevance are studies that have looked at population structure: summing them up, an OECD review recently concluded that “falling dependency ratios were likely to add positively to growth of

⁶ For example, if immigration raises the return to capital, investment will increase, eventually reducing the marginal return back to its long-run equilibrium.

⁷ This type of technology transfer/learning-by-doing mechanism is similar to that advanced in the trade literature to argue that trade liberalisation has dynamic as well as static economic benefits.

per capita incomes.”⁸ Given the usual age structure of migrants, this would imply that immigration would be likely to raise per capita income.

2.14 We have attempted to replicate this type of analysis for migration in European countries.⁹ The results suggest that, as theory would predict, migration has had positive effects both on growth and on growth per capita. A 1 per cent increase in the population through immigration is associated with an increase in GDP of between 1.25 and 1.5 per cent, and a smaller but still positive increase in GDP per capita.

2.15 **It should be emphasised that this type of analysis must be regarded as suggestive at most.** There are a number of complex methodological issues here. However, the results are reasonably consistent with theory, with common sense, and with the more micro level results on immigrants’ incomes described below in Chapter 6.

⁸ Policy Influences on Economic Growth in the OECD Countries, OECD Economics Department Working Paper 246, June 2000, Sanghoon Ahn and Phillip Hemmings

⁹ We regressed annual growth in the period 1991-1995 on gross immigration in the same period, and GDP at the start of the period, for 15 European countries for which Eurostat migration data was available over a reasonably long period. To deal with the causality issue, gross immigration was instrumented in two ways – the stock of resident foreigners at the beginning of the time series (1981) and total gross immigration in the period 1987-1991. The results were similar in both cases (and with other alternative specifications).

3. Key trends

History

- 3.1 Britain is a country of immigration and of emigration. The myth of a genetically and culturally homogeneous “white” population, to which was added a Jewish element in the late 19th and early 20th century, and a non-white element after World War II, is worse than just an oversimplification: it is positively misleading. Britain has always been relatively open, and the **British population is now, as it always has been, the result of successive influxes of immigrants and the racial and cultural intermixture of those immigrants with those who were already there.**
- 3.2 It is also reasonably clear, if difficult to quantify, that Britain has benefited considerably, in both economic and cultural terms, as a result. In retrospect, those benefits are widely accepted. Few would dispute that the Huguenots and the Jews have made major contributions to the British economy and society. And there is by now a welcome degree of consensus that Britain has benefited from the postwar immigration from the New Commonwealth¹⁰.
- 3.3 The overall record is good, reflecting well both on Britain and on those who came here. However, it is important not to look at the past exclusively through rose-tinted spectacles. We may pride ourselves in retrospect on our hospitality towards Jewish refugees, at the turn of the century and during the Nazi era; in fact, the actual record was mixed at best – and positively shameful in some respects. Similarly, blatantly racist attitudes towards immigrants from the New Commonwealth came not just from extremists or those on low incomes, but from politicians and policy-makers at the highest level.

Immigration to the UK after WWII

- 3.4 The other key point that emerges from more recent history is that the conventional picture of post-war migration is, at best, an over-simplification. The standard account focuses on immigrants from the “New Commonwealth” (i.e., non-whites), with immigration seen as a succession of “waves”: first Caribbean, then Indians, then Bangladeshis (and perhaps now asylum-seekers). While at first migrants were welcomed as a valuable source of labour, racial tension led to successively tighter restrictions on immigration; by 1971 primary immigration from the New Commonwealth had largely come to an end. Many argued that immigration policy had (implicitly) been “settled” on the following lines:
- no more primary non-white immigration, but some family reunion
 - no major changes to or much public discussion of the immigration system;
 - no repatriation of immigrants or their descendants; and
 - (to some extent) the promotion of equal opportunity and anti-racism so as to facilitate the integration of non-white immigrants (and their descendants).
- 3.5 There is some truth to this, but it presents a very partial and incomplete description. Immigration was primarily a market-driven response to supply and

¹⁰ The Old Commonwealth (OC) comprises Australia, Canada and New Zealand; the New Commonwealth (NC) comprises all the other countries of the Commonwealth.

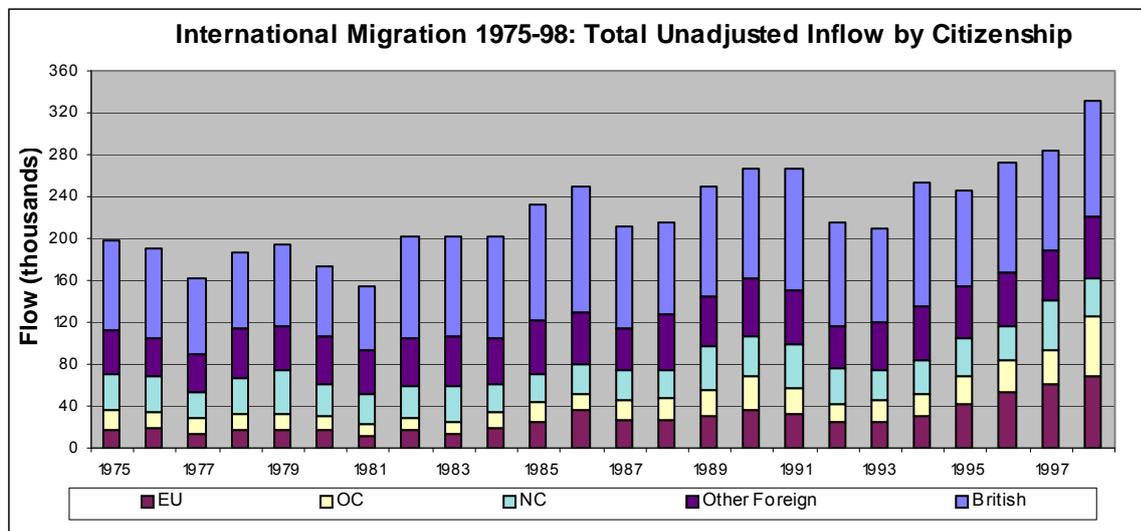
demand, rather than a policy-driven one. Nor is the picture of mass primary, and one-way, immigration in the 1960s and 1970s, reduced to a trickle thereafter, really accurate; inflows did not fall that much after 1971, and throughout the period there was substantial return migration.

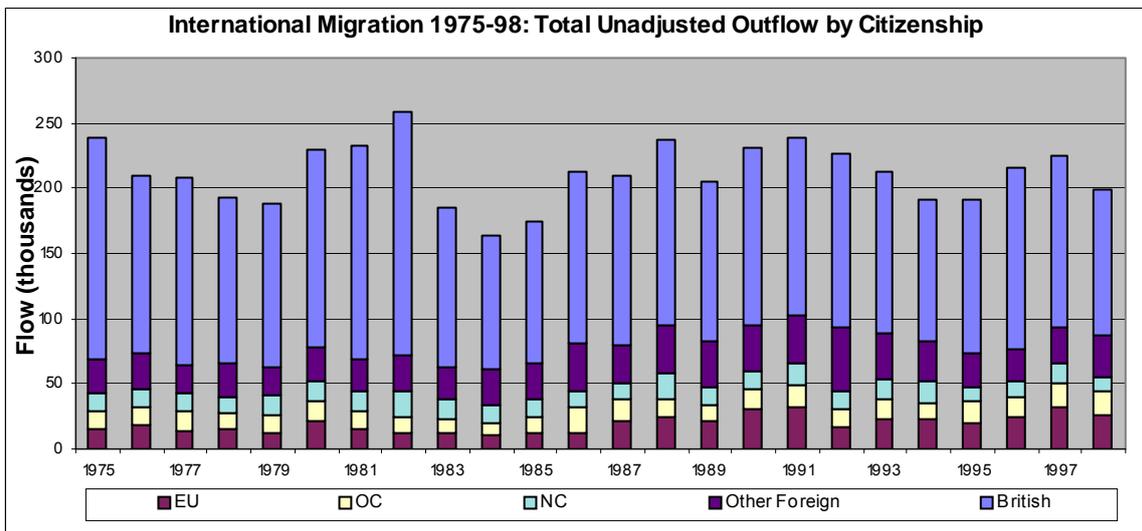
3.6 Finally, immigration from the New Commonwealth, while an important demographic and social phenomenon, is by no means the whole story:

- there was substantial net emigration throughout the 1950s, 1960s and 1970s;
- there was substantial, two-way, Irish migration;
- there has always been significant, largely uncontroversial, labour-related migration via the work permit and other systems; and
- the UK has gradually become part of a European labour market.

3.7 In each case, migration has to varying extents been both temporary and permanent. For example, the substantial inflows of UK citizens each year reflect at least in part previous emigrants returning. Likewise, net immigration to the UK from Ireland has, more recently, turned to net emigration as return migration has increased.

3.8 These two charts use data from the International Passenger Survey (IPS). This samples all passengers entering or leaving UK airports, ports, etc – both visitors and migrants. The definition of a migrant for these purposes is someone who intends to stay for at least a year either in the UK (for inflows) or in the destination country (for outflows).



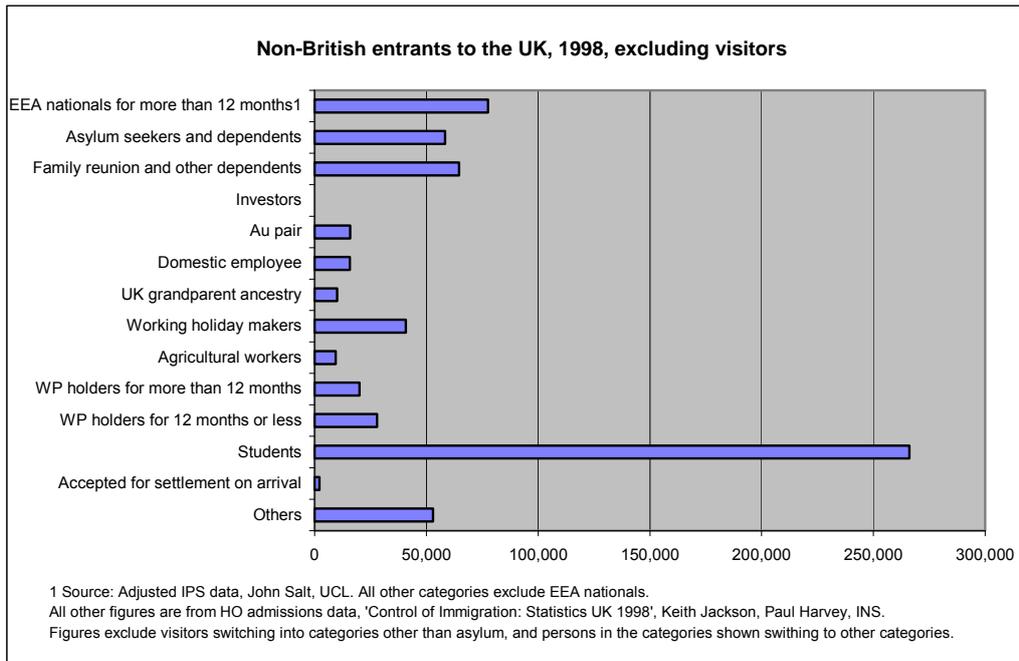


Recent trends

3.9 The conventional picture was never really the whole truth. But it is conspicuously inadequate to describe current trends. Net migration to the UK has risen sharply over the last few years. This seems to reflect the following factors:

- **Economic globalisation**, the most important example of which is the success and growth of the City of London. To refresh its intellectual capital, the City requires a continual infusion of new talent, as well as interchange with other such centres like New York. Globalisation also reduces transport and transaction costs, making it easier for people to move back and forth; and it improves and increases information flows, making people more aware of opportunities in other countries.
- Related to this, increasing **economic integration**, and in particular labour mobility, within the EU.
- More problematically, globalisation has also seen **increased instability** in a number of countries (both in Central and Eastern Europe and Africa). And the fall in transaction costs, as well as having the obvious effect of making transport cheaper, enables the establishment of social and logistical networks that in turn allow people to come here, legally or otherwise.
- Britain's current **relatively strong labour market** (compared to most other EU countries).

3.10 The rise has been in all categories, across the board, not just in asylum-seekers or work permit holders. Econometric analysis (see below) shows that it has been closely correlated with economic developments, both short-term (the UK labour market) and long-term (the growth in trade and capital flows).



3.11 The chart takes the inflow of people other than UK citizens, from the IPS data as in the previous chart and analyses this by category of entry – adding in the short term categories, those intending to stay for less than a year (but excluding tourists and visitors). Some interesting conclusions flow from this:

- Asylum and illegal entrants and overstayers (and, to some extent, even family reunion migration) are driven by economic forces as well as political ones. Research shows that asylum flows are driven primarily by accessibility, and by political factors, cultural, family and personal ties, and perceived economic opportunity; with no evidence that availability of benefits or social services influenced asylum decisions.¹¹ Illegal or irregular entry – difficult to measure, but probably increasing, and closely related to asylum – is also obviously an economic phenomenon;
- It makes little sense to view different categories that people fall into for immigration control purposes as conceptually entirely distinct. People move in response to economic and other incentives, and they will switch between different migration categories in response to those same incentives;
- As a consequence of the above, it would be very difficult for the government to constrain entirely the growth in migration. Policy can force migrants to shift from one category to another: for example, restricting economic/work related categories will induce some migrants to try to enter by the asylum route; restricting the right or opportunity to claim asylum may in turn induce some to attempt to enter illegally. But trying to reduce or eliminate migration through immigration **control** policy alone is likely to be very difficult;

¹¹ See European Commission report, “Asylum migration to the EU: patterns of origin and destination”, Anita Böcker and Tetty Havinga (1997).

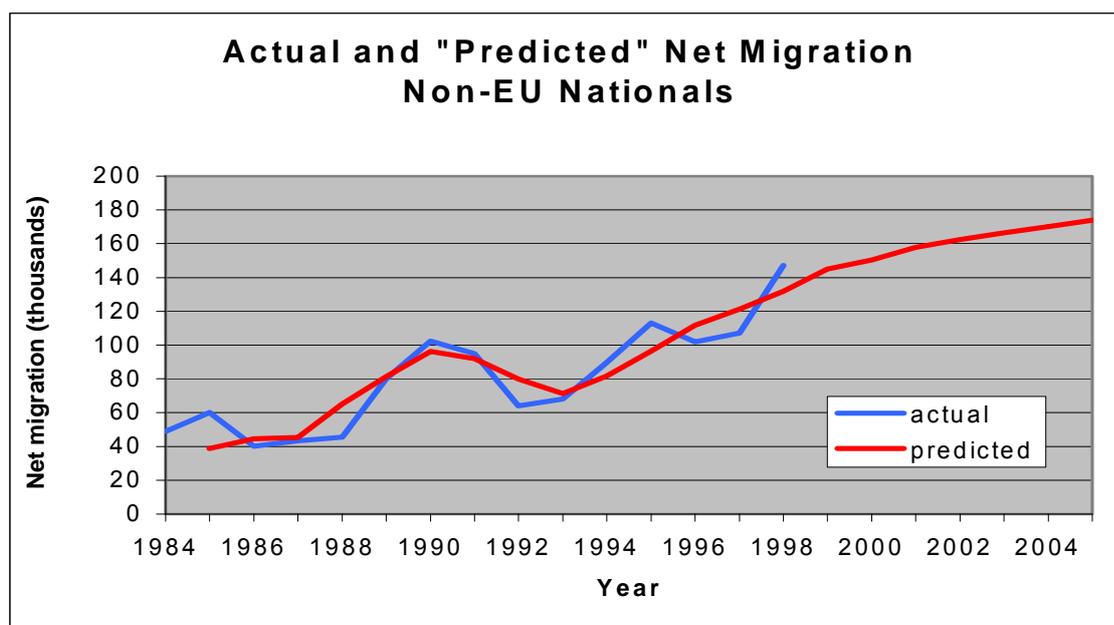
- And most importantly, it would clearly be counterproductive. As discussed in more detail in Chapter 6, migration is essential to growth in some areas. Certain regions and sectors are highly dependent on migration, not just of work permit holders, but also of “working holidaymakers” and probably to some extent also of illegal entrants and overstayers.

