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MIGRATION: AN ECONOMIC AND SOCIAL ANALYSIS

[NOVEMBER 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 oversees, 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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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:

Stephen Glover	PIU
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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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CONTENTS

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 further research and analysis that will help to underpin future policy development in this area.

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 debate, in both the UK and the rest of the EU, about the need for a new analytical framework for thinking about migration policy if we are to maximise the contribution of migration to broader 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 increased. 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:

   - the current strength of the UK labour market;
   - economic globalisation;
   - increasing economic integration and labour mobility within the EU;
   - increased political instability around the world.

6. All but the last are related to globalisation; and are therefore not likely to reverse. Migration may therefore be on a secular upward trend. Indeed, over the medium to longer term, migration pressures will intensify across Europe as a whole as a result of demographic changes.

7. Chapter 4 outlines the Government's aim and objectives for migration policy, focusing on the Home Office's aim to regulate migration to the UK in the interests of social stability and economic growth. This is put in context of the Government's wider aims and objectives and relevant departmental objectives.

8. 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.

9. 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. In particular, migrant experiences are more polarised than those for the population as a whole with larger concentrations at the extremes (e.g. of wealth and poverty, high and low skills, etc).
- **Migrants have mixed success in the labour market**, some migrants are very successful, but others are unemployed or inactive. Migrants have higher average incomes than natives, but this average masks the polarisation of experiences, with migrants over-represented at both the top and the bottom of the income distribution, and with lower activity rates. Key correlates of success include method of entry to the UK (and the requirements and restrictions placed upon them), education, and English language fluency, which interact in complex ways. Important 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.
- **Where migrants settle is likely to be a complex decision**, and is one we know relatively little about. Migrants are highly concentrated – and increasingly so – in London, reflecting the size of the London labour market, and the well-documented unmet labour demand in London. Within London, migrants are concentrated in areas of both relative prosperity and relative deprivation (and high unemployment). Elsewhere, many migrants tend to gravitate to areas where housing costs are relatively cheap (and housing is available), and where there are already others from their home country. Thus they tend to be concentrated in cities, and in areas of relative deprivation within those cities.
- **There is little evidence that native workers are harmed by migration**. There is considerable support for the view that migrants create new businesses and jobs and fill labour market gaps, improving productivity and reducing inflationary pressures. Continued skill shortages in some areas and sectors suggests that legal migration is, at present, insufficient to meet demand across a range of skill levels.
- **The concentration of migrants in particular areas brings with it a number of positive and negative externalities**. They bring diverse skills, experience and know-how to the UK, and help to regenerate run-down areas; but also, in theory, may increase pressure on housing markets, transport and other infrastructure and exacerbate over-crowding and congestion.
- **Migration also has implications for the countries of origin**. The migration of skilled workers, for example doctors or nurses, 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' age distribution and higher average wages. Again, employment is an important determinant.
- **Not enough is known about migrants' social outcomes**. Migrants bring a widening of consumer choice for the host population and significant cultural and academic contributions. They do not 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.

10. Chapter 7 argues that there may be scope to review policy in a number of areas.

- Migration policy and the labour market: the different entry routes all impact on the labour market, but in different ways, and with no real coordination across the different routes or with broader objectives. Migration is important in helping to address skill shortages at all skill levels, and helping foster and stimulate innovation and the creation of new businesses and jobs.
- Rising illegal migration reflects a number of factors including unmet demand in the labour market (particularly, but not only) at the lower end, and other exogenous pressures (including economic, social and political instability in the country of origin). 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 by itself.
- The entry control system is not sufficiently joined up with other areas of government policy, and post-entry policies do not sufficiently address social and economic objectives. There are a number of areas where policy could enhance migrants' economic and social contribution, in line with the Government's overall objectives.
- Post entry policies: migration policy should be seen as a continuum, running from entry through to settlement and to social and economic integration.

11. Policies on migration should 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 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.

12. Finally, the report briefly outlines some possible areas for further work and future policy development. Options that might be considered include:

    - A thorough review of international experiences, of the different types of migration and the different policy approaches.

- Better identification of migrants entering through the different migration channels, their characteristics, motivations and outcomes: trying to explain why their outcomes differ. In particular:
  - better information on illegal and irregular migrants – who they are, how they get here, what they do when they get here, where they live and where they work; and
  - better information on asylum seekers – in particular their characteristics and motivations.

- A clearer understanding of where different types of migrants settle within the UK (by entry route and characteristics), and why. And a better understanding of the wider impacts of where migrants settle – on congestion, housing, and other services at the local level.

- More information on the social outcomes for all migrants, in particular whether and where they suffer social exclusion and which characteristics, factors and policies can help their inclusion.

- Evaluation of the impacts and implications of recent changes in migration policy – particularly the changes to the work permit system, and the new approaches being piloted.

- A wide range of labour market analyses – in part to confirm the results reported in Chapter 6 and that experiences abroad (notably the US) are also applicable in the UK. Key areas are likely to include:
  - geographical, industrial and occupational variation in labour market (and broader economic) outcomes;
  - the impact of English language fluency, education, and non-UK qualifications on labour market outcomes;
  - outcomes by entry route and by skills and other characteristics of the migrant (on a longer timeframe, it may be possible to add questions on route of entry to the LFS);
  - the interactions between illegal and irregular migration and the (formal) labour market;
  - impacts of migrants on resident workers; and
  - how these effects change over time (including potential longitudinal analyses).

- More generally, examining how the impacts of migration vary over time, both in the labour market and in the social and wider impacts: in particular whether these are different in the short term and longer term.

13. All of this research and analysis is likely to be important in helping to determine whether and where policy should be reviewed. It will also be important in informing any such review and, in particular, in determining the characteristics, criteria and design of any new policy measure.

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 a growing debate – 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 Project[1], 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.

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 downsides. To do that, government needs to take an active and progressive role

[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.

– 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.

1.6 The analysis in this study is based on data and research on the UK's current migrant population. Projections based on the current population are necessarily tentative, as future migrants may not be the same as those who are currently in the UK (and we know relatively little about the migrants who are currently here).

1.7 This study is not intended to be a definitive statement on UK migration. Rather it attempts to identify what we know from existing data sources and analysis, and to outline areas where further analysis is required. In this way, this study aims to be the start of a process of further research and debate. 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] See, for example, the Prime Minister's Speech to the Global Ethics Foundation, Tübigen University, Germany, 30 June 2000.

2. The economic theory 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 migrants' 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 migration 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 migrant) and a willing seller (the migrant), and is hence likely to be both economically efficient and beneficial to both parties. Indeed, the basic economic theory of migration is very similar to that of trade; and, like trade, migration 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 **migration is welfare-improving**, not only for migrants, but (on average) for natives[6].