EU aspects

- 3.12 Not surprisingly – given the integrated nature of the European economy - the picture for the rest of Europe is not dissimilar. Historically, the origin and flows of migration to other European countries have depended – in addition to policy constraints, of course – on the countries’ relationships with former colonies, recruitment for outside labour during shortages in the post-war era, and proximity to war-torn areas. The once-poor European countries (Ireland, Italy, Greece, Portugal, and Spain) were traditionally countries of emigration, while the former imperial nations to the north (Belgium, France, Germany, Netherlands, UK) received a large influx of migrants after World War II.
- 3.13 But now all countries in Europe have positive net migration, although the patterns of migration remain distinct with the sources of immigration differing by country. Scandinavian countries, Belgium, and Luxembourg have mostly European foreign migrants. France’s migrants have traditionally been from North Africa since the late 1950s and early 60s and this remains true today (64% of today’s immigrants are from outside the EU.) Portugal, which only recently began to feel the impact of immigration (due to its large emigrant population), has attracted many Cape Verdeans and Brazilians. Germany experienced the largest increase in absolute terms, due to waves of immigration from Central and Eastern Europe before German reunification. But despite these differences, EU countries have been increasingly affected by common factors, such as the Bosnian and Kosovan conflicts, and the recent rise in asylum seekers. With relatively restrictive attitudes towards legal economic migration, family reunification has increased in many countries as a legal means of entry.

Future prospects

- 3.14 If the correlation described above continues, net migration to the UK (and to Europe) appears likely to continue at a historically high level in the short to medium term.



3.15 The graph shows actual net migration (of non-UK, non-EU nationals) and a simple regression-based prediction¹², using the IPS data as before. As can be seen, the regression performs rather well in predicting fluctuations in net migration. On this basis, the short to medium term trend would appear to be clear.

3.16 Of the factors driving this trend, only the relative labour market position of the UK (being in part cyclical) is likely to reverse, as continental European economies grow more strongly. While there may be some decline from the unusually high net migration levels of the last few years, the long-term secular trend is likely to be increasing for at least the medium term. Moreover, we know that higher migration flows are likely to be persistent¹³: both because migrants acquire legal rights around family reunion, and because of chain migration effects¹⁴.

3.17 Over the longer term – say 5-20 years – migration pressures seem if anything likely to grow:

- The decline in transaction costs driving globalisation will continue. In other contexts it has been argued that this could reduce the importance of location, and hence the incentive to move. However, this effect seems in practice to be outweighed by the – often intangible – economies of scale that only physical co-location can provide. Hence, rather than the predicted growth of teleworking, globalisation has actually led to the growth of industry clusters – the City and Silicon Valley.¹⁵

¹² Dependent variables are the level of UK unemployment (ILO basis) and net migration lagged one year. For the “prediction”, we assume unemployment is stable. Note that this is not a forecast; it is simply a method of extrapolating current trends.

¹³ That is, the relatively high current levels of migration will in turn lead to higher levels of migration in the future than would otherwise have occurred.

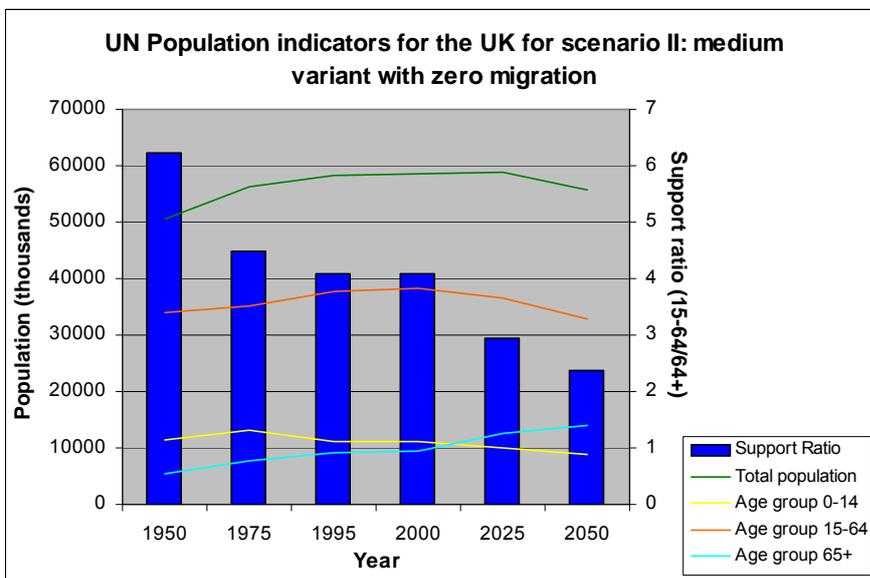
¹⁴ For example, through the spread of information about how to get to a particular destination country, the entry requirements and on how to find accommodation and work; and through the creation of a network of contacts and support in the destination country.

¹⁵ These trends are discussed in more detail in the Strategic Challenges project paper, “The future and how to think about it”,

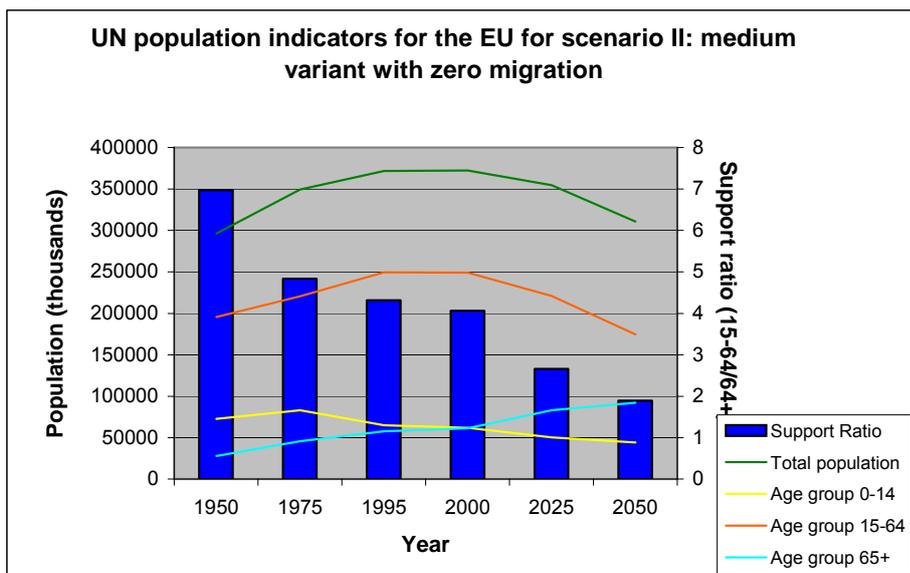
http://www.cabinet-office.gov.uk/innovation/2000/Strategic/strategic_mainpage.htm

- Refugees generated by conflict have impacted on UK immigration policy numerous times in recent years (e.g. Uganda, Sri Lanka, Somalia, Afghanistan and Kosovo). While geopolitics is more difficult even than economics to forecast, there are strong reasons to believe that the frequency of such conflicts is likely to increase.

3.18 Another force that is likely to have powerful effects over the longer term is the aging of the UK and European populations (the following charts show UN census-based population projections). All European countries have fertility rates below replacement levels. With no net migration, the population aged 16-64 in the UK would fall by about 2 million in the next 25 years, while the population over 65 would rise by more than 3 million. This would result in the ratio of people aged 16-64 relative to those aged over 65 (the “support ratio”) falling from more than 4 to less than 3. This is likely to have significant implications for the financing, provision and staffing of health, social service and pension systems.



Source: United Nations Report, ‘Replacement Migration: Is it a solution to Declining and Ageing Populations?’, March 2000, table IV.18.



Source: United Nations Report, ‘Replacement Migration: Is it a solution to Declining and Ageing Populations?’, March 2000, table IV.22.

3.19 As an illustration, these projections suggest that maintaining a constant number of people aged 16-64 in the UK would require net migration of about 120,000 a year. And maintaining the support ratio at its current level would require net migration of nearly a million a year.

3.20 That certainly does not mean that the UK economy “needs” net migration of a million people a year. The interaction of demographic change, macroeconomic forces and migration is a complex one. In particular, the projections described above do not take account of the considerable potential (especially among those aged over 50) for increased participation rates among the working age population.¹⁶ But one way or another, the aging of the population will have to be addressed: presumably by some combination of these changes in labour market activity, increases in the fertility rate, net migration, changes to the provision and financing of public services, and increases in productivity (including through increasing the skills of the labour force at large).

3.21 There is no “right” level of net migration to address demographic change, and migration is only one (and unlikely the most important) of a number of measures likely to be used to address this problem. But three conclusions can tentatively be drawn from these trends:

- They will increase the economic incentives to migration, simply because, in the absence of migration, there is likely to be strong upward pressure on wages (and downward pressure on unemployment); and as we have seen, a tight labour market will draw people in.
- They will increase the economic costs of restricting migration, because in the absence of migration labour market shortages – both general and sector-specific – are likely to emerge, putting pressure on inflation and reducing growth. As noted above, the empirical economic evidence suggests that allowing the dependency ratio to rise would reduce (per capita) growth.¹⁷
- Given the scale of these trends, some migration is likely to be a desirable complement to, rather than a substitute or an alternative for, other policy measures designed to address these issues.

¹⁶ There is considerable scope for this, even in the absence of changes to the formal retirement age: for example, see the PIU report, “Winning the Generation Game”, May 2000.

¹⁷ Policy Influences on Economic Growth in the OECD Countries, OECD Economics Department Working Paper 246, June 2000, Sanghoon Ahn and Phillip Hemmings.

4. Objectives of Current Policy

- 4.1 The preceding two chapters attempted to establish, primarily from an economic viewpoint, why migration is significant, and what the key exogenous trends are. In the next two chapters we examine policy: what are its objectives and the shape of the current framework.
- 4.2 It is important to integrate policies on migration with other Government policies, in particular on the labour market and on social exclusion, as well as wider economic and social policies. Migration is not an alternative to a well-functioning labour market, and policies on migration need to complement those on skills and the labour market more generally. Box 4.1 sets out the Government's high level objectives, and key departmental objectives that can influence and are influenced by migration.

Box 4.1: High level Government objectives

The government's overall objectives are:

- To increase sustainable growth (per capita) and employment
- To promote fairness and opportunity
- To deliver modern and efficient public services

Relevant departmental aims:

DTI: to increase competitiveness and scientific excellence in order to generate higher levels of sustainable growth and productivity in a modern economy

DFEE: to give everyone a chance, through education, training and work, to realise their full potential and thus build an inclusive and fair society and a competitive economy

HO: to build a safe, just and tolerant society, in which the rights and responsibilities of individuals, families and communities are properly balanced, and the protection and security of the public is maintained

DCMS: to improve the quality of life for all through sporting and cultural activities, and to strengthen the creative industries

HMT: to raise the rate of sustainable growth, and to achieve rising prosperity, through creating economic and employment opportunities for all

DSS: to encourage work for those who can and security for those who cannot, the modern social security system will provide clear and enforceable gateways to enable people to meet their responsibilities and take the opportunities available to them

FCO: to promote internationally the interests of the United Kingdom and contribute to a strong world community

DFID: to eliminate poverty in poorer countries.

4.3 We will discuss below the interrelation between the current immigration control system, and other migration-related policies, and economic growth and social stability. But first it is worth considering the extent to which current migration policy is consistent with the Government's overall objectives. The Home Office's principal migration related aim, and associated targets, are shown in Box 4.2.

BOX 4.2: Home Office Aims and Objectives

Home Office Aim 6:

Regulation of entry to and settlement in the United Kingdom in the interests of social stability and economic growth; the facilitation of travel by United Kingdom citizens; the support of destitute asylum seekers during consideration of their claims; and the integration of those accepted as refugees.

IND Key objectives:

Controlling admissions

To control immigration into the UK by identifying and denying admission entering or attempting to enter in breach of Immigration Rules and removing them where applicable, while inconveniencing as little as possible those entitled or qualified to enter.

Asylum and after-entry casework

To determine claims for asylum and other in-country applications from foreign nationals wishing to vary the conditions attached to their stay in the UK.

Determining citizenship

To determine applications for British citizenship

Enforcing immigration law

To remove from the UK those here in breach of the Immigration Rules and to target those seeking to profit from abuse of the immigration laws.

Providing asylum support

To provide support, while their applications are being determined, to asylum seekers who would otherwise be destitute.

IND targets, under their Public Service Agreement, are process targets, and relate solely to asylum seekers:

- *Ensure that by 2004, 75% of substantive asylum applications are decided within two months*
- *Enforce the immigration laws more effectively by removing a greater proportion of failed asylum seekers*

4.4 For comparison, Box 4.3 shows the aims and objectives of Citizenship and Immigration Canada.

BOX 4.3: Mission of Citizenship and Immigration Canada

CIC's mission is to build a stronger Canada by:

- deriving maximum benefit from the global movement of people
- protecting refugees at home and abroad;
- defining membership in Canadian society; and
- managing access to Canada

The current Immigration Act has rather more specific and measurable objectives:

Economic Integration:

- To support the development of a strong and prosperous Canadian economy, in which the benefits of immigration are shared across all regions of Canada
- To see that immigrant and refugee families are reunited (including children up to 21 years old) to support their self-sufficiency and social and economic well-being

Social Integration:

- To promote the successful integration of permanent residents into Canada, while recognising that integration involves mutual obligations for new immigrants and Canadian society;

Asylum Provision:

- To offer safe haven to persons with a well-founded fear of persecution based on race, religion, nationality, political opinion or membership in a particular social group, as well as those at risk of torture or cruel and unusual treatment or punishment;
- To grant, as a fundamental expression of Canada's humanitarian ideals, fair consideration to those who come to Canada claiming persecution;

Crime Reduction:

- To promote international justice and security by denying access to Canadian territory to foreign nationals, including refugee claimants, who are criminals or security risks.

4.5 Taking these together, what can we conclude about the contribution of migration policy? First, it is clear that migration policy has both social and economic impacts, and should be designed to contribute to the government's overall objectives on both counts. The current position is a considerable advance on the previously existing situation, when the aim of immigration policy was, or appeared to be, to reduce primary immigration to the "irreducible minimum" - an objective with no economic or social justification.

4.6 However, the current aim may not sufficiently reflect other aspects of the government's objectives:

- “Social stability”, while clearly desirable, is neither a high level government objective, nor the aim of any individual department. Rather, the government aims to help create a fair, tolerant and inclusive society, with opportunity for all. Such a society is indeed likely to be stable: but also to be dynamic. Moreover, running throughout the above high level objectives are the themes of social inclusion and of rights and responsibilities; these are clearly relevant to migrants, but are not captured in the aim.
 - The current phrasing might be taken to imply that there is a trade-off between economic growth and social stability, with more of one implying less of another. In fact, the analysis reported below of the economic and social outcomes of migration suggests that the two go hand in hand: an economically beneficial migration policy will also have positive social impact, and vice versa.
 - Aim 6 relates primarily to entry control, rather than to post-entry policies (except in the case of asylum seekers): yet the latter are at least as important in determining migrants’ contribution – positive or negative – to society. Migrant settlement is a two-way process, depending both on the willingness and ability of the migrant to adapt and integrate, *and* on the extent to which the host society provides access to economic, social and political life. Significantly, neither the debate on social exclusion, nor the indexes used to measure it, have hitherto embraced migrants as a category to be considered¹⁸.
 - The Home Office has a separate commitment to promote race equality, particularly in the provision of public services such as education, health, law and order, housing and local government. This is a specific PSA objective under Home Office Aim 5 (Helping to build, under a modernised constitution, a fair and prosperous society, in which everyone has a stake, and in which the rights and responsibilities of individuals, families and communities are properly balanced). The focus of this objective is on the minority ethnic population (which encompasses around half of the migrant population), but, like the social exclusion debate, has not so far explicitly recognised migrants as a separate group, facing specific problems.
 - While the Home Office has responsibility for immigration control policy, migration has a wide range of impacts with relevance across government, not only to the Home Office. Most notably, DFEE, via the Overseas Labour Service, is responsible for the primary channel of economic migration, the work permit system. But DFEE has no economic targets or objectives for OLS. DfEE also has responsibility for increasing the number of overseas students; but it is Home Office Rules which regulate their entry.
 - Related to this, it is difficult to measure and operationalise the current Aim 6. This is demonstrated by the Home Office targets, which relate only to asylum seekers, and bear little direct relation to the Aim. In particular, they have no economic content at all.
- 4.7 This suggests, not that Aim 6 be discarded, or that the twin themes of economic growth and positive social impact be changed, but that it be developed over time, and made more operational, to reflect better the overall objectives of the government, and the role of other Departments.
- 4.8 One possibility for future consideration might be a cross-cutting PSA reflecting the broader objectives of the range of departments with an interest in migration, in particular, as well as the Home Office, the DfEE, the DTI, DSS and the FCO.

¹⁸ Opportunity for all, Tackling poverty and social exclusion, First annual report, Cm4445, 1999

Such a PSA would reflect the Government's overall objectives and the contribution that migration policy might make. This approach has worked well in other policy areas.

Box 4.4: Possible PSA for Migration Policy

Aim: to promote sustainable growth and a stable, secure and tolerant society

Objectives might be:

- to regulate admission and settlement to the UK in the interests of sustainable growth and social inclusion
- to enable and encourage migrants to the UK to make the greatest possible contribution to sustainable growth and competitiveness
- to ensure migrants fulfil their responsibilities and are fairly treated
- to promote the contribution of migrants to social inclusion

4.9 This is intended primarily as an illustrative example as what a more developed, cross-cutting set of objectives might look like. We will therefore not discuss in detail the quantifiable targets or performance indicators that might be associated with the objectives. However, Chapter 6 – which looks at the social and economic outcomes of migrants – should be read with this illustrative list in mind.¹⁹

¹⁹ The range of indicators used to measure social exclusion include education, training and qualifications, housing, health, children in care, reliance on benefits, teenage pregnancies, employment and incomes, rough sleepers, drug use, life expectancy and fear of crime. Some of these are discussed below. However, neither the debate on social exclusion, nor the indexes, have embraced immigrants and refugees as categories to be considered.

5. Current immigration system

5.1 Migration policy is a continuum, running from entry controls, to settlement, to integration. Thus, this section examines not only entry control and settlement policy, but also reviews other policies that impact on the post-entry integration of migrants into UK economy and society.

The current system of control over entry and settlement

5.2 Immigration control is the responsibility of the Immigration and Nationality Department (IND) of the Home Office; the work permit system is administered by the Overseas Labour Service of DFEE. DfEE is also responsible for policy (but not the entry) of overseas students. Entry clearance is administered by the Home Office/FCO Joint Entry Clearance Unit.

5.3 At present, migrants (by which, in this context, we mean people who are coming for longer than a short visit) may gain entry to the UK through the following channels:

- the work permit system;
- a number of smaller work-related categories (including the working holidaymaker scheme, business visitors, etc);
- as students;
- the ‘asylum’ system; and
- the ‘family settlement’ system.

5.4 Of course, not all these migrants either wish to or are entitled to settle permanently in the UK. As set out earlier, some remain for only a few months; others for years; and some settle permanently. Others may arrive initially as visitors, and subsequently decide to stay longer, either legally or otherwise. In addition, nationals of EEA member states – as well as, of course, British citizens living abroad – have effectively unrestricted rights to settle in the UK.²⁰ It should not be forgotten that more than 80 million people entered the UK in 1998, primarily as visitors and tourists, perhaps double the figure of a decade ago. Of these, perhaps 0.5 per cent were migrants.

Work permits

5.5 The work permit system aims to strike a balance between enabling employers to recruit or transfer skilled people from non-EEA member states and protecting job opportunities for resident workers. Principal features include the following:

- employers apply for permits which are granted if the criteria are met: there are no limits or quotas on the number of permits issued;
- the criteria are based around jobs requiring high level skills or, in certain known specialist areas (‘Keyworkers’), intermediate skills;

²⁰ The right is not completely unqualified: EEA nationals are supposed to have sufficient funds to support themselves without recourse to public funds.

- the employer needs to show there is no suitable EEA worker. But this is waived in many circumstances, including known shortage areas, intra-company transfers, board level posts and posts associated with inward investment;
 - the immigration authorities generally accept a work permit as evidence for a decision to admit an overseas national to the UK;
 - there is relatively little post-entry control on the type of work that work permit holders actually do, or on switching between jobs (especially within the same company).
- 5.6 In 1999 there were about 80,000 work permit applications – of which 88% were approved – and applications have been rising at about 10-15% per year. After 4 years, work permit holders may apply for settlement (except for Keyworkers). In practice a relatively small proportion appear to settle permanently in the UK. For example in 1998, 3,160 work permit holders settled in the UK (although we do not know how many settled via other routes – for example by marrying a UK citizen).
- 5.7 The dependants of work permit holders are entitled to remain in the UK during the period for which the permit is valid, providing they can be supported without recourse to public funds.²¹ They have full entitlement to work (if their spouse's work permit is for more than a year), even if the job that they then fill would not meet the work permit criteria. In 1998 20,200 dependants entered with work permit holders. **The work permit system is discussed in more detail in Box 7.2 in Chapter 7.**

Other labour-related categories

5.8 Other entrants coming here for broadly economic reasons include the following:

- Working Holidaymakers. This category is open to individuals aged 17-27 from all Commonwealth countries. Though, in practice, the vast majority of applicants are from the Old Commonwealth. They are allowed to stay for up to 2 years, and are permitted to work in non-professional jobs. Originally intended as a way for young people taking a “trip around the world” to support themselves by working in bars and restaurants, there is anecdotal evidence that many people on this scheme are actually working in London schools, NHS hospitals and the City. There is relatively little post-entry control of this group.
- The Seasonal Agricultural Workers scheme. This allows a relatively small number of workers (the current quota is 10,000) to enter for a period of up to 3 months. This category too was originally intended primarily to promote cultural interchange for young people from Eastern Europe, but now is primarily driven by the economic requirements of agriculture.
- Commonwealth citizens with a UK-born grandparent taking or seeking employment (about 2,000 were granted settlement in 1999).

Innovators and entrepreneurs

5.9 There are a number of business related categories, including those establishing a new company; investing significant amounts; and nationals of countries with Europe/Association Agreements with the EU. Relatively few (a few hundred) people enter each year under these schemes.

²¹ The non-recourse to public fund provision does not preclude access to emergency medical care.

5.10 TO BE ADDED [para on new “innovators” category aims to increase this number, and new entrepreneurs scheme...]

Students

5.11 Students with a university place or studying in a recognised private institution are given leave to enter, although they can be denied entry if it is thought they intend to remain in the UK after completing their course. (12% of applications are refused, rising to 20-25% from parts of Asia and Africa). Nevertheless, after completion they can remain on the Training and Work Experience Scheme (TWES) and subsequently apply for a work permit.²² 266,000 students were given leave to enter in 1998.

5.12 Research established that immigration and work restrictions were affecting the UK’s ability to attract students. The Prime Minister therefore launched a three year strategy in June last year. The objective is to attract an additional 75,000 HE and FE students to the UK, to increase the UK’s share of the English speaking HE market from 17% to 25%, and to double the number of FE students. This would increase UK exports by about £700m. The strategy includes:

- £5m marketing campaign with a new ‘brand’ for UK education
- Sponsored Education Fairs and Exhibitions
- Ministerial promotion on overseas trips
- Streamlined immigration procedures to facilitate entry and extensions
- Relaxing rules for students and their spouses to work during and after study
- Increased number of government scholarships. £26m was spent on Chevening Scholarships, supporting 3,250 students, in 1997/8; with further investment in complementary schemes.

5.13 The initial result was an 18% increase in applications for visas to study in the UK in 1999, increasing academic fee income by at least £100m. 73% of UK higher education institutions now have an international recruitment strategy. Post-graduate students are considered particularly important. DTI and British Council provide financial and practical support in recruiting abroad.

Asylum

5.14 The asylum system for refugees operates in accordance with the UK’s obligation under the 1951 UN Convention Relating to the Status of Refugees and its 1967 Protocol Convention: granting refuge in the UK on humanitarian grounds, to those “with a well-founded fear of persecution”. However, large-scale migration to the UK of asylum seekers under the Convention is a relatively new phenomenon; the number rose from 4,000 in 1988 to 71,000 in 1999. There is a wide spread of source countries; the largest include Sri Lanka, Somalia, Turkey, former Yugoslavia, and China.

5.15 The proportion of those seeking asylum either recognised as refugees or granted leave to enter varies significantly according to the mix of applicants: from 80% during the Kosovo crisis, to 15% in February of this year, to 40% in May. Of those

²² Access to TWES and other parts of the work permit system is currently being streamlined; for example, it will be possible for an ex-student to apply for a work permit from within the country.

refused asylum only a small proportion are removed from the UK each year, although current policy is directed at increasing that proportion substantially. It is unclear how many of those who are not removed leave the UK voluntarily, and how many remain (illegally or via another category, for example marriage).²³

5.16 Research indicates that the principal motivations for asylum seekers to come to individual EU countries, including the UK, are the following:

- accessibility, whether there are legal (or illegal) transport routes from their home country to the EU or UK;
- historical or colonial connections;
- the existence of an established community;
- perceived economic opportunity;
- the perceived relative flexibility, or otherwise, of the asylum determination system.²⁴

5.17 By contrast, there is little evidence that the generosity (real or perceived) of the benefit system, or of social service provision in general, plays much of a role, if any, in asylum seekers' decisions.

Family settlement system

5.18 People who are settled in the UK have a right to bring their dependent children and spouses to the UK, subject to various qualifying criteria (non-recourse to public funds, intention to live together, etc.). Waiting times, especially for applicants in the Indian sub-continent, can be very long: up to a year simply for a first interview. Under certain circumstances, parents, grandparents and other relatives can also join UK residents. In 1999, about 65,000 family members settled in the UK. Of these, about 25,000 were the wives of primary settlers, 15,000 husbands, 20,000 children and 4,000 parents, grandparents and other dependants. This represented an increase of about 20% on 1998, which in turn was 15% up on 1997.²⁵

Illegal migration

5.19 In 1998, 16,500 illegal entrants were detected, of whom 5,600 were removed from the UK. (Around 40% were from Europe, 30% from the Indian subcontinent; 15% from Africa.) A further 4,600 people who had breached their conditions of stay (mainly overstayers, or working without leave) were detected. The number of illegal entrants detected has been on an upward trend, sharply so since 1993. We do not know to what extent this reflects an increase in the number of illegal entrants actually resident or entering, or just better detection. However, all other categories of migration were rising in this period, especially those directly related to economic incentives, and the upward trend in detections has been consistent (rather than simply reflecting the step change in enforcement that took place in about 1995), so it seems likely that illegal migration was also increasing. Of those detected, the greatest growth has been in those from Europe, reflecting increases in irregular migration from Eastern Europe.

²³ These statistics are from the Government Statistical Service publication: 'Control of Immigration Statistics, United Kingdom, 1998'.

²⁴ Böcker and Havinga (1997).

²⁵ In part, but by no means entirely, this increase reflected the delayed effect of the abolition of the "primary purpose rule" (delayed since settlement is granted one year after entry), and so represents the one-time clearing of a backlog of potential applications.

Policies which impact on integration

5.20 Virtually all areas of government domestic economic and social policy affect migrants. There are a whole range of measures aimed at tackling social exclusion, for example, which are aimed at improving the position of all disadvantaged groups in society – including people who were born in the UK, migrants who settled in this country many years ago, as well as new migrants. These include measures to help people back into employment (such as the New Deal and Employment Action Zones), to reduce crime (through the Crime Reduction and anti-drugs Strategies), to tackle racism, and measures to improve educational and health outcomes (measures to modernise the NHS and tackle health inequalities for example)²⁶. Migrants who fall into “socially excluded” groups will benefit from these measures alongside the existing population. In this section, we highlight the key policies which explicitly affect migrants; how these policies impact on the economic and social outcomes of migrants is discussed in the following section.

Access to employment

5.21 For migrants entering with work permits, or in one of the many other work related categories, such as au pairs, employment at some level is either required or permitted. Many overseas students are now also permitted to work, as are those entering as spouses. Rules preclude access to most jobs in the civil service, with some exceptions for Commonwealth and EU citizens.²⁷

5.22 The principal group officially excluded from employment is those waiting for a decision on refugee status. After 6 months, asylum seekers may apply for permission to work but the uncertainty of their status, and the number of months or years that they may be available to work, makes access to employment problematic. Those denied refugee status, but granted leave to remain, are entitled to work.

5.23 There is currently no targeted provision in New Deal for refugees or those arriving under family categories. Documentation setting out entitlement to work and services is not provided to migrants. Nor is induction to the UK labour market. Some international qualifications are recognised (e.g. medicine from South African universities) facilitating access; others are not (e.g. medicine from US universities).

Access to housing, health, education and benefits

5.24 Access to health, housing and welfare services is determined by immigration status. Those subject to immigration restrictions, whether spouses with accompanying children during their first 12 months, those on work permits or au pairs, are not entitled to any welfare benefits or social housing. [Entry to the UK is, for family members, dependent on evidence that they can be supported without recourse to public funds]. For grandparents, the restrictions on access to benefits

²⁶ The Social Exclusion Unit recently published its proposals for a “National Strategy for Neighbourhood Renewal : a framework for consultation” to integrate existing policies and develop new approaches to tackle the problems of deprived neighbourhoods.

²⁷ This leads to some striking anomalies. For example, the non-EU national spouse of a British citizen generally cannot work as a civil servant in the UK. However, the non-EU national spouse of a French citizen may.

and social housing remain for 5 years. Entitlements vary as the individual's status changes during a determination process. All migrants are entitled to emergency health care. Those remaining more than one year may use the NHS. Dependent children may attend state schools. Those 'settled' in the UK can obtain grants for higher education and pay home fees.

- 5.25 Support for newly arriving asylum seekers with no means of support is the responsibility of the Home Office National Asylum Support Service (NASS). Arrangements for dispersing them to designated areas across the country began in April 2000. The object of the support system, which minimises cash payments and provides only a basic level of support (70% of income support), is to reduce the perceived incentive for economic migrants to seek asylum in the UK.²⁸ NASS is also intended to provide national coordination of services and relieve local authorities of a sometimes difficult responsibility.
- 5.26 Under the new dispersal arrangements, asylum seekers who receive a final decision will have to move out of their accommodation within 14 days. Those eligible will receive advice on access to housing and benefits. A Home Office consultation paper has proposed a one-stop-shop advice service for those granted permission to stay.

English language training

- 5.27 Migrants to the UK are not required to learn English and no targeted assistance is currently given to adults, with the exception of some of the dispersed asylum seekers for whom local education authorities make provision. Since the 1960s, resources have been given to schools to provide language tuition, initially to the children of Commonwealth immigrants, more recently to children lacking English as a first language. Local authorities have to provide matching funding. Provision is uneven and HM Inspectorate of Schools have expressed concern about the skill levels of the teachers involved. The DfEE has earmarked an additional £1.5m to support asylum-seeking pupils in dispersal areas in 2000-01.

Family reunion

- 5.28 Spouses of an existing resident, and children accompanying a spouse, may only enter to reunite the family if they can do so without recourse to public funds, and the family has suitable accommodation for them. The rule applies even if the spouse has the potential to enter the labour market and provide support for the family. Asylum seekers who receive leave to remain may not apply for family reunion until a further 4 years have passed, even if they are employed and can support them. Overseas students and work permit holders may bring their spouses and children.

Equality

- 5.29 Since the mid-60s, the UK has had progressively stronger legislation penalising employers and service providers who discriminate – directly or indirectly – against individuals on grounds of ethnic origin (but not religion, except in Northern Ireland). The legislation, when effective, benefits the significant minority of migrants who are not white (and indeed on some occasions, white migrants also). The legislation is currently being extended to cover all public services including

²⁸ See Home Office website: http://www.homeoffice.gov.uk/ind/asylum/asylum_home.html

the police, prisons and immigration service as part of number of inter-related government initiatives aimed at achieving race equality across the public sector. These measures include:

- The development of a race equality performance appraisal system, which was described in the document “Race equality in public services” published on 27 March 2000;
- The announcement in the Queen’s Speech (November 1999) of the Race Relations (Amendment) Bill which will extend the Race Relations Act 1976 to public functions not previously covered, such as law enforcement and immigration, and will put public authorities under a statutory duty to promote race equality, as set out in the Government’s Equality Statement of 30 November 1999;
- The plans, as set out in the Government’s response in July 1999 to the Better Regulation Task Force report, to harmonise, where practicable, the provisions of the Race Relations, Sex and Disability Discrimination Acts, and to align the equality commissions’ powers;
- The introduction of race equality employment targets as part of the Government’s “Modernising Government” white paper (March 1999);
- The introduction by the Home Secretary of a race equality grant scheme “Connecting Communities” to help make better links between minority ethnic communities and local service providers;
- The establishment of consultative fora across Government, such as the Home Secretary’s Race Relations Forum; and
- The development of policies to address the concerns about religious discrimination by the minority faith community in the light of the findings of the University of Derby research project, the full findings of which are expected to be published in the Autumn.