2.6 One key difference between migration and trade, however, is that – unlike goods or capital - migrants are, as discussed above, economic and social agents themselves, with a degree of control over the migration decision. So unlike goods or capital, migrants are self-selected. Partly as a result, **migration 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, migration has distributional implications. In general, migration increases the supply of labour (and human capital); this is likely, in theory, to reduce wages for workers competing with migrants, and increase returns to capital and other factors complementary to migrant labour. In general, this redistribution will favour natives who own factors of production which are complementary to migrants; 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. As set out in Chapter 6, the UK does have a relatively flexible and well-functioning labour market. However, if this is not the case, then it is theoretically possible for migration to generate higher unemployment for natives. For example, if native workers are not prepared to accept a wage below a given floor and migration leads to the market wage for some native workers falling below that floor, then migration 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.

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

[6] There are many different ways of defining "natives" and "migrants". For consistency, the term 'natives' is used throughout this report to refer to the existing population of people born in the UK, to distinguish them from foreign-born migrants.

2.9 **Migration 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**:**

- congestion: migrants could increase congestion in some areas, imposing costs directly on native workers and businesses;
- neighbourhood benefits or disbenefits: migrants could help to regenerate depressed neighbourhoods, or the reverse;
- intangible social and human capital: migrants may have attributes – entrepreneurialism, for example – that generate benefits for natives;
- diversity: natives may gain (tangible or intangible) benefits from interacting with migrants from different backgrounds and cultures.

2.10 **Migration 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, migrants will consume public services, and may be entitled to some social security benefits;
- on the benefit side, migrants 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 migration in the long run.[7] However, it is possible to imagine cases (generally reflecting increasing returns to scale) in which the long-run impact of migration is greater than the short-run. For example, migrants 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.[8]

The bottom line...

2.12 Theory suggests that migration should have a positive effect on growth, but an ambiguous one on growth per capita (depending on the capital level of migrants: if migrants' 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

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

[8] 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."[9] Given the usual age structure of migrants, this would imply that migration would be likely to raise per capita income.

2.14 We have attempted to replicate this type of analysis for migration in European countries.[10] 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 migration 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 migrants' incomes described below in Chapter 6.

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

[10] 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. It has always been relatively open, and the **British population is now, as it always has been, the result of successive influxes of migrants and the racial and cultural intermixture of those migrants with those who were already there**.

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 post-war immigration from the New Commonwealth[11].

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 shameful in some respects. Similarly racist attitudes towards immigrants from the New Commonwealth came not just from extremists 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 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 migrants or their descendants; and
- (to some extent) the promotion of equal opportunity and anti-racism so as to facilitate the integration of non-white migrants (and their descendants).

3.5 There is some truth to this, but it presents a partial and incomplete description. Immigration was primarily a market-driven response to supply and 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.

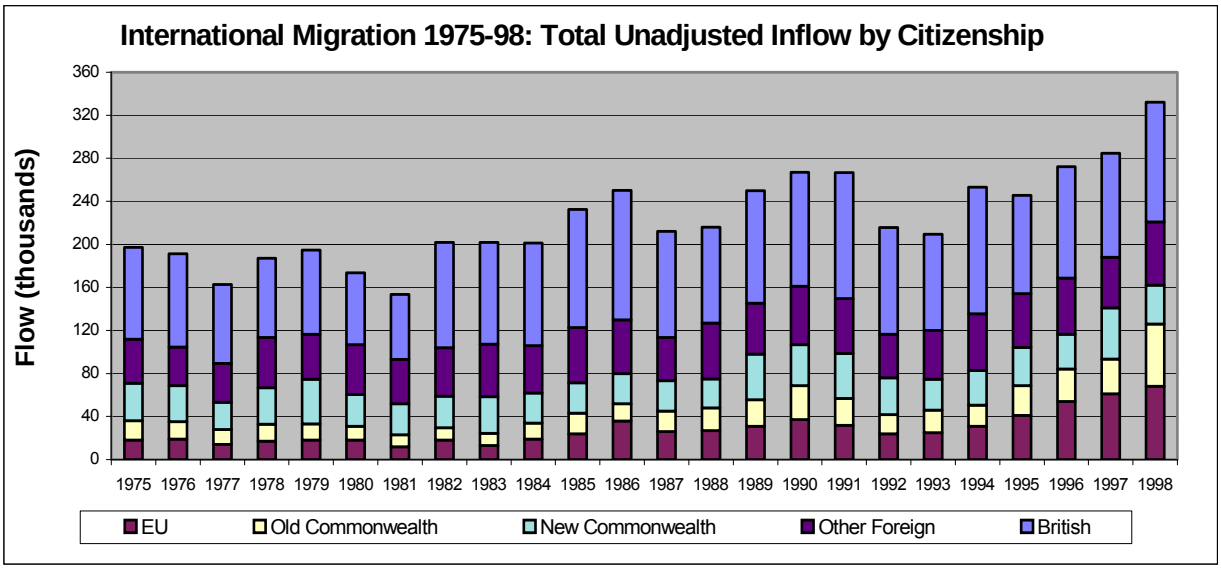
[11] The Old Commonwealth (OC) comprises Australia, Canada and New Zealand; the New Commonwealth (NC) comprises all the other countries of the Commonwealth.

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

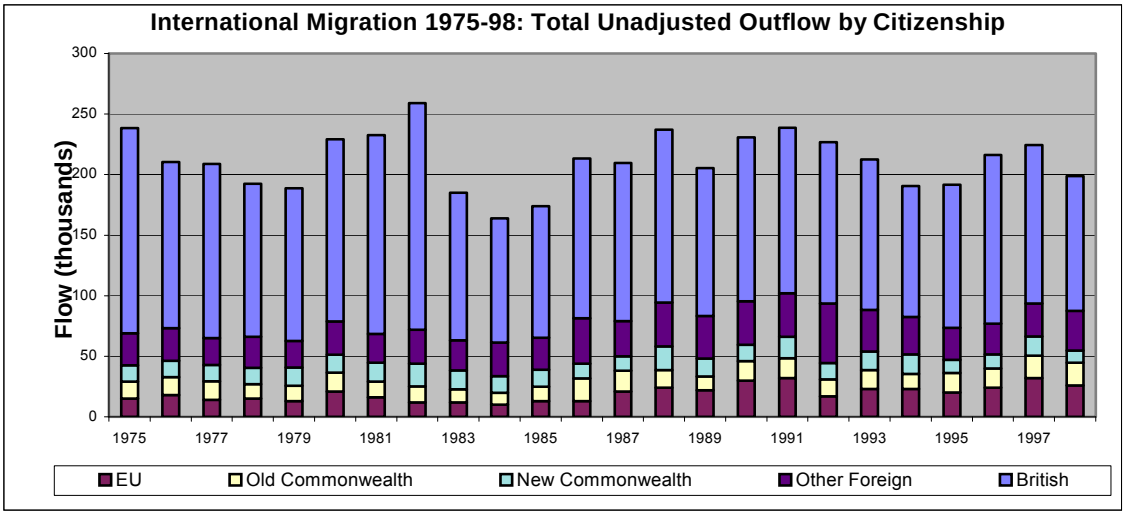
- there was substantial net emigration throughout the 1950s, 1960s and 1970s;
- there was substantial, two-way, Irish migration;
- there has always been significant, largely uncontroversial, labour-related migration via the work permit and other systems; and
- the UK has gradually become part of a European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



3.9 As the second of these charts shows, emigration from the UK has remained at similar levels to immigration to the UK, for most of the 1980s and 1990s. In part, this reflects an ongoing process of outward and return migration by British citizens. In part, it reflects return migration by foreign nationals who had previously immigrated to the UK.