5.30 Legislation to protect minorities from racial harassment and violence has also been strengthened.

Civic and cultural involvement

5.31 UK multi-cultural policy recognises the value of cultural diversity and funding is given at national and local level to promote cultural activities. Groups can also attract funding for self-help activities. It was originally intended that young people coming for working holidays, on the seasonal worker scheme (and presumably as students) would foster cultural exchange and return with a positive perception of Britain. However, in relation to those on working visits there are no policies directed at ensuring that this happens in practice. Little is known about the extent to which longer term residents participate in civic society.

Citizenship (nationality) policy

5.32 The government believes that ‘encouraging citizenship will help to strengthen good race and community relations’ and that ‘one measure of the integration of immigrants into British society is the ease with which they can acquire citizenship’.²⁹ Immigrants and refugees without restrictions can apply for UK citizenship after 5 years residence. There is an application fee of £120-150. While few obstacles are put in their way, there is no policy to encourage applications, other than to try to reduce the waiting time for a decision to 12

²⁹ *Fairer, Faster and Firmer*, CM 4018.

months. There is no ceremony. The significance of citizenship status is primarily access to a British passport and the ability to pass the nationality down to their children. However, it also entitles individuals to vote in local, national and European elections, and provides greater access to employment in the civil service.

Access to voting and candidature

5.33 British Citizens can be candidates for and can vote in local and national elections, and those for the European Parliament. Citizens of Commonwealth countries can vote in local and national elections. European Union Citizens can vote in local elections and those for the European Parliament. Other immigrants and refugees cannot vote nor be candidates for election.

Legal flexibility to accommodate cultural / religious customs

5.34 The UK has been relatively flexible in allowing changes to the law that enable religious minorities to maintain and abide by their customs. This includes, permitting them to hold marriages and funerals in the manner required by their religion and, for example, allowing Sikhs to wear turbans instead of the otherwise compulsory crash helmet on motor bikes. Other groups do not benefit from this flexibility. It is not known what impact such rules have on migrants' attitudes to residence here.

6. The economic and social outcomes of migration

6.1 Having described the current policy framework, we now proceed to examine outcomes. The impacts of migration are broad and varied across the economic and social spheres - with significant overlap and interaction between the two. Analyses often seek to measure 'benefits' and 'costs'. But it would be a mistake to define either too narrowly, or to attribute either impact to the migrants alone.

6.2 This section examines the various aspects of migration to the UK, looking at the outcomes that result from current policies. Where possible, we provide comparisons about the characteristics and impacts of migrants in other European nations, with the recognition that social and economic systems differ throughout Europe. The principal findings are:

- **Migrants are very heterogeneous** – differing at least as much from each other as they do from the population at large, in many dimensions.
- **Migrants are reasonably successful in the labour market** – with higher average incomes than natives but lower activity rates. Education and English language fluency are key determinants of success and interact in complex ways.
- **Migrants are concentrated** in areas of relatively high unemployment; and are concentrated in areas where there is excess demand for labour: both geographically and in a number of sectors, at a variety of skill levels.
- **There is little evidence that native workers are harmed by migration.** There is considerable support for the view that migrants fill labour market gaps, hence improving productivity and reducing inflationary pressures. However, continued skill shortages in some areas, and substantial presence of irregular migrants in others, suggests that legal migration is, at present, insufficient to meet demand at either the low or high-skill ends of the labour market. Migrants' impacts on congestion and other externalities are difficult to estimate, but may be important.
- **Migration also has implications for the countries of origin.** The migration of skilled workers can have a negative impact on development and poverty reduction in poor countries, though the effects are complex and will vary by country, by sector and over time.
- **The broader fiscal impact of migration is likely to be positive,** reflecting primarily migrants' favourable age distribution.
- **Not enough is known about migrants' social outcomes.** That said, the lack of employment is a key cause of wider social exclusion, and we do know that migrants are not disproportionately involved in crime, nor do they disproportionately claim benefits (though once again there is considerable heterogeneity).
- The more general social impact of migration is very difficult to assess. Benefits include a widening of consumer choice and significant cultural contributions (e.g. in the arts, literature, science and sport); these in turn feed back into wider economic benefits.

6.3 In all of the following, there is much that we do not know: for the UK and for other countries. Migrants are a small part of many datasets and are difficult to identify with precision in these sources. The definition of what is a migrant differs across datasets. The International Passenger Survey (IPS) takes all those who intend to stay for more than a year, while we have used country of birth in the Labour Force

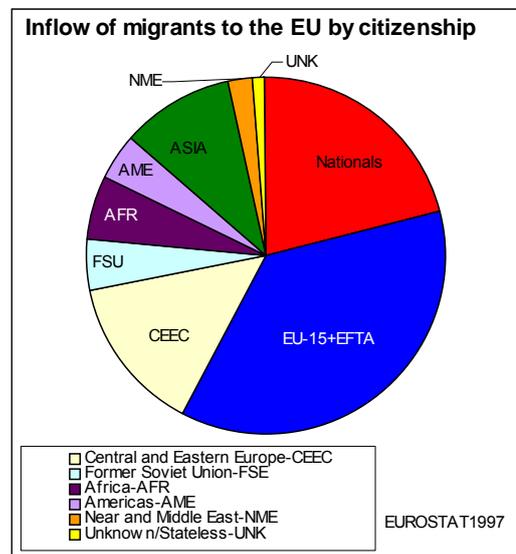
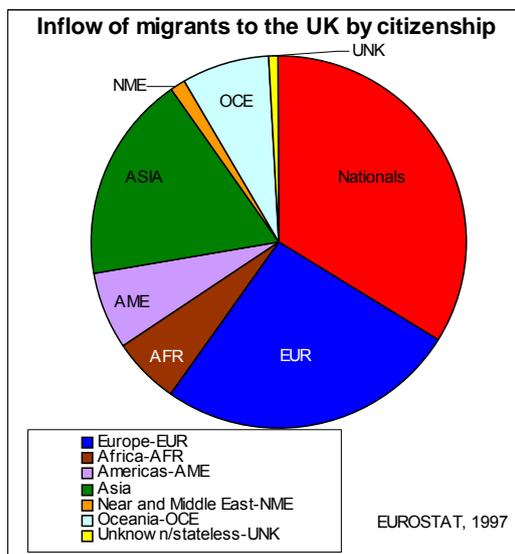
Survey (LFS), as using nationality would exclude migrants who have since settled in the UK. Migrants are not the same as ethnic minorities. The majority of migrants are white, and the majority of ethnic minorities are not (first generation) migrants, as they were born in the UK.

6.4 The data picks up primarily legal migrants, but illegal and irregular migrants are likely to be included to varying degrees. In particular, those who overstay the duration of their visa and those who work beyond the terms of their visa are quite likely to remain within the formal sector in other respects. While it is likely that some surveys may include at least some of these groups, there is a real need for better information on illegal and irregular migrants.

Characteristics of migrants

6.5 As noted above, migrants are very heterogeneous – differing across many dimensions, and at least as much from each other as they do from the population at large.

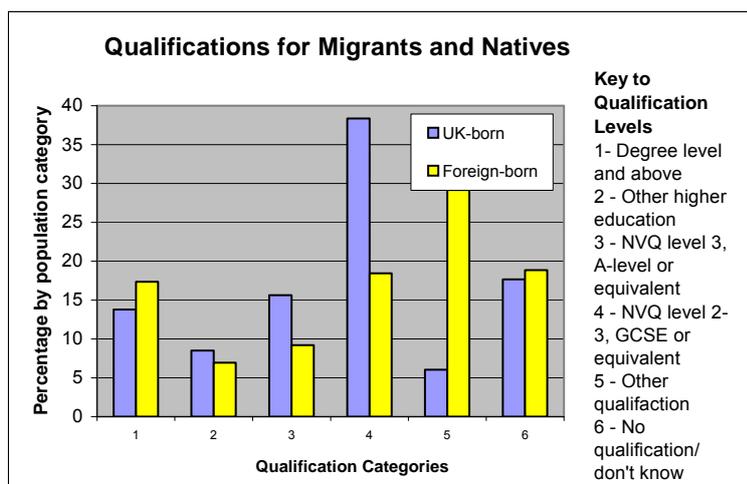
6.6 The IPS inflow data (below) shows there is no principal source country of migration to the UK. The largest single identifiable group is UK nationals (mostly returning emigrants, though some are born abroad). Other major sources are the EEA and Asia, but there are significant numbers of migrants from every region of the world. This pattern of sources is noticeably different from the rest of the EU. The pattern of inflows also differs from the stock of migrants living in the UK – in part reflecting the different typical durations for different groups.



6.7 Turning to LFS data, education and skill levels are polarised within the migrant population: that is, there are both more highly educated people, and more relatively unskilled. This polarisation between high and low-skilled migration appears to be a general European-wide phenomenon, suggesting that it reflects general economic and market trends more than country-specific policies.³⁰ And while asylum seekers and illegal immigrants probably do not show up in these

³⁰ See Metropolis paper 99-S3, 'Experience with Temporary Workers: Some Evidence from Selected European Countries' Thomas Straubhaar (1998).

statistics, other research shows they too are very heterogeneous, with a significant proportion of professionals.³¹



6.8 There are also characteristics that migrants will have in common. In particular, the self-selection of migrants is likely to mean that they are likely to be more resourceful, entrepreneurial, and ambitious than the norm: this is summed up somewhat ruthlessly in the old Irish folk saying: “The cowards never started, and the weak died on the way”³². It is more difficult to measure these qualities, both because of the more general data problems, and because some are simply not measurable.

Migrants’ labour market outcomes

6.9 Migrants are reasonably successful in the labour market. Overall their wages are higher, though migrants are over-represented at both the top and the bottom of the income distribution, and they have lower activity rates than natives. Education and English language fluency are key determinants of success and interact in complex ways.

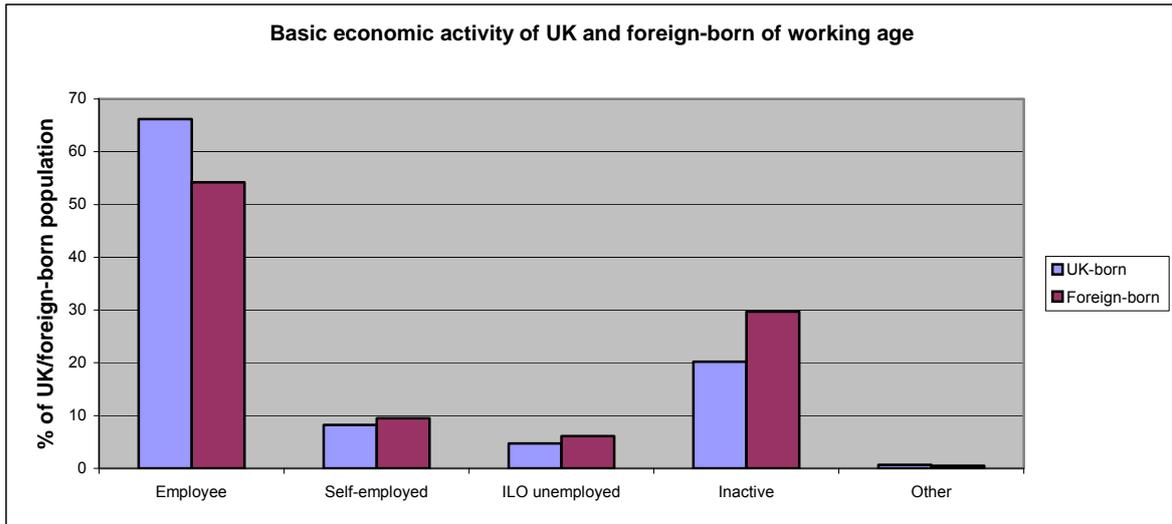
Labour market participation

6.10 Overall migrants are less likely to be employed and more likely to be unemployed than natives (on LFS data). In addition, migrants are half as likely again as natives to be inactive. Again, there is considerable heterogeneity in migrant experiences and some groups of migrants have particularly high unemployment and inactivity rates. Migrant activity rates increase with time after arrival in UK, but remain lower than for natives – though lower female participation (reflecting cultural factors as well as skills or opportunities) and the high proportion of students accounts for at least part of this. Levels of entrepreneurship and self-employment also appear to be high among migrants (and higher among migrants in the UK than those elsewhere in Europe).³³

³¹ The Settlement of Refugees in Britain, Home Office Research Study 141 (1995).

³² Traditionally said of Irish migration to the US: quoted in, for example, Julian Simon, *The Economic Consequences of Immigration into the United States*

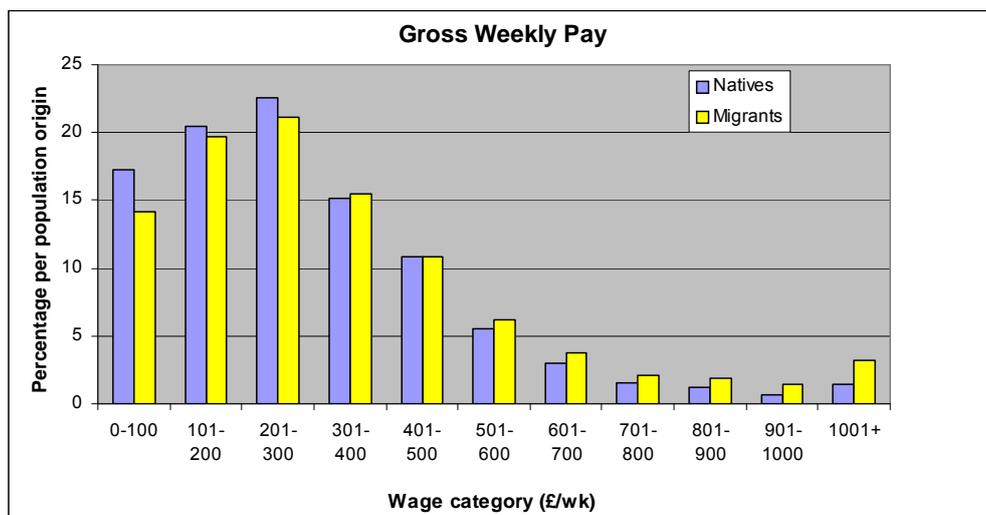
³³ See *Business Week*, “Europe’s Unsung Heroes”, February 28, 2000. And, for example, immigrants are twice as likely to own businesses in Denmark as natives (15% against 7%) – reported by FCO post.



6.11 Migrants appear to perform well in the UK labour market compared to other EU countries (although cross-country comparisons need to be treated with care, given data problems). In France, non-EU immigrants face a 31.4% unemployment rate, compared to 11.1% for the French. Nearly half of immigrants under the age of 26 are unemployed, twice the rate of French nationals in the same age group³⁴. Similarly, migrants are twice as likely to be unemployed as natives in Denmark, three times as likely in Finland, and four times as likely in Holland.³⁵

Wages and incomes

6.12 On average, those migrants who do work in the LFS earn rather more (12% on average) than natives, but this conceals considerable variance in incomes. In particular, migrants appear to be significantly over-represented at the very top of the income distribution (reflecting those with very high wages), and at the bottom of the income distribution (reflecting their higher unemployment rates and lower participation rates). Migrants may also tend to concentrate in declining sectors of the economy if they are less able to match their skills with available opportunities because of lack of language skills, training or credential equivalence.



³⁴ FCO report France.

³⁵ FCO report Finland and Netherlands; SOPEMI report.

Returns to skills and education

6.13 UK research has shown that language fluency increases the mean hourly occupational wage for ethnic minority immigrant men by around 17%³⁶. Yet less than 60% of these ethnic minority immigrant men are fluent in English. This result is corroborated by similar experiences in other countries, e.g. in Canada and in Holland.³⁷

6.14 When a separate effect is isolated for English language fluency, migrants appear to receive similar returns to education to those found for the UK more generally:

Percentages	UK males (LFS analysis from Dearden, 1999)	ethnic minority migrant men (Shields and Wheatley Price, 1999)
Return on O levels relative to no qualifications	22	16½*
Return on A levels relative to only O levels	10½	9
Return on a degree relative to only A levels	15½	17

*O levels and fluent in English against no qualifications and not fluent

6.15 However, other studies have found that migrants' qualifications are undervalued in the labour market. Bell (1997) and Shields and Wheatley Price (2000) both find that male immigrants receive a lower return per year of education than natives, and that education abroad is valued less than education in UK (using the GHS and LFS respectively). Part of this result may reflect the effect of English language fluency (which is not identified separately in these studies), but part is likely to reflect low levels of recognition of foreign qualifications and possibly discrimination.

Migrants' labour market outcomes over time

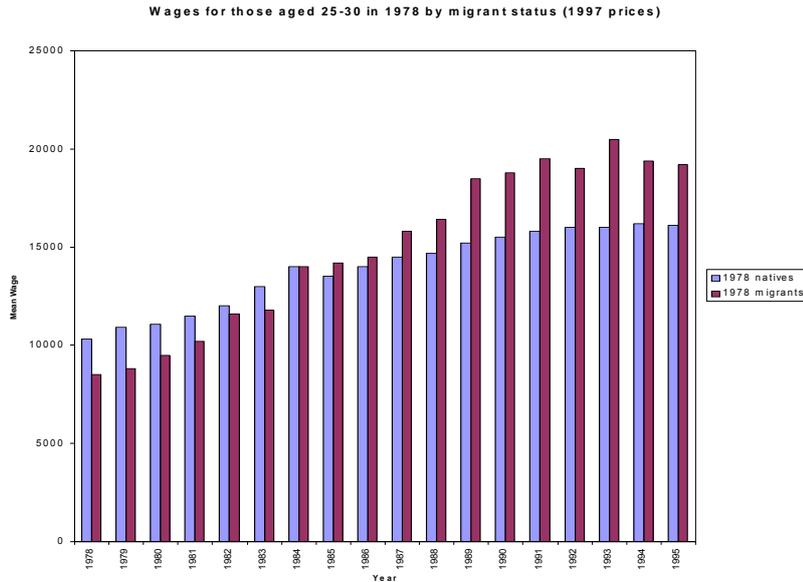
6.16 There is a substantial literature in the US showing that immigrants generally begin by earning less than natives, but catch up and eventually overtake them – known as the “assimilation hypothesis”. UK research had suggested that such overtaking did not generally occur for migrants to the UK³⁸. However, recent research using National Insurance data suggests that UK migrants do appear to replicate the US pattern and to overtake native earnings after a certain period in the UK³⁹, see chart below, though those migrants who remain in the UK are inevitably a relatively narrow subset of the total. A similar pattern can also be seen in the economic activity data (see para 6.10).

³⁶ Michael A. Shields and Stephen Wheatley Price, 'The English language fluency and occupational success of ethnic minority immigrant men living in English metropolitan areas', 1999 – using the PSI (1997) dataset.

³⁷ The most reliable data on migrant success and language skills is from Canada, for example see [recent OECD conference report]. See also Peter Kee and Hans van Ophem, “Immigrant Wages in the Netherlands: the Role of Dutch Language Proficiency,” in Migrants in the European Labour Market by Saziye Gazioğlu.

³⁸ Chiswick (1984) and Bell (1997), though the data set for each is relatively small.

³⁹ HM Treasury, unpublished research note.



Other barriers to employment

6.17 Supply-side barriers also contribute to immigrants' lower labour force participation rates. Discrimination is pervasive in EU labour markets; few governments other than the UK have anti-discrimination legislation protecting ethnic or racial minorities, let alone immigrants.⁴⁰ Many EU employers are reluctant to hire refugees because of lack of knowledge about refugee issues and fear of cultural incompatibility.⁴¹

Box 6.1: Refugee Doctors⁴²

The *BMA News Review* says "Britain is squandering the talents of people who want nothing more than to get back into medicine at a time of national shortage of doctors." It estimates there are 1000 doctors in this position in the London area, many of whom are doing unskilled casual jobs. There are criticisms that the language test doctors are required to pass is of a higher standard than expected from graduates from UK medical schools, and there is little support or guidance to refugees on how to retrieve their medical career. An exception is a two year course at Hendon College to prepare doctors for the language test and refresh their medical skills.

Dr Nayeem Amim came from Afghanistan in 1993, heard about the Hendon course in the local paper and is now a GP Registrar in Dunstable, Bedfordshire. "This country saved me and now I have a chance to give something in return" he says.

Dr Mohammed Ibrahim arrived in Britain from Somalia in 1994. He worked as a security officer while studying English, supporting a wife and six children. "I didn't know my way through the medical system, there was no real support available and I didn't know whether my qualifications would be acceptable." His housing trust then sponsored him to do an MSc in epidemiology which he completed in 1997. He then heard about the Hendon course and is now studying for the language tests.

⁴⁰ In June 2000, the Council of Ministers agreed on a directive prohibiting racial and ethnic discrimination in the workplace.

⁴¹ Refugee Council, ECRE Task Force on Integration, *Refugees and Employment: the European Context*, November 1999.

⁴² *BMA News Review* 29 April 2000.

6.18 These difficulties are most marked for refugees: a survey of 236 qualified and skilled refugees in London in 1999, who were entitled to work, found that 42% of those with refugee status and 68% of the asylum seekers were unemployed.⁴³ Similarly, a 1995 Home Office study found that only 27% of refugees were employed, while 36% were unemployed. This is likely to reflect difficulties in accessing English language training⁴⁴, and a lack of knowledge of the UK job market⁴⁵; as well as more general barriers to employment. These barriers were summarised by the Audit Commission in a recent report⁴⁶:

The cumulative barriers to employment



Source: p76, Audit Commission (2000)

The concentration of migrants: sectorally and geographically

6.19 Migrants can be either complements or substitutes for native labour, depending on the skills and sectors of the native workers. Overall, migrants have little aggregate effect on native wages or employment, though they can have more of an (positive and negative) effect on different sub-groups of natives. Migrants are highly concentrated where there is excess demand for labour – both geographically and in certain sectors. Continued skill shortages in some areas (and substantial presence of irregular migrants in others) suggests that legal migration is, at present, insufficient to meet demand. Migrants' impacts on congestion and other externalities – including positive ones – are difficult to estimate, but may be important.

⁴³ Peabody Trust/London Research Centre *Refugee skills-net, the employment and training of skilled and qualified refugees*. June 1999.

⁴⁴ The Audit Commission has reported ESOL classes as heavily oversubscribed, with several authorities having waiting lists of over 200 people.

⁴⁵ Duke, A, 1997, 'The resettlement experiences of refugees in the UK, main findings from an interview study', *New Community*, 22(3); found that those who have participated in government training schemes were more successful in obtaining jobs.

⁴⁶ Audit Commission, 2000, *Another Country: Implementing dispersal under the Immigration and Asylum Act 1999*.

Substitutes and complements

- 6.20 As set out in section 2, trade theory suggests that mobility of factors of production reduces returns to the factor that is imported, and increases returns to other factors. So high-skilled migrants, for example, should reduce wages for the high skilled labour (as high skilled labour is now more plentiful) and increase returns to capital and low-skilled workers (if, as seems likely theoretically and empirically, high skilled workers are complements for low-skilled workers).
- 6.21 Many econometric studies, mostly in the US but also in Europe, have examined the relationship between proportions of migrants and wages, employment and unemployment rates by region or sector – taking account of the difficult causality issues. Most such studies **find little or no effect on the wages or employment prospects of natives**, certainly not at an aggregate level – even if there is a largerapid influx of migrants into a particular location.⁴⁷ As one recent survey of the literature concluded:
- "The overwhelming majority of empirical studies agree that there is essentially no statistically significant effect of immigration on labour market outcomes"**⁴⁸
- 6.22 The effect of immigration may be more pronounced for specific sections of the economy and population⁴⁹. Much clearly depends on the economic and social environment; the speed, scale and concentration of migration; the particular characteristics of the migrant and native populations; and the extent to which migrants complement, or substitute for, natives. In addition, it is possible that more recent migrants may be substitutes for previous migrants, as they are likely to move to similar locations in the UK, have similar skills, and work in similar industries.
- 6.23 There is relatively little work in this area in the UK: what exists is consistent with the US evidence. Gang and Riveria-Batiz (1994) estimate that a 1% increase in migrant labour will have very small effects on native wages, between +0.02% and –0.08%⁵⁰. Zorlu (2000), basing his work on ethnic minority data rather than on immigrants, also finds that both substitution and complementarity effects are occurring simultaneously, so that there is no clear unambiguous effect on wages overall.
- 6.24 Disaggregating these effects, Zorlu finds larger substitution and complementarity effects for particular ethnic and skill sub-groups. In particular, low and medium skilled ethnic minorities are strong complements to high skilled non-manual and low skilled manual white workers; medium skilled ethnic minorities are strong substitutes for medium skilled manual white workers; and high skilled ethnic

⁴⁷ The classic study in this field is Card (1990), which looks at the effect of the Mariel boatlift, a huge and exogenous influx of migrants to the Miami area. Borjas (1994) surveys the economic literature, finding no support for the hypothesis that the employment opportunities of US-born workers are strongly and adversely affected by immigration.

⁴⁸ Gaston and Nelson, July 2000.

⁴⁹ For example, in Canada, Akabari and De Vortez (1992) conclude that no significant displacement of native workers, by either old or new immigrants, occurs overall, but that displacement is significant in labour-intensive sub-sectors.

⁵⁰ Ira N. Gang and Francisco L. Riveria-Batiz (1994), 'Labour market effects of immigration in the United States and Europe: substitution vs. complementarity'

minorities are strong complements for high skilled non-manual white workers and substitutes for medium skilled manual white workers. Zorlu also finds that ethnic minority workers do not compete with each other in the labour market, both when disaggregated by skills and when disaggregated by ethnic origin.

- 6.25 It is perhaps not surprising that immigration has no measurable impact on unemployment in the US and UK. The “lump of labour” fallacy – that there are only a fixed number of jobs to go round – has been thoroughly discredited, and it is increasingly recognised that, given sound macroeconomic management, unemployment is primarily a **structural** phenomenon. If that is the case, then migrants will have no effect on the job prospects of natives; and the appropriate policies for government to pursue to address unemployment among natives (and, to the extent relevant, among past and present migrants) are those of education and training designed to connect people with the labour market. This of course is precisely what the government is doing with the New Deal and other policies.
- 6.26 However, the well-established lack of effect of migration on wages has long been regarded as something of a paradox. It seems intuitive that immigration must depress wages (at least of those whose skills are comparable/substitutable with those of immigrants), even if it generates growth overall? One possible explanation for this lack of effect, which appears to be empirically supported, is that migration affects not wages, but the composition of output (that is, the industrial structure of the receiving country).⁵¹ Thus migration of workers into a particular sector allows that sector to expand, leaving wages and employment of the existing workforce (in that and other sectors) unchanged. This has important implications, as discussed below.

Sectoral concentration of migrants

- 6.27 Economy-wide skills shortages are significant, though they remain below the levels seen in the late 1980s. The fact that migrants are concentrated in the industries and sectors where there are particular labour or skill shortages is clear both anecdotally and from the available data:
- **Health:** 31% of doctors and 13% of nurses are non-UK born; in London 23% and 47% respectively. Half the expansion of the NHS over the last decade – that is, 8,000 of the additional 16,000 staff – had qualified abroad;
 - **Education:** In 1995-96, the Higher Education Statistics Agency showed that non-British nationals were 12.5% of academic and research staff, were most likely to be in medicine, science and engineering, and comprise over half the faculty of LSE. A number of London education authorities are recruiting staff directly from abroad (usually Australia and New Zealand) to address staff shortages in schools;
 - **IT:** the increase in demand for specialist IT skills has been spectacular, and is expected to continue. Projections suggest that the IT services industry alone will need to recruit another 540,000 people between 1998 and 2009⁵²;
 - **Catering:** an estimated 70% of catering jobs in London are filled by migrants;
 - **Agricultural labour:** there is significant excess demand for the Seasonal Agricultural Worker scheme, which is currently limited to 10,000 places per year.

⁵¹ See “The Employment and Wage Effects of Immigration, Noel Gaston and Doug Nelson, Centre for Research on Globalisation and Labour Markets, University of Nottingham, July 2000.

⁵² Institute of Employment Research, University of Warwick.

6.28 It is important, however, to distinguish between the different reasons why migrants are concentrated in these sectors:

- In health and education, wages are constrained by policy, and there are relatively clear procedures for recognising foreign credentials. Migration in these sectors, therefore, benefits the public sector – and hence the general public, as taxpayers and consumers of public services.
- In IT and other private sector professions experiencing skill shortages, wages are unconstrained. But supply is constrained by lags in training natives. In the absence of migration, firms would bid up wages to the short-term market clearing level; after a lag, supply would respond. But the relative flexibility of the work permit system allows firms to import migrants. Migration in these sectors, therefore, reduces the wages of qualified natives (but only relative to what would be a temporary increase over the long-run equilibrium) and benefits firms.
- In relatively low paid and insecure sectors like catering and domestic services, unskilled natives are simply unwilling or unable, through lack of the most basic work-related skills (or a lack of mobility), to take the large number of available jobs. The effect of migration in these sectors is again to benefit firms, but it is not likely that natives are significantly disadvantaged: if migrants do not fill these jobs, they simply go unfilled or uncreated in the first place.

6.29 In all three cases there is a net economic benefit to the UK from filling the gaps through migration. The result of migration is to reduce inflationary pressures and increase the efficiency of firms. However, several points should be noted:

- High-skilled migration may reduce the skill premium (as skilled migrants are substitutes for skilled natives), compressing the income distribution and hence reducing inequality. This represents a further benefit, since it is a market-driven way of reducing income inequality and hence, possibly, social exclusion. While it may also reduce the incentives for natives to acquire skills, wages are already likely to be above long-run equilibrium in the relevant sectors.
- Conversely, low-skilled migration may widen the income distribution, though provided that migrants are in fact employed this may not be significant (since the bottom of the income distribution is almost completely composed of people without work, rather than the low-paid). It also depends crucially on whether low-skilled migrants move up the income distribution over time: it may be that migrants are likely to be positively self-selected: hard-working, entrepreneurial, and so on. There is some evidence that while migrants incomes immediately after arrival in the UK are lower than those of natives of the same age, over time migrants incomes overtake those of natives (see para 6.16).
- If it is indeed the case, as suggested above, that immigration alters the composition of output as well as (and perhaps instead of) the wage distribution, then policy should be less concerned with the direct labour market impact of migration, and more with the sectoral implications. So if migration of workers in a particular sector is restricted – say the IT sector – then it will not primarily be the case that the supply of, and wages of, native British IT workers will increase. The IT industry will simply shrink relative to what would have happened with a less restrictive policy.