Recent trends

3.10 Over the last few years net migration to the UK has increased significantly. This seems to reflect the following factors:

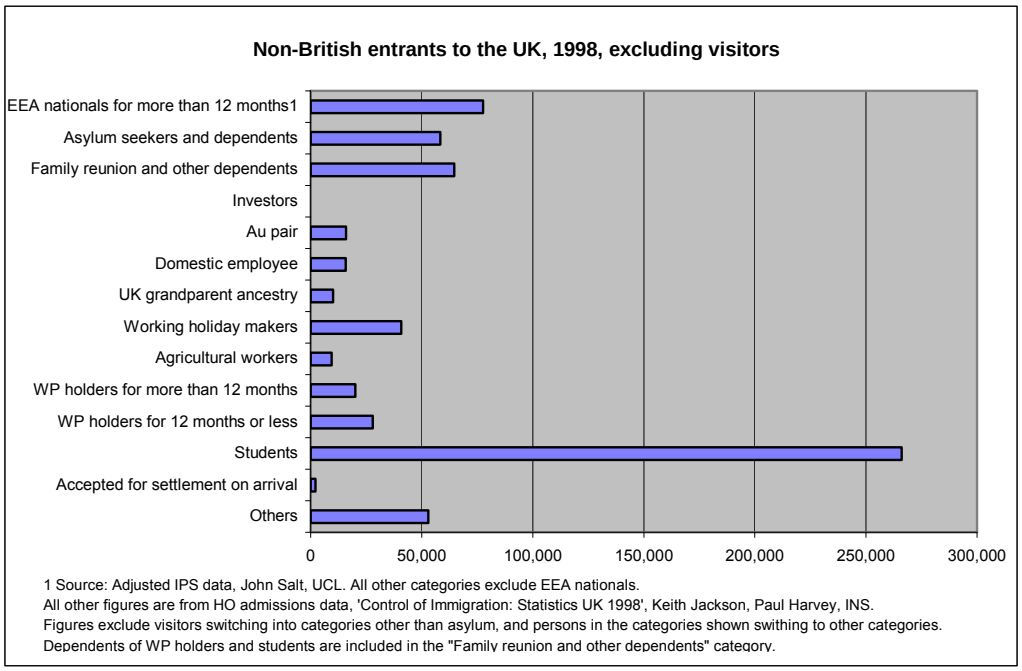
- **Economic globalisation**, the most important example of which is the success and growth of the City of London. To refresh its intellectual capital, the City requires a continual infusion of new talent, as well as interchange with other such centres like New York. Globalisation also reduces transport 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.

- 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, 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).

3.11 The rise has been in all categories of migrants, 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).



3.12 The chart above takes the inflow of people other than UK citizens, from the Home Office admissions data and (for EEA nationals) the IPS, 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).

3.13 Some interesting conclusions flow from this analysis of recent trends:

- Asylum seekers and illegal entrants and overstayers (and, to some extent, even family reunion migration) are influenced by economic forces as well as political ones. Research shows that where asylum seekers are in a position to choose, their choice of destination is 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.[12] Illegal entry – difficult to measure, but probably increasing – is also likely to be strongly correlated with economic factors;

- 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: trying to reduce or eliminate migration through immigration **control** policy alone is likely to be very difficult;

- And most importantly, it would 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.

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

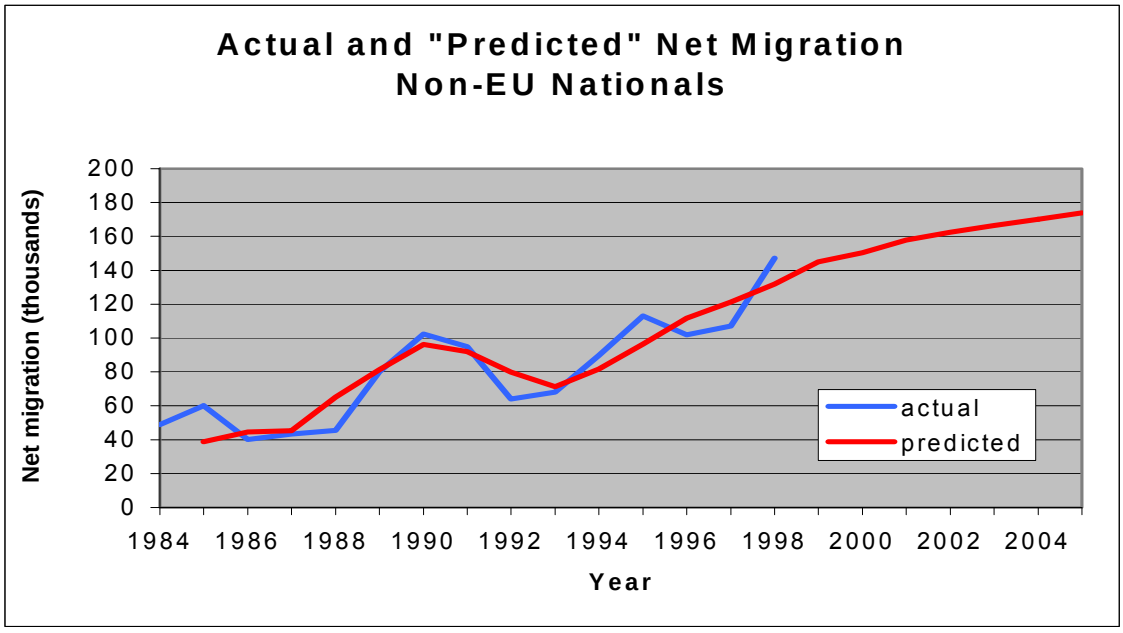
EU aspects

3.14 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.

3.15 But now all countries in the European Union 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

3.16 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. Those migrating to the UK are also likely to continue to be very diverse in the skills, experience and characteristics they bring, their motivation, and their source countries.



3.17 The graph shows actual net migration (of non-UK, non-EU nationals) and a simple regression-based prediction[13], using the IPS data adjusted to take account of category switching and asylum seekers.

3.18 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 persistent[14]: both because migrants acquire legal rights around family reunion, and because of chain migration effects[15].

3.19 Over the longer term – say 5-20 years – migration pressures seem 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.[16]

- 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[17].

3.20 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, including for the financing, provision and staffing of health, social service and pension systems.

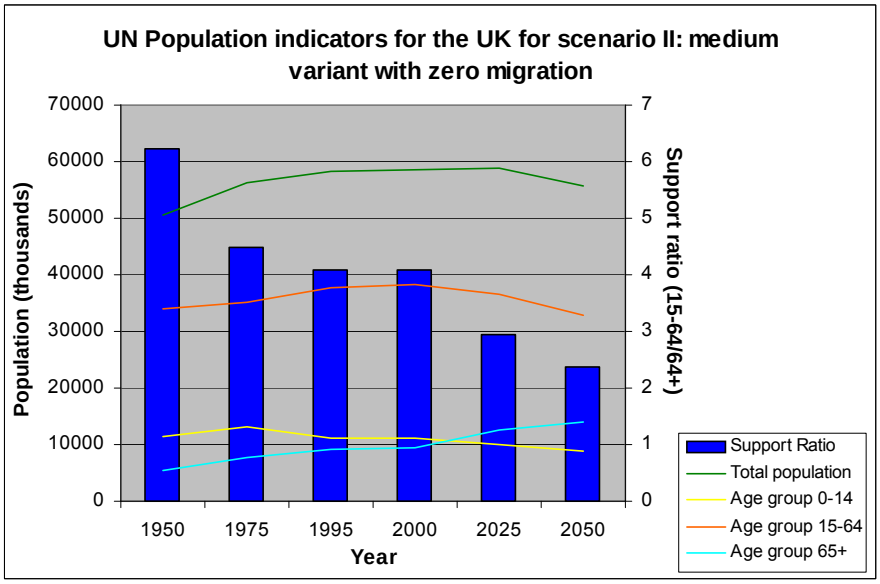
[13] Dependent variables are the level of UK unemployment (ILO basis) and net migration lagged one year. For the "prediction", we assume unemployment is stable. Note that this is not a forecast; it is simply a method of extrapolating current trends.

[14] 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.

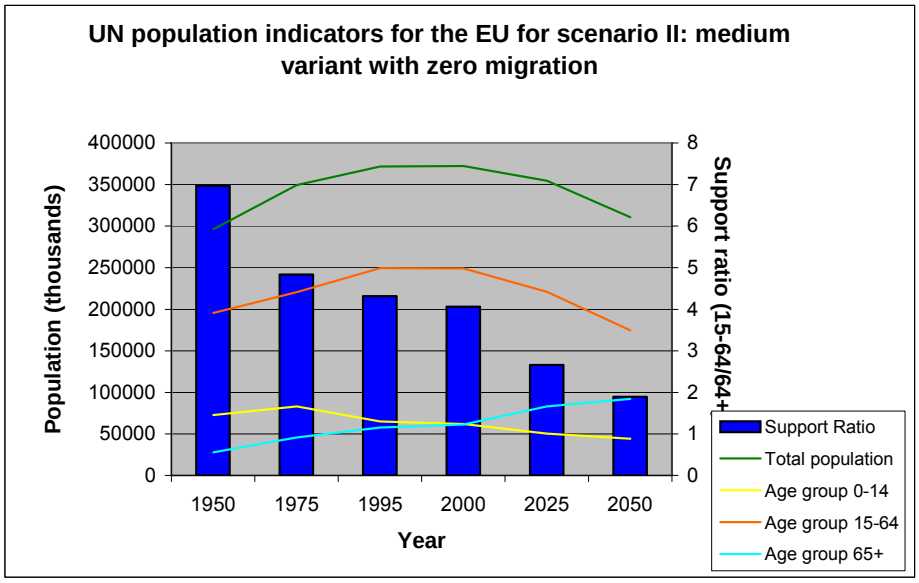
[15] For example, through the spread of information about how to get to a particular destination country, the entry requirements and on how to find accommodation and work; and through the creation of a network of contacts and support in the destination country.

[16] 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

[17] For example, the growth in religious fundamentalism, the fragmentation of nation states and population growth and the contested ownership of scarce natural resources.



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.

3.21 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 higher participation rates in the labour force.[18] 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).

3.22 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

[18] 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.

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.[19]
- 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.

[19] 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 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 Thus 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. We now examine how the current immigration system interacts with these other policies and objectives (in Chapter 5). Chapter 6 looks at the social and economic outcomes of migrants that are (at least implicitly) the result of these policies and objectives.

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 that they would like to stay longer, either legally or otherwise. In addition, British citizens living abroad have unrestricted rights to return to and settle in the UK. 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.

<u>EEA nationals</u>

5.5 Nationals of EEA member states have relatively free access to live and work in the UK. This has long been the case for the Irish, other member states have gained this right as EU single market legislation has developed. This right is not completely unqualified: EEA nationals are supposed to have sufficient funds to support themselves without recourse to public funds, and some posts in the Civil Service are restricted to UK citizens only.

<u>Work permits</u>

5.6 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 intermediate skills;
- 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).

5.7 The work permit regime was subjected to a thorough review announced in November 1999. As a result, a range of measures to streamline and simplify the system were published in the Budget, in March 2000. A number of these measures came in force on 2 October 2000, including changes to the skills threshold required for a work permit, and simpler procedures for extending a permit. Thus, it is now possible for graduates to be eligible for work permits with no work experience for skills in high demand, and the key worker category has been replaced with simpler procedures for workers with intermediate skills. In addition, the maximum length of a work permit has been increased from 4 to 5 years, and a number of new approaches will be piloted (including a self-certification scheme for multinational companies being piloted from October 2000).

5.8 Around 100,000 work permit applications are expected this year, up from about 80,000 applications in 1999 (of which over 90% are approved). Numbers of applications have been rising steadily since the early 1990s. After 4 years, work permit holders may apply for settlement but, 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).

5.9 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.[20] 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 5.1.

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

Box 5.1: the work permit system

The work permit system is administered by the Overseas Labour Service (OLS). The current work permit rules were introduced in October 1991, and are in the process of being streamlined and simplified as a result of a substantial review started in November 1999. The aim of the arrangements is "to strike the right balance between enabling employers to recruit or transfer skilled people from abroad and protecting job opportunities for resident workers".[21]

The system is employer-led. The employer applies for the work permit, a person may not generally apply for their own permit (though the current innovators pilot relaxes this condition). There are no quotas, if an application meets the criteria it will be approved. There is no limit on numbers.

The aim is not to undercut resident workers. The terms and conditions offered, including pay, must be no less favourable than those offered to a resident worker doing the same job. There are three strands in the work permit arrangements: Business and Commercial, Sportspeople and Entertainers, The Training and Work Experience Scheme (TWES).

Business and Commercial
Generally a work permit is required where there is a labour market need. To safeguard job opportunities for resident workers, the employer needs to show that the post cannot be filled by a 'resident worker' (usually through advertising). This is set aside for designated shortage occupations, Intra-Company Transfers, board level posts and inward investment.

The system has been based around jobs that require high level skills at a level which it would be impractical to train a resident worker. This is usually a degree level qualification or substantial senior managerial experience. But other skills are recognised too, for example nurses and chefs.