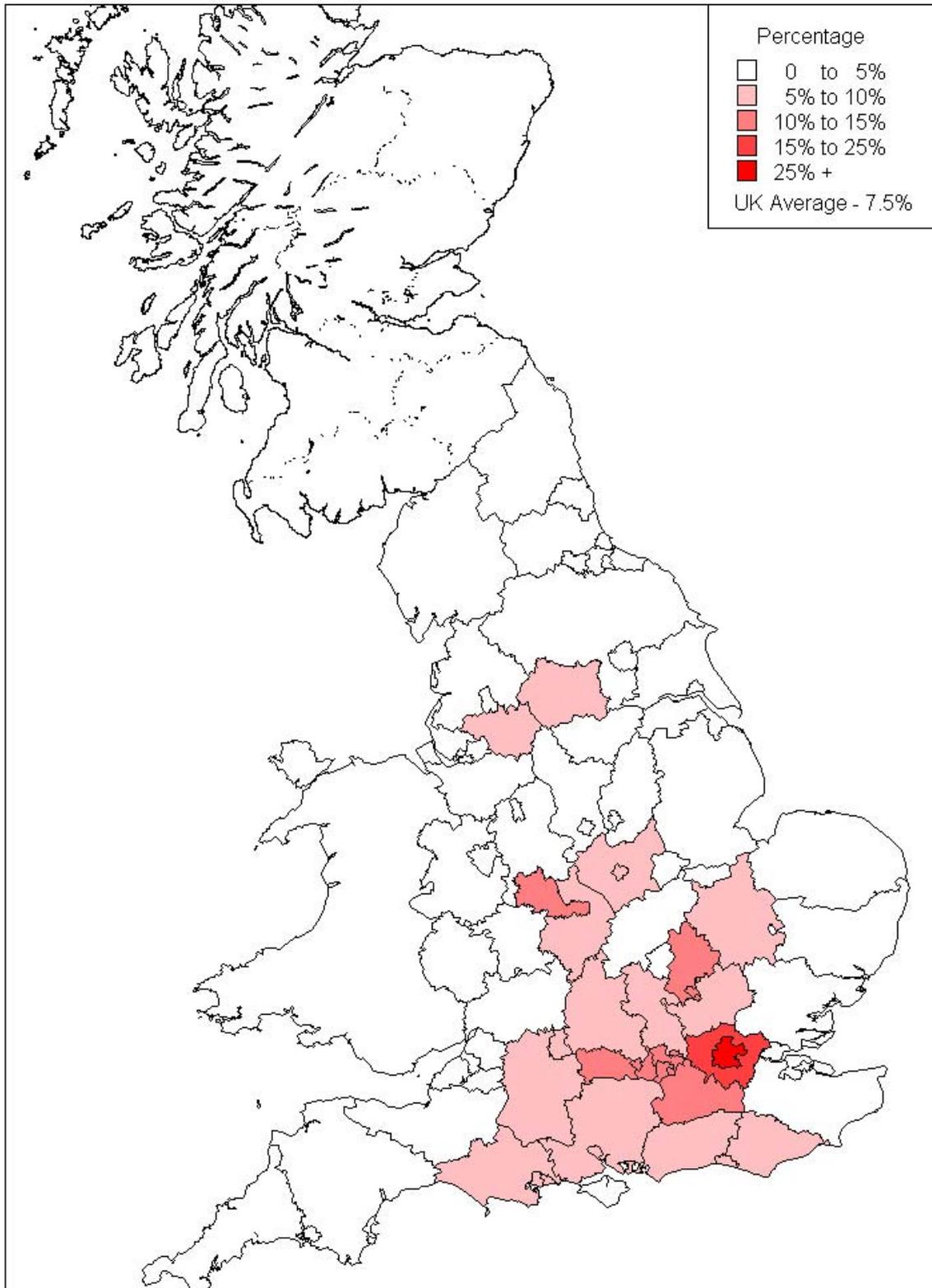
Regional and local impacts of migration

- 6.30 Migrants are highly concentrated – and increasingly so – in London. Not only do over half of all migrants live in London and the South-East, but more than two-thirds of new migrants are settling there. There is considerable anecdotal evidence that this is both generated by and generating the recent economic and cultural resurgence of London. Within this, there is also some evidence to suggest that there are also concentrations of migrants in the areas of highest unemployment and worst deprivation within London.
- 6.31 Migration to the UK is unlikely to be completely independent of internal migration within the UK. There is some evidence⁵³ to suggest that the causal linkage runs both ways. Migrants took jobs in the South East in the mid-1980s that could in theory have been filled by native migrants from the North, though this was only one of many factors limiting north-south migration. At the same time, the process of counter-urbanisation is likely to have increased the number of migrants living in inner cities, as they occupied (social) housing that had been released as natives moved out. Similarly the US literature has tended to find that inflows of recent migrants have little effect on the locational decisions of native workers⁵⁴.

⁵³ Champion, Fotheringham, Rees, Boyle and Stillwell (1998), *The Determinants of Migration Flows in England: A Review of Existing Data and Evidence*, DETR

⁵⁴ David Card (1996), "Immigrant inflows, native outflows, and the local labour market impacts of higher immigration", Working Paper 368, Princeton University.

Migrants as a Share of Population



Wider externality effects

6.32 The relative concentration of migrants in particular areas means that they can contribute to a number of externalities. For example, they can increase the pressure on housing markets, transport and other infrastructure, and exacerbate over-crowding, congestion, and pressures on scarce green belt land (e.g. in the South-East). Equally they can bring skills, experience and know-how with wider benefits to the UK, and help to regenerate run-down areas. Where such negative externalities do occur, this is not in itself a reason to restrict migration; in general, the underlying market failure should be addressed directly (for example, via congestion charging).

6.33 And it is not clear that migration has increased congestion and over-crowding in London. The population of London has increased at the same rate as the UK population overall over the last 20 years, at a time when other major cities in the UK have been shrinking, causing problems of under-use, neglect and decay. That migration has helped to prevent this counter-urbanisation in London, and helped to regenerate otherwise run-down areas, suggests that the impact of migration can be both subtle and ambiguous.⁵⁵

	1981	1997	% change
London	6,802	7,122	+4.7
Birmingham	1,079	1,014	-0.6
Liverpool	517	464	-10.3
Manchester	463	428	-7.6
20 largest cities in UK	14,569	14,743	+1.2
UK	56,360	59,009	4.7

Source: Office for National Statistics

6.34 The concentration of migrants in specific locations can also generate social effects, for example through the competition for jobs and resources in local markets. There is at least anecdotal evidence that high concentrations of migrant children lacking English as a first language can lead to pressure on schools which lack sufficient resources to meet levels of need, and to some concern among other parents. Tension may also centre on access to social housing, although the focus of debate has been on ethnic minorities, not necessarily migrants. These concerns and tensions are likely to be most pronounced if there is a sudden large influx of migrants into a particular area.

6.35 At the same time, monitoring has revealed that where local authorities were responsible for rehabilitation programmes in areas of the poorest public housing, ethnic minorities have often been excluded. However even in areas of high ethnic concentration the community remains predominantly multiracial. There is also concern that concentration may derive from fear of encountering hostility in areas with relatively few minorities.

Impact of migration on developing countries

⁵⁵ Similar regenerative effects can be seen in US cities that are primary migrant destinations, such as New York and Los Angeles, which have performed well relative to other US cities that have seen lower immigration and falling populations.

- 6.36 Migration, especially of skilled workers, can also have an impact on the countries of origin. The potential effects on developing countries are diverse, with potential benefits and costs to the countries of origin. In the long term, migration of skilled labour may have costs for the country of origin, by inducing a switch to products and processes that require less skilled labour, and by causing a deterioration in the public services and public administration (notably health). At the same time, longer term benefits may include the new skills and dynamism brought back to the country of origin by returning migrants. And even if migrants do not return, migration may help to develop international networks that promote trade and investment flows, benefiting both source and receiving countries. One example of this is the mutually beneficial relationship between the Indian software industry in Bangalore and Silicon Valley, which is of course characterised by a very large Indian migrant workforce.
- 6.37 This is a complex area and there is a serious shortage of consistent and continuous data on skill and qualification categories of migrants from the developing world. The net effect of migration will vary over time and from source country to source country depending on the skills of migrants, the sectors they leave, and whether they subsequently return.

Fiscal effects

- 6.38 The broader fiscal impact of migration is likely to be positive, because of migrants' favourable age distribution (a greater proportion of migrants are of working age). Likewise the fiscal impact is likely to be more beneficial to the extent that migrants are working as opposed to not working, working legally rather than illegally, and making full use of their skills and experience.
- 6.39 Migrants have a direct impact on government expenditure and revenue by paying taxes, claiming benefits and consuming government-provided goods and services. They also generate indirect fiscal effects through macroeconomic and labour market impacts that alter the level, and growth, of GDP, and the returns to, and employment of, native labour and capital.
- 6.40 Broadly speaking, over the life cycle, natives are a net fiscal burden while they are in compulsory (state-financed) education; net fiscal contributors when they are in employment; and net burdens again when they are unemployed, retired and when they require expensive medical services. It seems highly probable that the same is true of migrants. The age profile and labour market outcomes of migrants, as described above, therefore suggest they are likely to make some net fiscal contribution – particularly since during the period in which they are most likely to be unemployed, immediately after arrival, they may be ineligible for unemployment benefits.
- 6.41 A recent US study found that migrants pay on average \$80,000 more in taxes than they receive over their lifetime⁵⁶, when taxes were increased to ensure that in aggregate the government balanced its budget over the period. A study on the fiscal impact of foreigners in West Germany indicated that this group contributed more to the economy than they received in transfer benefits.⁵⁷ Similarly, our initial

⁵⁶ James P. Smith and Barry Edmonston (Eds.), *The New Americans: economic, demographic, and fiscal effects of immigration*, 1997.

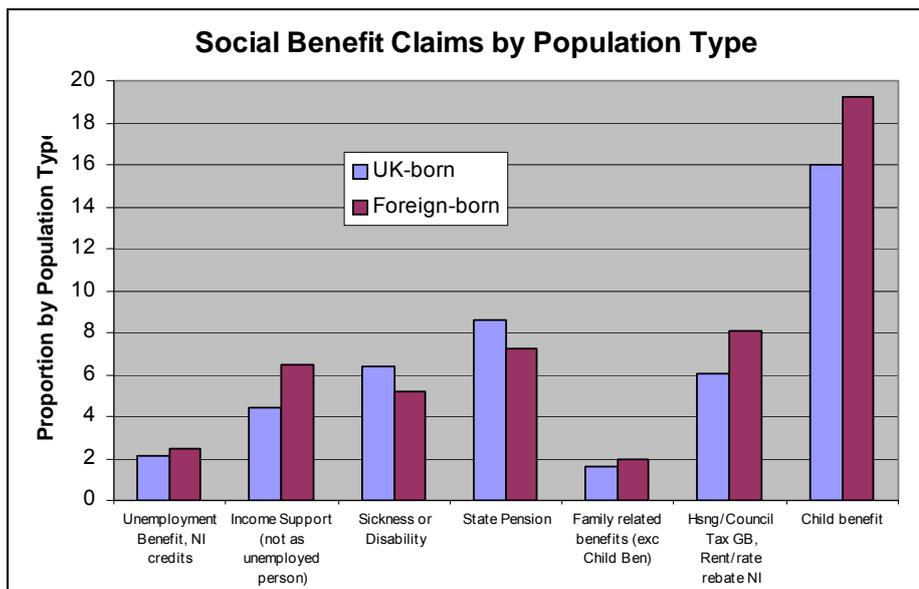
⁵⁷ Spencer, ed., *Immigration as an Economic Asset: The German Experience*, 1994.

analysis for the UK suggests that migrants contribute more in taxes and National Insurance than they consume in benefits and other public services. We estimate that the foreign-born population contributes around [10] per cent more to government revenues than they receive in government expenditure, equivalent to [perhaps £1.5 to £3 billion] in 1998/99. Put another way, if there were no foreign-born people in the UK, taxes (or borrowing) would have to rise, or expenditure would have to be cut, by between [£1.5 and £3 billion].

6.42 These results provide a one-off snapshot of the fiscal impact of the current cross-section of migrants, and are sensitive to the underlying assumptions⁵⁸. In particular the current population of migrants is in part the product of past migration policies, and may not be representative of potential future migrants to the UK. In addition the aggregate results reported mask the different impacts of different migrants. However, this analysis is clear that, on average and overall, **migrants are not a burden on natives**.

Use/consumption of government services

6.43 The foreign-born population claims the majority of social security benefits at or about the same rate as natives, on LFS data. Migrants are more likely to be in receipt of unemployment and housing benefits, but less likely to be receiving sickness or disability benefits, or a state pension.



Social outcomes

6.44 Not enough is known about migrants' social outcomes. As for natives, the lack of employment is a key cause of wider social exclusion. And the data show that migrants are not disproportionately involved in crime, nor do they disproportionately claim benefits. The more general social impact of migration is very difficult to assess. Benefits include a widening of consumer choice and

⁵⁸ This analysis is reported in more detail in [the joint Home Office and PIU research report on the fiscal impact of migrants].

significant cultural contributions (e.g. in the arts, literature, science and sport); these in turn feed back into wider economic benefits.

6.45 Social impacts can be real, without being quantifiable. We cannot measure the impact that Yehudi Menuhin (as an immigrant) had on those who heard his music or were taught by him: but he clearly had an impact. Some impacts can be quantified, for example increases in consumer choice, but many other contributions cannot. Similarly, while we can quantify migrants within aspects of criminal behaviour, their wider experience of social exclusion cannot be measured.

6.46 There are no data on many key outcomes and the data which does exist fails to distinguish between short and long term impact, which might be expected to differ significantly. It is also difficult to distinguish between possible macro benefits (or costs) to society as a whole and micro costs (or benefits) to individuals, households and firms, and little work has been done to identify whether the impact could have been enhanced, or avoided, by policy intervention.

Consumer choice

6.47 Migration has clearly benefited consumer choice. There has for example been a dramatic expansion in restaurants providing cuisine from across the world (including Indian, Chinese, Turkish, Greek and Thai), and of a range of fresh and pre-packed foods which were unknown to consumers less than two decades ago.

6.48 Total sales in ethnic food in 1994 were valued at about £736 million, representing an extraordinary change in British eating habits. In 1996, there were 10,000 curry houses in Britain with 60 to 70,000 employees and a turnover of £1.5 billion – more than the steel, coal and shipbuilding industries put together⁵⁹. The market in ethnic food for home cooking was in 1996 worth £129 million a year⁶⁰.

Higher education

6.49 The UK is the second largest receiving country of foreign students after the US, with 16% of the total. In 1995/6 international students studying in public sector institutions in the UK contributed £600m in fees. International students enrich the cultural and intellectual environment of a university and its locality, stimulate new curriculum approaches and foster understanding between cultures. A significant number of the world's political leaders were educated in the UK including, most recently, the new President of Syria. The importance of this for the UK's relationship with the rest of the world should not be under-estimated.

Other contributions

6.50 Migrants have undoubtedly made significant positive contributions in social and cultural fields, and to public life. Some of the most public contributions to Britain have been in sport, art, music, publishing, fashion, architecture, dance and theatre. British art and cultural expression are a fusion, out of which has grown significant UK export industries from food and fashion to music. Many winners of the Booker literary prize over the last thirty years have been first or second generation immigrants – notably: Kazuo Ishiguro, Salman Rushdie, Timothy Mo, Michael Ondaatje and Michael Ignatieff. Similarly, three of the four artists short-

⁵⁹ *Independent on Sunday*, 3 March 1996.

⁶⁰ *Financial Times*, 25 May 1996.

listed for the 2000 Turner prize were born outside the UK. Nicholas Serota (director of the Tate) commented, "I think it's a question of recognising that culture here is much richer than we could define by those who have simply been born in this country"⁶¹.

6.51 Migrants are particularly well represented in academia, education and medicine. Some outstanding examples of success include Sir Magdi Yacoub, a cardio-thoracic surgeon, originally from Egypt, who pioneered heart and heart and lung transplants in Britain; and Dr. A. Karim Admani, originally from India (and awarded an OBE in 1986), who set up Britain's first stroke unit in Sheffield in 1975. And, historically, migrants who arrived as refugees have been among those who have had the most impact on UK society and the economy – in particular, the Huguenots and the Jews, who played a leading role in the development of the UK's domestic and global financial markets.

Box 6.2: Citizenship

Acquisition of citizenship is considered an index of integration. Although policy does not actively encourage applications, they have grown at an average annual rate of 11% (1992-7). But it is not known how many foreign residents who are entitled to apply for British citizenship actually do so:

- of those entitled to apply and still in the UK, Home Office records (in 1997) showed 35% of a random sample had applied;
- of those who could be tracked down for interview, 58% had applied for citizenship – the vast majority successfully – most non-applicants believed they would do so at some stage;
- those married to a UK citizen were twice as likely to have applied;
- 29% were deterred by the long period of waiting their application to be processed (then 13 months);
- 37% of non-applicants said they would apply if the cost were lower;
- 44% of them did not know how to apply, and 14% did not know that they were eligible;
- there was no fear of refusal.⁶²

A 'strong attachment' to the UK was also significant in deciding to apply. Those from developed countries were less likely to apply, as were those whose country of origin did not permit dual nationality, and those who did not need visas for travelling abroad. Although citizenship confers the right to vote (except for Commonwealth citizens who already can), research found that 60% of those who had applied for citizenship in order to be able to vote, had not yet voted.