Sportspeople and Entertainers
There is rarely a labour market test - most people are doing a job that only they can do. Where the employer can not readily show that it is a job only they can do, the OLS would seek specialist advice e.g. from Equity or the Musicians Union. Separate arrangements are set up with individual sports governing bodies.

The Training and Work Experience Scheme (TWES)
The scheme is tightly prescribed under the Immigration Rules and is designed to facilitate the international transfer of skills and expertise. Participants undertake professional qualifications and higher level work experience after which they undertake to leave the UK to put their new found skills into practice. Immigration rules prevent people transferring from a TWES to a work permit in all but exceptional circumstances.

Other labour-related categories

5.10 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

[21] A 'resident worker' is defined as a person who is a national of an EEA member state or has settled status within the meaning of the Immigration Act 1971.

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

5.11 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.

5.12 A new innovators scheme is currently being piloted, which allows entrepreneurs with innovative ideas to enter the UK to establish a new company, without having to invest substantial amounts of their own money in the company. In addition, a new quota-based scheme for highly talented people will be piloted to assess whether there are benefits to be gained from allowing people of outstanding ability to apply on their own behalf to enter the UK and seek work.

Students

5.13 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) or some students may be eligible to be granted a work permit on completing their course.[22] 266,000 students were given leave to enter in 1998.

5.14 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.

[22] Access to TWES and other parts of the work permit system is currently being streamlined. Work is also in hand to make it easier for students to be eligible for a work permit from within the country.

5.15 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

5.16 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 Iraq, Sri Lanka, Somalia, Turkey, former Yugoslavia, and China.

5.17 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. Of those refused asylum 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 (via another category, for example marriage).[23]

5.18 Research indicates that the principal motivations for asylum seekers to come to one EU country rather than another, 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]

5.19 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. Though it is true that numbers of applications for asylum in the UK fell temporarily in 1996 after eligibility and benefit entitlements were tightened up in the 1996 Asylum and Immigration Act. The characteristics and motivation of asylum seekers are important issues where further research is needed.

Family settlement system

5.20 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

[23] These statistics are from the Government Statistical Service publication: 'Control of Immigration Statistics, United Kingdom, 1998'.
[24] Böcker and Havinga (1997).

applicants in the Indian sub-continent, can be very long: up to a year 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

5.21 In 1998, 16,500 illegal entrants were detected. 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.

Policies which impact on integration

5.22 Virtually all areas of government domestic economic and social policy affect migrants. In this section, we highlight the key policies which explicitly affect migrants and those that more implicitly affect migrants (along with other elements of the UK population). How these policies impact on the economic and social outcomes of migrants is discussed in the following section.

Access to employment

5.23 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.[26]

5.24 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. Once asylum seekers have attained refugee status, they are entitled to work. Those denied refugee status, but granted leave to remain, are also entitled to work.

[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.

[26] 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.

5.25 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.

Access to housing, health, education and benefits

5.26 Access to health, housing and welfare services is determined by immigration status. Entry to the UK is, for many migrants, dependent on evidence that they can support themselves (or be supported) without recourse to public funds. Thus, those subject to immigration restrictions – for example, spouses or accompanying children under family reunion during their first 12 months, those on work permits or au pairs – are not entitled to any welfare benefits or social housing. For grandparents, the restrictions on access to benefits 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 for non-emergency cases as well. Dependent children may attend state schools. Those with a right of settlement in the UK can obtain grants for higher education and pay home fees.

5.27 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 support system, which minimises cash payments and provides a basic level of support is intended to reduce the perceived incentive for economic migrants to seek asylum in the UK.[27] NASS is also intended to provide national coordination of services and relieve local authorities of a sometimes difficult responsibility.

5.28 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 for refugee status or ELR 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.

Family reunion

5.29 Spouses of an existing resident (including those granted refugee status) 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. Asylum seekers who receive leave to remain may not apply for family reunion until a further 4 years have passed. Overseas students and work permit holders may bring their spouses and children.

English language training

5.30 Migrants to the UK are not required to learn English and assistance for adults is patchy, with some dispersed asylum seekers receiving assistance through local education authorities, and other provision through adult and further education and other ad hoc provision. From 1967, resources were given to local authorities to provide English language tuition, which, until 1993 was restricted to

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

Commonwealth immigrants, but which has since been available in respect of all ethnic minorities[28]. Local authorities have to provide matching funding. Provision is uneven and Ofsted 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.

Social exclusion

5.31 There are a range of measures aimed at tackling social exclusion, intended to improve 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)[29]. Migrants who fall into "socially excluded" groups will benefit from these measures alongside the existing population – although their particular needs are not specifically addressed in these programmes.

Equality

5.32 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. 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 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);

[28] Grant was originally paid by the Home Office under section 11 of the Local Government Act 1966, which was predominantly used for education but which also extended to other local authority service areas such as social services and housing. Following the Comprehensive Spending Review in 1997/98, responsibility for funding English language support, and other work to raise ethnic minority pupils' achievement, in schools was transferred to the DfEE, to be administered as a new Ethnic Minority Achievement Grant.

[29] 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.

- 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.

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

Civic and cultural involvement

5.34 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

5.35 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'.[30] Migrants 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 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

5.36 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

5.37 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, enabling 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

[30] *Fairer, Faster and Firmer,* CM 4018.

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. These outcomes likely vary for the different categories of entry, reflecting the diverse characteristics of migrants and the different requirements and restrictions associated with the different categories.

6.2 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.

6.3 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.

6.4 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. There is a real need for further work to better identify the different groups of migrants and their characteristics and to understand the reasons for their different outcomes.

6.5 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 migrants, as they were born in the UK.

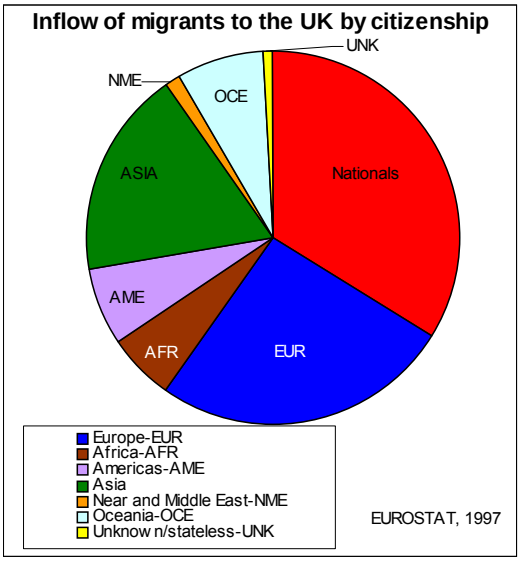
6.6 The data pick up primarily legal migrants, but illegal migrants are likely to be included to varying degrees. In particular, those who overstay the duration of their visa and those who work beyond the terms of their visa are quite likely to remain within the formal sector in other respects. While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

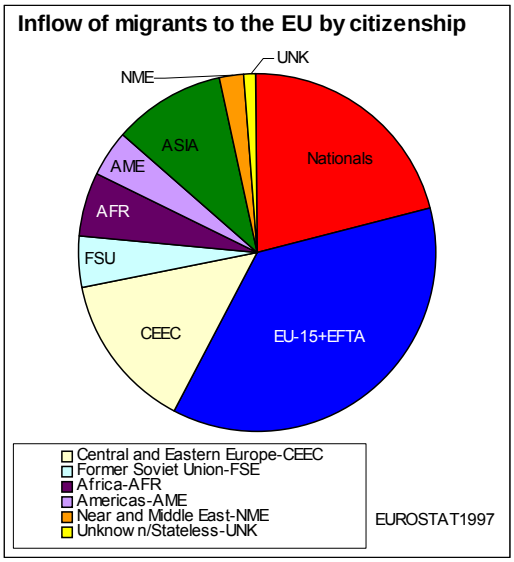
Characteristics of migrants

6.7 Migrants are very heterogeneous – differing across many dimensions, and at least as much from each other as they do from the population at large. In particular, migrant experiences are more polarised than those for the population as a whole, with larger concentrations at the extremes (e.g. of wealth and poverty, high and low skills, etc).

6.8 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.

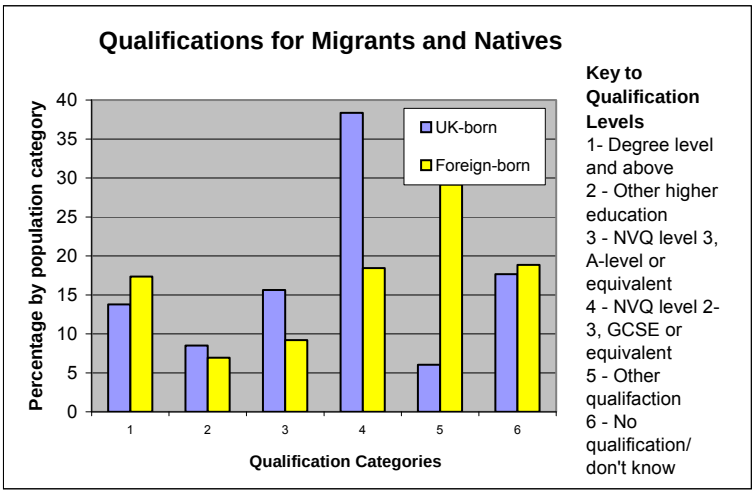




6.9 Turning to LFS data, education and skill levels are polarised within the migrant population: that is, proportionately, there are both more highly educated people, and more relatively unskilled. To some extent, this polarisation reflects the functioning of the immigration system – those allowed into the UK on work permits and as students will be relatively highly educated (almost by definition). Migrants entering through other routes will tend to have a more diverse range of skills – both because of their various reasons for migrating and because of the diverse education systems they come from – qualifications from which may not all be recognised in the UK.

6.10 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.[31] And while many asylum seekers and illegal immigrants probably do not show up in these statistics, other research shows they too are very heterogeneous, with a significant proportion of professionals.[32]

[31] See Metropolis paper 99-S3, 'Experience with Temporary Workers: Some Evidence from Selected European Countries' Thomas Straubhaar (1998).
[32] The Settlement of Refugees in Britain, Home Office Research Study 141 (1995).



6.11 There are also characteristics that migrants will have in common. In particular, the self-selection of migrants is likely to mean that they are more resourceful, entrepreneurial, and ambitious than the norm. 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

6.12 Migrants have mixed success in the labour market: some migrants are very successful, but others are unemployed or inactive. At least in part, labour market success is influenced by the category of entry to the UK, both through the requirements and restrictions placed on different categories of entry, and through the targeting of characteristics likely to generate success (in particular for the various work permit categories). Overall their wages are higher, but this average masks the polarisation of experiences, with migrants over-represented at both the top and the bottom of the income distribution, and with lower activity rates than natives. Education and English language fluency are key determinants of labour market success and interact in complex ways.

Labour market participation

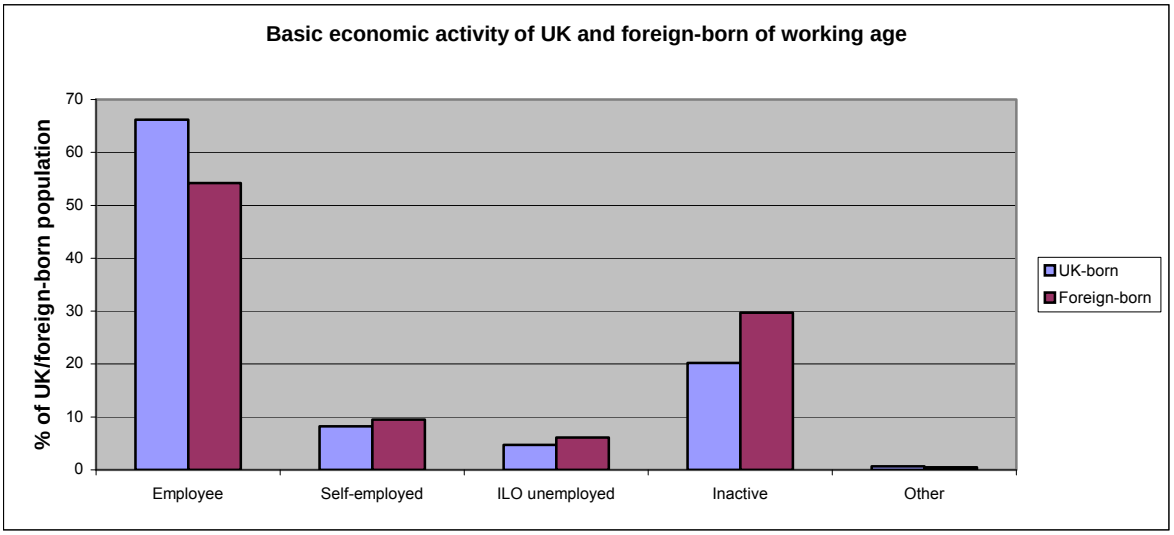
6.13 Overall migrants are less likely to be employed and more likely to be unemployed than natives (on LFS data). In addition, migrants are half as likely again as natives to be inactive, probably partly reflecting lower participation rates amongst women, and partly reflecting the numbers of students. Again, there is considerable heterogeneity in migrant experiences and some groups of migrants have particularly high unemployment and inactivity rates, while others have high employment rates.

6.14 The category of entry and the requirements, restrictions and targeting may generate these varying labour market experiences. Language fluency is also an important determinant of employment. Recent studies[33] show that the employment rate for ethnic minority migrants is 20 to 25 percentage points higher when they are fluent in English. In addition country of origin may be closely

[33] Shields and Wheatley Price (1999) found a 20-25 percentage point effect, using data from the fourth National Survey on Ethnic Minorities (NSEM, see Modood et al, 1997); and Dustmann and Fabbri (2000) found an effect of around 15 percentage points for ethnic minorities more generally using the same data, and an effect of around 20 percentage points using the Family and Working Lives Survey (FWLS).

correlated with outcomes because of cultural and historical links that may ease integration.