Research abroad suggests that the majority of migrants given permanent residence do eventually become citizens. Expectations of returning 'home' at some stage, prohibitions on dual nationality, and cost, all inhibit applications. Within the EU, migrants who identify most with their host country are those who have taken out citizenship or dual nationality: 70% identified 'entirely or a lot', whereas under 20% of temporary residents did.⁶³

In the UK the process of applying for citizenship is not at present marked as a significant event either for the applicant or for their new country. It is at best low key, at worst a frustrating exercise in bureaucracy. In contrast, the Canadian citizenship ceremonies mark an important step in the integration process, held as a celebration. The occasion serves as a symbolic reminder of the obligations and privileges of Canadian Citizenship. A specially designed

⁶¹ The diverse contribution made by immigrants and refugees is described in the comprehensive account published by the CRE, *Roots of the Future, Ethnic Diversity in the Making of Britain*. 1996

⁶² *Understanding British Citizenship Application Rates*. Home Office (Nigel Charles). 1997.

⁶³ Enid Wistrich, David Smith, Tunc Aybak, *The Migrants Voice in Europe*, Middlesex University, 2000.

“Citizenship Oath” pledging is administered by a citizenship judge appointed by the government, and followed by a welcome reception. The Home Secretary has suggested that similar ceremonies might be considered in the UK.

6.52 Leaving aside the economic implications, whether the changes that have resulted from migration are a “benefit” is clearly subjective. However, most British people do regard it as such; social research shows that the majority consistently regards immigration as having a positive effect on British culture.⁶⁴ This is true even for many of those who favour a more restrictive attitude to immigration controls.

Social exclusion

6.53 Failure to integrate migrants into UK society and to allow them access to public services can lead to their being socially excluded in other respects, which can, in turn, cause personal and social problems. In part, social exclusion can be the result of entry and settlement controls designed to deter entry. Access to employment, health, housing and welfare services is determined by immigration status, as most of those subject to immigration restrictions are required to live without recourse to public funds (with the exception of emergency health care).

6.54 Lack of English is a further determinant of exclusion, disadvantaging migrants in the labour market and in accessing health and other services. 39% of refugees cite the lack of English as a barrier to their successful settlement, and 25-30% arrive with little or no English. Those arriving under family categories may equally experience difficulties⁶⁵.

6.55 There is also some suggestion that migrants who are entitled to employment, but unable to demonstrate entitlement, may be being denied jobs by employers afraid of prosecution under the 1996 Asylum and Immigration Act. Migrants’ lack of recognised qualifications can also cause difficulties in obtaining employment. Lack of documentation clarifying entitlement similarly leads to denial of services – including access to child benefit, housing benefit and NHS treatment⁶⁶. Lack of documentation also inhibits access to essential private services (e.g. opening a bank account and connecting to utilities).

6.56 The outcome is difficult to measure. There is little data specifically for migrants on such indexes of social exclusion as health, victimisation, involvement in crime or proportion of children in care. Where disaggregated data does exist, as on mortality, averages can mask large disparities within the migrant population, and these problems are often most acute for the most vulnerable – asylum seekers and refugees – as the Audit Commission⁶⁷ recently reported.

6.57 Between 1995 and 1999, around a third of asylum seekers obtained permission to stay in the UK and, in practice, a higher proportion remain (through marriage, by

⁶⁴ See, for example, the British Social Attitudes Survey 15th Report.

⁶⁵ Bloch, A, (2000) ‘Refugee settlement in Britain: the impact of policy on participation’, *Journal of Ethnic and Migration Studies*, vol 26, No 1, 75-88, January 2000; *The Settlement of Refugees in Britain*, 1995, Home Office Research Study 141.

⁶⁶ *A person before the law: the CAB case for a statement of rights for people with limited leave in the UK*. NACAB February 2000.

⁶⁷ *Another country, implementing dispersal under the Immigration and Asylum Act 1999*, June 2000. Audit Commission.

changing categories, or illegally). The long term impact of reception arrangements on subsequent social exclusion is therefore significant. A Home Office consultation paper has recognised the need to assist in the transfer from asylum to settled status: “There is a weight of evidence that refugees find difficulties in making the transition from support to independence and fulfilling their potential for development and contributions to society. ... there is a need to invest early in integration to promote a quick move from dependency to self-value and sufficiency through work and inclusion in community and society”.⁶⁸

6.58 Racism and negative attitudes to migrants in the UK are similar on average to those across Europe⁶⁹. There is no data on the extent to which migrants suffer harassment or abuse, although it can be assumed that non-white migrants figure within the high levels of victimisation among ethnic minorities. 13% of refugees in one study considered racism and discrimination a barrier to their successful settlement.⁷⁰ And, as noted earlier, local concentrations of migrants can cause tensions around schools and social housing.

Criminal behaviour

6.59 There are three ways in which migrant criminality may differ from that of the general population:

- the international criminal who travels across borders to pursue criminal activity, for whom screening at ports of entry is increasingly the focus of international cooperation between police forces to detect on entry;
- organised crime identified with a particular migrant group, including commercial fraud and trafficking in drugs, in illegal migrants and in women; also the focus of attention by police and immigration staff;
- crime associated with conditions of migration, and reception: including recovery of debts by migrant-smugglers, marriage rackets, breaches of immigration control, and crime associated with the migrant’s circumstances (lack of work, hostel living conditions).

6.60 Migration has opened up new opportunities for organised crime. Data is necessarily tentative, but it is estimated that the global profit from trafficking illegal migrants is \$5-7 billion. We have no data on trafficking to the UK (the Home Office estimates ‘thousands’) but examples from abroad are illustrative. Some 750,000 migrants from former USSR entered Israel in the 1990s and £2-5 billion of Russian organised crime money is estimated by police to have been invested in Israel between 1991-8. The illegal migration of 600,000 Fukienese Chinese to the USA (1986-94) yielded an estimated \$3.2 billion profit to the criminal gangs and was followed by ‘institutionalised Fukienese crime with its services and predation’⁷¹.

6.61 Data is kept on the national origin of the prison population. Thus 8% of the prison population (5,100) were foreign nationals in 1998 (7% of men, 15% of women), compared to their representation in the UK adult population of slightly under 4% (unchanged from 1993). But this overrepresentation is largely driven by the large

⁶⁸ *A consultation paper on the integration of recognised refugees in the UK*, Home Office, October 1999.

⁶⁹ Various Eurobarometers, on Europa web-site.

⁷⁰ Bloch (2000)

⁷¹ Gregory, F, ‘Migrants and Transnational Crime’, Chatham House 22-23 April 1999.

number of drug couriers arrested at ports of entry, who are likely to be ‘visitors’, not migrants who intend to stay. Offences are not classified in a way that allows their trans-national character to be identified. A 1997 New Zealand study of Asian migrants found lower levels of offending than for the resident population⁷².

6.62 In 1998, 16,500 illegal entrants were detected, double the number in 1995. ‘Illegal entrant’ includes people who provided inaccurate information on entry and clandestine entrants. Deportation action was initiated against a further 4,600 people who breached their conditions of stay, mainly by overstaying or working. The collective term ‘illegal immigrant’ thus includes many who were initially given leave to enter lawfully. It is not known how many people are in the country unlawfully, nor the proportion of them who are working, paying taxes or drawing benefits.

⁷² Newbold, G, 1997, ‘The emergence of organised crime in New Zealand’, *Transnational Organised Crime* 3(3) (quoted in Gregory F).

7. Assessment

7.1 In this section, we try to bring together a picture of the overall shape of policy, in the context of its broad economic and social objectives. First, it should be made clear that the system overall functions well in many respects. It permits a substantial amount of economic migration, largely to meet labour market demand. The social and economic outcomes, both for individual migrants and for the UK as a whole, are generally positive. We should not lose sight of this. That said, several broad themes emerge which should provide a focus for future policy development:

- The system is quite flexible in some areas, but not in others. In particular, as described above, the work permit system is relatively flexible, albeit complex and discretionary, for skilled workers. A more detailed assessment of the work permit system is shown in Box 7.2. But the asylum system is not: even someone who would clearly qualify for a work permit, like a doctor, is not eligible to work (for at least 6 months) while waiting for their claim to be determined, and will be sent back if the claim is found to be unjustified. Similarly, someone in the family settlement queue in Islamabad – where the wait for a first interview is nearly a year – will gain no benefit from already having a job lined up in the UK, unless it is one that would qualify for a work permit.
- Related to this, the different entry controls are not joined up. There is no assessment of the trade-offs or interaction between the work permit system and the working holidaymaker scheme, even though they both clearly have implications for labour market developments in certain regions and sectors; or between the asylum system and work permit system, even though it is clear that the lack of an economic route for low and medium-skilled immigrants has contributed in part to the rise in asylum seeking and illegal immigration (although quantifying this connection is very difficult). These interactions between the different migration channels, and the different type of migrants, are shown in the table below.

Type of migrant	Economic (low-skill)	Economic (high-skill)	Political
<i>Migration channel</i>			
<i>Work permit</i>	No	Yes	No
<i>Working holidaymakers & temporary workers</i>	Yes	Yes	No
<i>Family reunion/union</i>	Yes	Yes	No
<i>Asylum</i>	Yes	Yes	Yes
<i>Illegal/irregular</i>	Yes	?	Yes

- The entry control system has not been sufficiently related to the stated policy objectives.⁷³ Where social considerations entered into the formulation of immigration control policy, the implicit assumption has in the past generally been that immigration – especially non-white immigration – was per se bad for social stability. The primary objective of parts of the entry control system has therefore been to deter applicants, not to promote subsequent inclusion and economic participation. But because entry and settlement rules control access to jobs and services, and family reunion, they can have a significant impact on social and economic inclusion.
- There has been slightly more consideration of economic objectives, but only in some areas, and in no great depth.
- Nor do the trade-offs, if any, between economic and social objectives seem sufficiently well identified. For example, the rules on students' entry have tended in the past to deliberately discourage those who might choose to remain to pursue their careers, although the economic benefits of such migrants to the UK seem obvious. But any negative social impact of foreign students who choose to remain, having found gainful employment, is entirely speculative and does not appear to be empirically supported.
- The discussion of some of the policy levers that impact on migrants' integration and settlement suggests that securing the integration of migrants has not always been a priority in designing entry and settlement controls or post-entry policies. While access to citizenship, voting, and pre-16 state education is liberal, many migrants are excluded from employment, benefits and social housing. Family reunion is means tested. For those entitled to work, targeted language assistance, induction, and guidance on re-establishing careers is generally not available. Lacking documentation clarifying their entitlements, many appear to be excluded from work and benefit for which they are eligible. Once past immigration control, relatively little thought is given to the economic or social impact of migration per se one way or the other; social exclusion policy has not addressed the particular circumstances of migrants. Insofar as migration considerations enter policy formulation, it is mainly as a subset of race equality policy.
- The interrelations between the various policies and schemes and the two key objectives of economic growth and social stability are shown in Box 7.1. As can be seen, there has been little explicit connection, and almost no evaluation of any sort, even subjective, recognising the difficulties of quantitative evaluation in these areas.

⁷³ The 1998 White Paper *Fairer, Faster and Firmer – a Modern Approach to Immigration and Asylum* (CM 4018) addressed only two aspects of integration directly: the provisions to support asylum seekers, and policy on access to citizenship.

Box 7.1: migration, how the existing UK policy framework relates to economic and social objectives		
<i>Route of entry</i>	<i>Economic objectives</i>	<i>Social objectives</i>
Work permit scheme	Employer-led and hence (imperfectly) related to demand. But criteria inevitably arbitrary, with some potential benefits lost. No evaluation.	No explicit connection. Exclusion of low-skilled workers presumably intended to protect low income natives, but no evaluation.
Family reunion	No connection made	Implicit assumption in past that keeping people out promotes stability. No evaluation.
Overseas students	Relatively permissive attitude to entry reflects export earnings. No evaluation of potential wider economic benefits.	Attitude to entry presumably reflects value of cultural interchange, not social stability as such.
Asylum	Policy of deterrence reflects public expenditure costs. No evaluation of longer-term economic implications.	Policy of deterrence and dispersal reflects perceived damaging effect on stability in some areas. No evaluation.
Working holidaymakers	No explicit connection. But in practice fill some labour market demands not addressed by work permit scheme.	Liberal attitude to Old Commonwealth reflects gains from cultural interchange, not social stability as such. No evaluation of current imbalance between Old and New Commonwealth.
Seasonal workers	Fill labour market gap in agriculture. No evaluation.	Despite original intention, no longer any connection.
Post-entry policies	Very little explicit connection, although some policies evaluated with reference to economic objectives more generally.	Variable. Some policies designed to promote inclusion.

Box 7.2: the work permit system

Objectives

The objective of the work permit system is to “strike a balance between enabling employers to recruit or transfer skilled people from non-EEA member states and protecting job opportunities for resident workers”. As described above, the test is therefore that a) the job meets the appropriate (skill-based) criteria and b) no EEA resident is available (unless the job is in a shortage sector, in which case this test is waived).

However, with the exception of a relatively small number of individuals, there are few jobs – certainly not tens of thousands - for which no “suitably qualified and experienced” EEA resident exists *at a sufficiently high wage*. So, in practice, the test is that residents are not readily available – either for that individual job or in the sector - *at the prevailing wage*.

So in practice work permits are granted in sectors where there is clear upward pressure on wages, and where companies have difficulties recruiting residents. This means the system is relatively flexible, and it minimises complaints from both companies and workers. It also means the system is likely to have some dampening effect on wages at the upper end of the skills spectrum, reducing upward pressures when demand is high, since work permits are relatively easier to get. But it is not necessarily either market-driven, or attuned to the ultimate economic objectives of the government.

Is the system “market-driven”?

The current system is sometimes described as “market driven”, because the government responds to work permit applications from companies, rather than setting quotas; and because the identification of shortages is largely driven by (anecdotal) evidence from employers. But in two respects the system is not market-driven, in a way which is not paralleled elsewhere in government:

- it requires the government to (implicitly) take a view on what the “right” or “market” or “prevailing” wage is for a particular job in the private sector;
- It requires the government not only to *identify* skill shortages/gaps – which we do to some extent elsewhere – but to *constrain* firms’ employment decisions on that basis.

The DFEE’s Skillsbase website sets out a number of reasons why this is likely to become increasingly difficult, such as the increased importance of “generic” (and usually non-measurable) skills, such as flexibility and teamwork.

Disadvantages

Despite the above, the system is relatively flexible, and recent changes have made it more so. Most of its customers believe that the system is efficiently administered. However, no matter how well administered, there are a number of disadvantages that are inherent in this type of system:

- it is difficult for civil servants to second-guess the market. For obvious reasons, and as has been the experience with IT, shortage areas will be identified imperfectly and with lags. This may be economically damaging;
- any system based on defining the characteristics of a job with reference to skills or qualifications will inevitably involve arbitrary dividing lines and decisions;

- despite best efforts, any system of this sort will inevitably be relatively complex and non-transparent.

As a consequence, there are likely to be three economic costs inherent in a system of this type:

- people who fail to qualify under the current system, but would bring economic benefits;
- people who would (probably) qualify under the current system, but who do not seek jobs in the UK, or who employers do not recruit;
- The regulatory burden (on both government and the private system).

Changes to the system should clearly be aimed at preserving its flexibility while largely eliminating the above disadvantages and maximising the economic benefits.

8. Possible future policy options

8.1 The assessment above identified a number of concerns: notably that the system is rather unjoined up, and not closely related to its stated objectives, either economic or social. In addition to better coordination of migration with other policies, there are three key areas where the performance of migration in relation to high level objectives could be improved:

- The **labour market**: current policy results in significant unsatisfied demand at both the low and the high skill end of the labour market.
- **Irregular migration**: policy, because it does not meet the demands of the labour market at the lower end, and because of other exogeneous pressures, has led to high and increasing levels of irregular migration. This is both unsustainable and undesirable in economic and social terms. While improving control is a necessary condition for addressing this problem, it is unlikely to be sufficient.
- The **entry control system**: current policy is not sufficiently joined up with other areas of government policy, and post-entry policies do not address socio-economic objectives. In practice, entry controls can contribute to social exclusion, while there are a number of areas where policy could enhance migrants' economic and social contribution, in line with the government's overall objectives, but is failing to do so.