6.15 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).[34] For example, it has been estimated by *Le Figaro* that 150,000 French entrepreneurs have moved to the UK since 1995[35] (attracted in part by better transport links through the Channel Tunnel). These have included internet and other high-tech ventures, one example cited was a computer design firm that had relocated to Ashford, Kent[36].

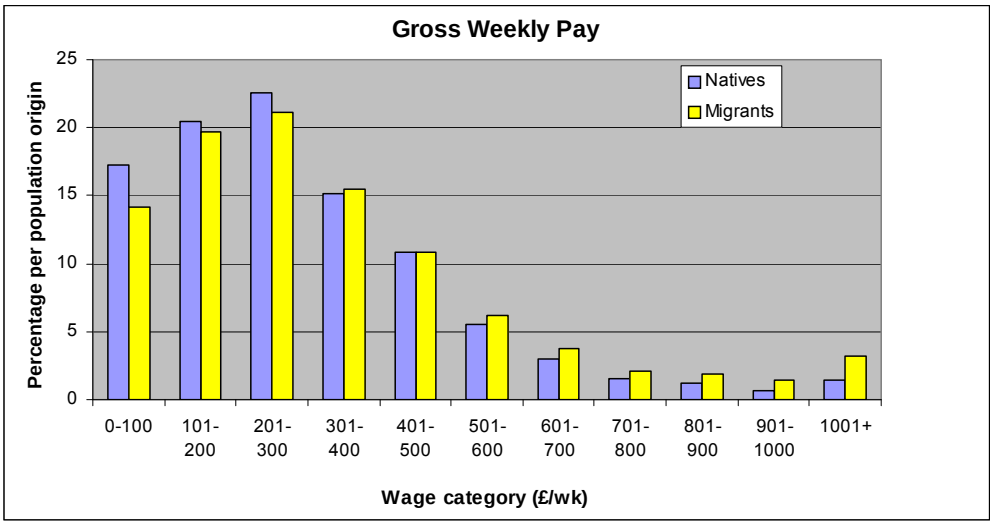


6.16 Migrants appear to perform well in the UK labour market compared to other EU countries (although cross-country comparisons need to be treated with care, given data problems). The migrant population in the UK has an unemployment rate of 6% compared with an unemployment rate of just under 5% for the UK born. 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 group[37]. 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.[38]

Wages and incomes

6.17 On average, those migrants identified in the Labour Force Survey who do work 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). Many of these relatively well-paid migrants likely reflect the success of the work permit system in matching migrants to vacancies in skilled occupations.

[34] See Business Week, "Europe's Unsung Heroes", 28 February, 2000. And, for example, immigrants are twice as likely to own businesses in Denmark as natives (15% against 7%) – reported by FCO post.
[35] "French Firms flee Jospin for Britain", Charles Bremner, The Times, 22 February 2000.
[36] "Internet fosters a Gallic invasion", Charles Bremner, The Times, 22 February 2000.
[37] FCO report France.
[38] FCO report Finland and Netherlands; SOPEMI report.



Returns to skills and education

6.18 For those that are in work, UK research has shown that language fluency increases the mean hourly occupational wage for ethnic minority immigrant men by around 17%[39]. This result is corroborated by similar experiences in other countries, e.g. in Canada and in Holland.[40]

6.19 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

6.20 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

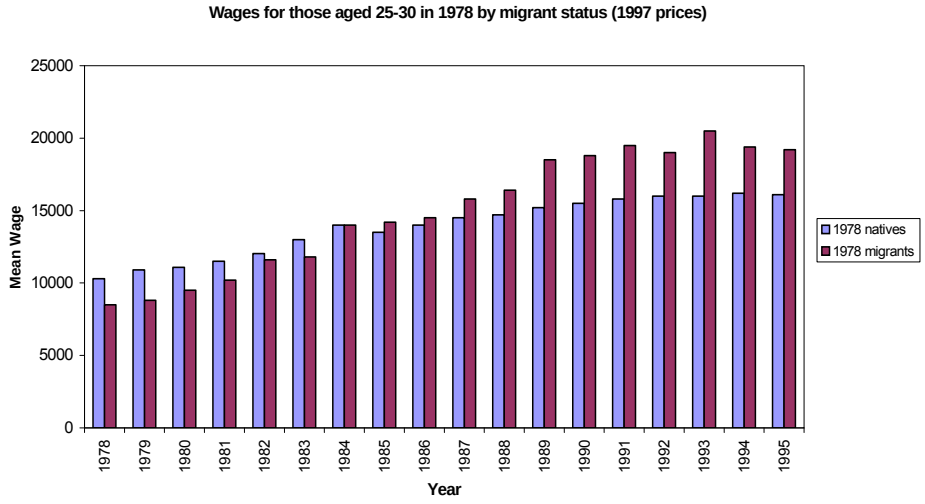
6.21 There is a substantial literature in the US showing that immigrants generally begin by earning less than natives, but catch up and eventually overtake them – known

[39] 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 NSEM dataset.

[40] The most reliable data on migrant success and language skills is from Canada. 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 Şaziye Gazioğlu.

[41]. 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 UK[42], see chart below, though those migrants who remain in the UK are inevitably a relatively narrow subset of the total.

6.22 In addition, a similar pattern of labour market assimilation can also be seen in the economic activity data. Migrant activity rates increase with time after arrival in the 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. This pattern of assimilation suggests that there may be short term difficulties for migrants, as well as longer term benefits, as a result of migration.



Other barriers to employment

6.23 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.[43] Many EU employers are reluctant to hire refugees because of lack of knowledge about refugee issues and fear of cultural incompatibility.[44]

[41] Chiswick (1984) and Bell (1997), though the data set for each is relatively small.
[42] HM Treasury, unpublished research note.
[43] In June 2000, the Council of Ministers agreed on a directive prohibiting racial and ethnic discrimination in the workplace.
[44] Refugee Council, ECRE Task Force on Integration, *Refugees and Employment: the European Context*, November 1999.

Box 6.1: Refugee Doctors[45]

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.