8.2 Migration policy is not the only lever available, and migration is not a substitute for a well-functioning labour market and effective policies on skills and training. However, in the context of other policies in these areas, a combination of the following measures on migration could help address these concerns:

- a move to a simpler, more transparent and more market-based system for high-skilled workers, including students;
- the introduction of a legal channel for low-skilled migration, to complement the improvements being made to the control system;
- a post-entry migration policy, designed to ensure that migration does indeed achieve the government's economic and social objectives.

The sections below attempt to outline some initial thoughts on what such measures might look like in practice. They are not firm proposals, and many important questions are deliberately not addressed here. This is intended to provide material for further discussion and debate, inside and outside government, designed to inform future policy development.

Skilled migrants

8.3 Economic theory and evidence are unequivocal. Migrants taking jobs with relatively high earnings are likely:

- to generate significant net economic benefits to the UK;
- to generate significant fiscal benefits to the Exchequer;

- to be socially included;
- to have a beneficial effect on the income distribution and on the functioning of the labour market.

8.4 The current system allows a considerable number of relatively high-skilled workers to enter. However, it is ad hoc and only partially market-based. While it functions reasonably well for larger firms, the relatively complex and non-transparent nature of the system means that there is likely to be significant potential migration of skilled workers which does not occur under the present system; this is likely to constrain economic growth. The historically high concentration of new migrants, both by location (in London and the South-East) and in certain sectors, suggests that there is considerable unmet demand. There are three broad options for change:

- adopting a quota or threshold/points system based more than the present system on immigrants' skills or qualifications, and less (or not at all) on the job the migrant is coming for;
- basing the system more on skill shortages/broad categories, rather than emphasising the specific requirement of no available EEA resident;
- moving to a genuinely market-based system, where the primary determinant of entry is simply that the applicant has been offered a high-skilled job.

8.5 A points system would be transparent, and, if it could be determined what characteristics were associated with migrant success, it would allow a more rational selection process. Some other countries have adopted point-based systems.

8.6 To work well, such a scheme would require the government to know what characteristics of migrants were closely correlated with economic and social benefits. This is not easy: the only clear indicators of success are education and English language skills. It would also be important that the scheme should be relatively simple, both for applicants and those administering it.

8.7 Relying more on the targeting of skill shortages is likely to be problematic. Countries that have done so in the past – e.g. Canada – are moving away from this route. The current debate about IT is not so much an argument for doing it, but an illustration that any government attempt to forecast skill shortages at the industry level will inevitably be well behind the curve. As the report of the National Skills Task Force said – and both experience here and abroad confirms – “detailed forecasting of future skill needs is impractical. Planning should be indicative rather than directive”. In general terms, this is an uncontentious statement of the government's philosophy and approach to the labour market. But any work permit system based largely on identifying skill shortages or gaps by definition involves a substantial element of central planning.

8.8 An alternative approach, building on the current relative flexibility of the work permit system, would be to move to a completely market-driven system, based

solely on income. People offered jobs (or who can demonstrate earnings from self employment) paying more than a certain threshold figure: perhaps 1.5 times average earnings, or 5 times the minimum wage, would have a right to a work permit (subject to the existing, limited checks on character, criminal record, etc.). The threshold could be lower for younger workers, including students.

8.9 In order to join up this scheme with other categories, there would be no bar to those currently in the UK – notably those here as overseas students, asylum seekers or under the Working Holidaymaker scheme – from applying for work permits on the same basis as those outside the country. People already here, and particularly those with UK qualifications, are more likely to be of economic and social benefit than those applying from outside. It is counterproductive to prevent them from applying; and it is positively perverse, as happens sometimes at present, to force them to go abroad to apply.

8.10 The most important characteristic of this scheme is that it avoids the problem that we don't know what characteristics of migrants determine good labour market outcomes, by simply letting in people who – by definition – have good outcomes. It would also represent a major deregulatory initiative.

8.11 If a scheme of this type was adopted, key issues for consideration would be the following:

- Should there be a charge for the work permit? If so, should it be regionally based to reflect externalities and regional wage differentials?
- Should there be “reserved occupations”, which would qualify even if earnings were below the threshold (the obvious candidates would be certain public sector occupations in the health and education sectors), with or without a transition mechanism?

Low skilled workers

8.12 It is now widely recognised that zero or near-zero migration of low-skilled workers to the UK is neither an available nor a desirable policy choice⁷⁴:

- It is not available, because the economic and political forces shaping the movement of populations are simply too powerful. It is the human instinct to go in search of a better life, and the incentives for migration of low-skilled workers to the UK are significant, and are likely to intensify.
- It is also not available, because it is neither possible nor practical to impose the restrictions on the movement of people that this would entail. The 1951 UN Convention commits the UK on asylum and on family unification, EU conventions limit the restrictions that can be placed on EU nationals, and historic connections with the Commonwealth mean that many migrants have UK ancestry. Nor is it

⁷⁴ See, for example, editorials in the Times, Daily Telegraph, Financial Times, Guardian and Independent, on 20 June 2000.

possible to search every truck that arrives at a UK port, or to intensify checks on the 86 million people who pass through immigration control each year, or to instigate round-the-clock coastguard patrols over the whole of the UK coastline.

- It is not desirable, because those market forces simply reflect economic reality; current high levels of irregular economic migration (via illegal entry, overstaying, and the asylum system) show that, perhaps even more than with high skill migrants, there are very high levels of potential demand. Restricting that demand too much imposes substantial economic costs on the UK economy, which are likely to grow over time. As shown above, even low-skilled migrants, if they are in work, are likely to be economically beneficial to the UK as a whole. Nor are they likely to significantly harm either the employment or income prospects of low-skilled natives.

8.13 None of this suggests that immigration controls are not important or necessary. They are. But they are not sufficient. The issue is therefore whether low-skilled migrants come, as at present, through illegal immigration and the asylum system, placing substantial burdens on the control system, or whether some fraction of that flow could and should be diverted into legal channels. As a recent authoritative study on asylum in the EU put it: “Social and economic immigration quotas are an essential part of any comprehensive approach to migration, and their almost total absence has undoubtedly burdened asylum systems with unfounded claims, as well as contributed to the activities of smugglers and traffickers.”⁷⁵

8.14 In this light, the advantages of opening a legal channel for low-skilled migration would be the following:

- if conditioned on work, there would be significant economic and fiscal benefits, especially relative to current flows of (working) illegal immigrants and (non-working) asylum-seekers;
- any adverse labour market effects for the low-skilled would be less than with illegal immigrants – since legal migrants would be paid at least the minimum wage;
- social inclusion problems would be significantly less;
- such a move would complement and enhance the effectiveness of the measures currently being undertaken to improve immigration control.

8.15 A legal channel for low skilled migration could be temporary in the first instance, with the option for renewal or permanent settlement. This renewal would be dependent on how they had performed against their rights and responsibilities (see paragraph 8.22; e.g. their work record, whether they still had a job, and whether they had learnt English).

8.16 The impacts of low-skilled migration on specific groups of the existing population, in particular geographical areas, and sectors of the economy, would need to be carefully assessed and monitored in order to ensure that any negative impacts associated with a low-skilled legal migration channel were identified.

⁷⁵ The trafficking and smuggling of refugees: *the end game in European asylum policy?* UNHCR, July 2000, John Morrison.

8.17 A key question here is what is the substitutability between illegal migrants/asylum seekers and legal low-skilled migrants. It is unlikely to be one-for-one, since no conceivable scheme will allow in all those who might want to come to work. On the other hand, it is likely to be considerably greater than zero, for the following reasons:

- The untapped pool of potential low-skilled migration is lower than sometimes believed (for example, while there are literally hundreds of millions of Chinese whose potential income here is much higher than in China, most illegal Chinese entrants come from one or two very small areas).
- Related to this, a legal migration scheme, if accompanied by other measures, could help generate the positive information flows and feedbacks needed to reduce illegal migration.
- There is significant evidence that legalisation helps return migration.⁷⁶ As discussed in section 3, economic migration is not a one-off decision; many people want to move back and forth. But illegal or irregular workers may not have this option.

8.18 Most importantly, a **legal migration scheme would act on the demand side as well as the supply side**. By filling the jobs that are currently unfilled, or filled by illegal/irregular workers, the demand-pull factor for economic migration by irregular means will be reduced.

8.19 Such a system would therefore complement the measures the government is currently taking to ensure that the asylum system is fast, fair and effective (with swift deportation of those refused asylum). It would also need to be coordinated with measures to crack down on the trafficking of illegal immigrants, possibly in conjunction with measures to inform perceptions in potential source countries – both about the opportunities for legal migration, and the realities of illegal migration.

8.20 [How would such a scheme operate? There are a number of important policy choices here:

- Whether the system should be like the work permit system, with access for those with pre-arranged employment; or whether it should use some sort of other selection procedure or even some form of lottery.
- Whether the system should be very temporary (as with the current agricultural worker scheme), or more semi-permanent (as with current work permit holders); and whether there should be the subsequent opportunity for renewal and/or settlement.
- Whether the system should include different procedures for applicants from different countries – perhaps with country quotas – or whether all applicants should be treated the same, regardless of country of origin.

⁷⁶ TO BE ADDED: Reference to be confirmed.

- Whether the system was in any sense joined up with the asylum system – for instance by allowing some potential asylum-seekers to apply in their countries of origin, as with the US refugee resettlement program, and to give them the right (and obligation) to work.
- Whether the system was in any way joined up with the family reunion system. For example, by giving some preference to those who have some connections (distant family, friends, other social networks) in this country, but who would not meet the family reunion test – whether because insufficiently close family ties, or because the family cannot support the migrant without recourse to public funds.]

Post entry policies

8.21 Migration policy should be seen as a continuum, running from entry through to settlement and to social and economic integration. At the moment, most migrants cease to be regarded as an appropriate subject for policy, unless they either break the rules, in which case they are subject to enforcement action, or they are non-white, in which case they are regarded as part of the broader ethnic minority agenda. We see a specific role for post-entry migration policy, designed to ensure that migration does indeed achieve the government's economic and social objectives.

8.22 Post entry policies should be based on three principles:

- **information:** the provision of information, e.g. about access to the job market and about social customs makes it more likely that migrants will adapt quickly and successfully;
- **flexibility:** recognising the differing skill levels, and contributions, as well as needs, that migrants bring;
- **facilitation:** policies should be designed to facilitate migrants' inclusion and their economic success.

8.23 Running through all of these is the overall government theme of rights and responsibilities. Migrants have rights: to be fairly treated, not to be discriminated against, etc, and more generally to a reasonably welcoming environment; but they also have responsibilities: to work if they are able, to make a good-faith effort to learn English, to contribute to UK society not just economically but more generally.

8.24 Specific proposals in this area could include:

- Induction: simple literature and practical guidance for all migrants on the basic information needed to operate in the UK.
- A migrants' charter of rights and responsibilities: a clear statement of entitlements, which migrants can show employers and service providers, and a statement on their responsibilities.
- Related to this, a New Deal for non-economic migrants, including a requirement to study English, to do work placements and to accept suitable work.

- Mentoring schemes, including former migrants as mentors, and building on existing self help networks.
- A de-regulatory review of UK recognition of qualifications to remove unnecessary restrictions and facilitate refugees to requalify or to convert their overseas qualifications where necessary.
- Greater symbolic importance to the achievement of UK citizenship (including citizenship ceremonies, etc), as already suggested by the Home Secretary.

8.25 These measures should complement current approaches to enhancing inclusion amongst existing disadvantaged groups in the population – including existing migrants and minority ethnic groups, in particular. Careful thought would need to be given to the costs and resourcing of these different measures, to demonstrate that they are outweighed by the benefits of greater social and economic inclusion.

Box 8.1: the economics of immigration control

“resolving the problem of the undeclared worker requires more than just policies to control migration flows”

Jean-Pierre Garson, *Directorate for Education, Employment, Labour and Social Affairs, OECD*

What can economics tell us specifically about controlling illegal immigration? We know that:

- the price of trafficking is high: perhaps up to £20,000 from some regions
- increasing the stringency of border controls increases the price, but seems to have only a limited effect on demand – much is diverted to other routes.
- however, demand is very sensitive to labour market conditions

What are the implications of this:

- simply trying to improve controls, without taking other action, is highly unlikely to be successful. Demand is inelastic; the price will rise, but demand will not fall very much;
- a tax or regulation induced-wedge (at reasonable level) would be feasible; that is, migrants/employers would be prepared to pay rather than enter illegally;
- but to reduce the **quantity** of irregular migration will require a reduction in labour market pressures.

ANNEX 1: LIST OF CONSULTEES

In the course of the project, the team held two workshops, on the social and economic impacts of migration. We are very grateful to the following people for their valuable contributions at these workshops.

Workshop on Economic Impact of Migration (15 May 2000).

Suma Chakrabarti	Cabinet Office
Martin Donnelly	Cabinet Office
Robert Whalley	Home Office
Graeme Hopkins	Home Office
Julie Fry	HM Treasury
Jitinder Kohli	PIU
John Salt	University College London
Timothy Hatton	University of Essex
Tony Fielding	University of Sussex
Julia Onslow-Cole	CMS Cameron McKenna
[Thomas Hadley]	Confederation of British Industry
Gavin Mensah Coker	DEMOS
Susie Symes	The Spitalfields Centre

Workshop on Social Impact of Migration (15 June 2000)

Sarah Marshall	Home Office Race Equality Unit
Faz Hakim	No 10 Political Unit
Norman Glass	HMT/National Institute for Social Research
[Nigel Campbell]	DETR
Kamini Godhok	Department of Health
Peter Ward	Home Office
Tim Woodhouse	Home Office IND
Tariq Modood	Bristol University
Mark Johnson	De Montfort University
Enid Wistrich	Middlesex University
Ian Preston	UCL
Zig Layton-Henry	Warwick University
Rushanara Ali	IPPR
Richard Dunstan	NACAB
Sandy Buchan	Refugee Action
Dick Williams	Refugee Council

– DRAFT –

In addition, the team met and corresponded with numerous others with interest or expertise in the subject, inside and outside government. These are listed below. We are grateful for their time and assistance; of course, they have no responsibility for the opinions expressed in this report, or for any factual errors or omissions. We apologise to anyone who has inadvertently been omitted.

Jeremy Heywood	No. 10
Anna Wechsberg	No. 10
Liz Lloyd	No. 10 Policy Unit
David Miliband	No. 10 Policy Unit
James Purnell	No. 10 Policy Unit
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Ron Amman	CMPS
Martyn Craske	DFEE
Roy Saxby	DFEE
Bill Wells	DFEE
Owen Barder	DFID
David Batt	DFID
Anne Taylor	DTI
Michael Ridley	DTI
Valsa Shah	DTI
Harold Freeman	FCO
Anna Jackson	FCO
Tiffany White	FCO
Paul Johnson	FSA/DFEE
Ed Balls	HMT
Sam Beckett	HMT
Thomas Coskeran	HMT
Simon Fish	HMT
John Gieve	HMT
David Redhouse	HMT
Andrew Turnbull	HMT
Stephen Boys-Smith	Home Office
Julian Walker	Home Office
Des Storer	Government of Australia
Nicol MacDonald	Government of Canada
Sonia Bhatia	Citizenship and Immigration, Government of Canada (CIC)
Dan Costello	CIC
George Sullivan	CIC
Meyer Berstein	Metropolis Project, CIC
Howard Duncan	Metropolis Project, CIC
Bob Bach	Immigration and Naturalization Service (INS), US Government
Thomas Hussey	Immigration Litigation Office, INS, US Government
Scott Busby	US State Department
Alan Krescko	US State Department
Richard Berthoud	Essex University
Stephen Wheatley-Price	Leicester University

– DRAFT –

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Diane Coyle
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Kathleen Newland
Demetrios Papademitriou

The Independent
Kingsley Napley
Birmingham Museums and Art Galleries
Carnegie Endowment for International Peace
Carnegie Endowment for International Peace

ANNEX 2: LIST OF SOURCES

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