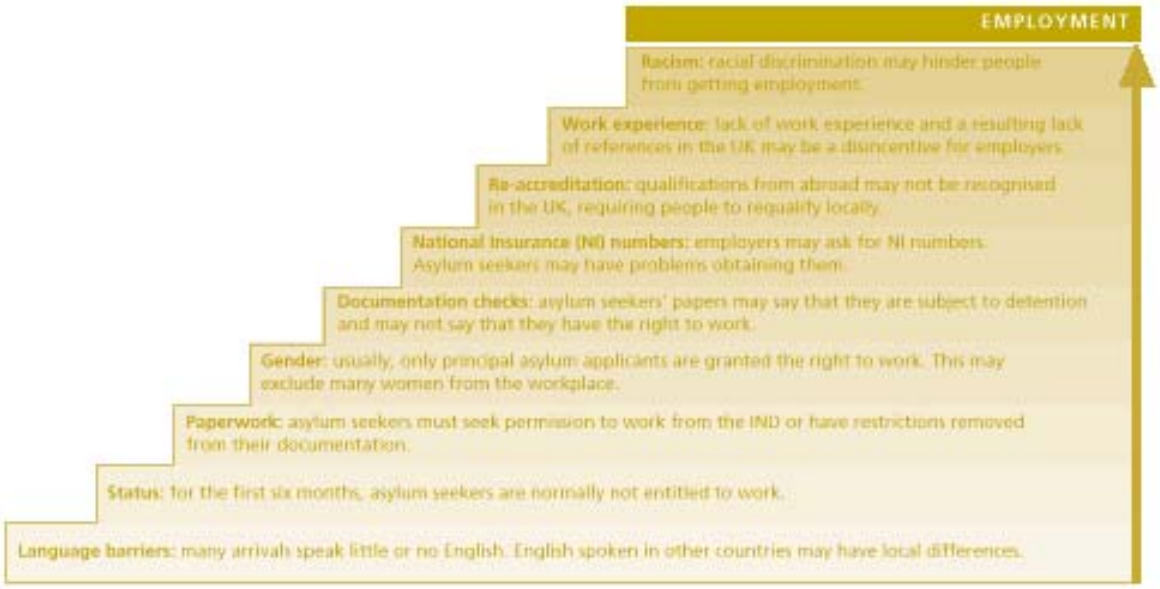
Dr Nayeem Amim came from Afghanistan in 1993, heard about the Hendon course in the local paper and is now a GP Registrar in Dunstable, Bedfordshire. "This country saved me and now I have a chance to give something in return" he says.

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.

6.24 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.[46] 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 training[47], and a lack of knowledge of the UK job market[48]; as well as more general barriers to employment. These barriers were summarised by the Audit Commission in a recent report[49]:

[45] *BMA News Review* 29 April 2000.
[46] Peabody Trust/London Research Centre *Refugee skills-net, the employment and training of skilled and qualified refugees.* June 1999.
[47] The Audit Commission has reported ESOL classes as heavily oversubscribed, with several authorities having waiting lists of over 200 people.
[48] 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.
[49] Audit Commission, 2000, *Another Country: Implementing dispersal under the Immigration and Asylum Act 1999*.

The cumulative barriers to employment



Source: p76, Audit Commission (2000)

The concentration of migrants: sectorally and geographically

Overall, migrants have little aggregate effect on native wages or employment, though they can have more of an effect (positive and negative) on different sub-groups of natives. Those migrants who are in work tend to be concentrated in employment sectors where there are unfilled vacancies. At the same time, migrants are also residentially concentrated in areas of high unemployment and deprivation. Continued skill shortages in some areas suggests that legal migration is, at present, insufficient to meet demand. Migrants' impacts on congestion and other externalities, like impacts on housing markets, can be both positive and negative, but not enough is known about them.

Labour market impact on natives

6.25 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).

6.26 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 large, rapid influx of migrants into a particular location.[50] As one recent survey of the literature concluded:

[50] 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.

"The overwhelming majority of empirical studies agree that there is essentially no statistically significant effect of immigration on labour market outcomes"[51]

6.27 The effect of immigration may be more pronounced for specific sections of the economy and population[52]. 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 are in competition with, 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.

6.28 There is relatively little work in this area in the UK: what exists is consistent with the US evidence. Gang and Rivera-Batiz (1994) estimate that a 1% increase in migrant labour will have very small effects on native wages, between +0.02% and –0.08%[53]. Zorlu (2000), basing his work on ethnic minority data rather than on immigrants, also finds that both substitution and competition effects are occurring simultaneously, so that there is no clear unambiguous effect on wages overall. 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.

6.29 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.

6.30 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).[54] 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. So if migration of workers in a particular sector is restricted – say the IT sector – then it will not primarily be the case that

[51] Gaston and Nelson, July 2000.
[52] 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.
[53] Ira N. Gang and Francisco L. Rivera-Batiz (1994), 'Labour market effects of immigration in the United States and Europe: substitution vs. complementarity'
[54] 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.

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.

Sectoral concentration of migrants

6.31 Economy-wide skills shortages are significant, though they remain below the levels seen in the late 1980s. The fact that many 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. A Royal College of Nursing survey reported 78% of hospitals with medium to high recruitment difficulties.
- **Education:** Overseas teachers play an important role in staffing schools in London.[55] A growing number of London education authorities are recruiting staff directly from abroad to address staff shortages in schools. Recent research commissioned by the School Teachers Review Body (STRB) suggests that schools in England and Wales will have to find an extra 10,000 teachers over the next 4 years[56].
- **Higher education:** In 1995-96, the Higher Education Statistics Agency showed that non-British nationals made up 12.5% of academic and research staff, were most likely to be in medicine, science and engineering, and comprised over half the faculty of LSE.
- **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 2009[57].
- **Catering:** An estimated 70% of catering jobs in London are filled by migrants yet, at the same time, 40% of hospitality firms reported recruitment difficulties earlier this year[58].
- **Agricultural labour:** There is significant excess demand for the Seasonal Agricultural Worker scheme, which is currently limited to 10,000 places per year, with the National Farmers Union campaigning to have the number increased, earlier this year.

6.32 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

[55] According to Timeplan (one of the country's largest teacher recruitment agencies), "Without overseas teachers, schools in London would be falling apart" – from "Cash offer to recruit teachers" BBC News, 4 August 2000, URL: http://news6.thedo.bbc.co.uk

[56] 'Schools face severe teacher shortage', BBC News, 11 August 2000,URL: http://news6.thedo.bbc.co.uk

[57] Institute of Employment Research, University of Warwick.

[58] 'Struggle to put jobs on the menu', Evening Standard, 28 Feb 2000

absence of migration, firms would bid up wages and 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. 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.

- 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.

6.33 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.

Regional and local impacts of migration

6.34 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. Where migrants settle is likely to be a complex decision (and will likely vary for the different routes of entry). It is also very significant for other economic and social outcomes, and needs much more consideration.

6.35 London is the UK's largest labour market, accounting for around 15% of all jobs. In addition, the well-documented unmet labour demand in London will attract migrants (and may be a condition for their entry, if they enter on work permits). And London is a global city with a widely recognised name, image and reputation. Within London, there are indications that migrants are also concentrated in areas of both relative prosperity and relative deprivation (and high unemployment) and have polarised experiences. Migrants are disproportionately represented in both Kensington and Tower Hamlets.

6.36 More generally, many migrants are likely to gravitate to areas where housing costs are relatively cheap (and housing is available), and where there are already other people from their home country. Outside London, data on ethnic minorities suggests that migrants will tend to be concentrated in cities, and in areas of relative deprivation within those cities. For example, around 60 per cent of Birmingham's ethnic minority population can be found in seven of the city's 39 wards.

6.37 Migration to the UK is unlikely to be completely independent of internal migration within the UK. There is some evidence[59] 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

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

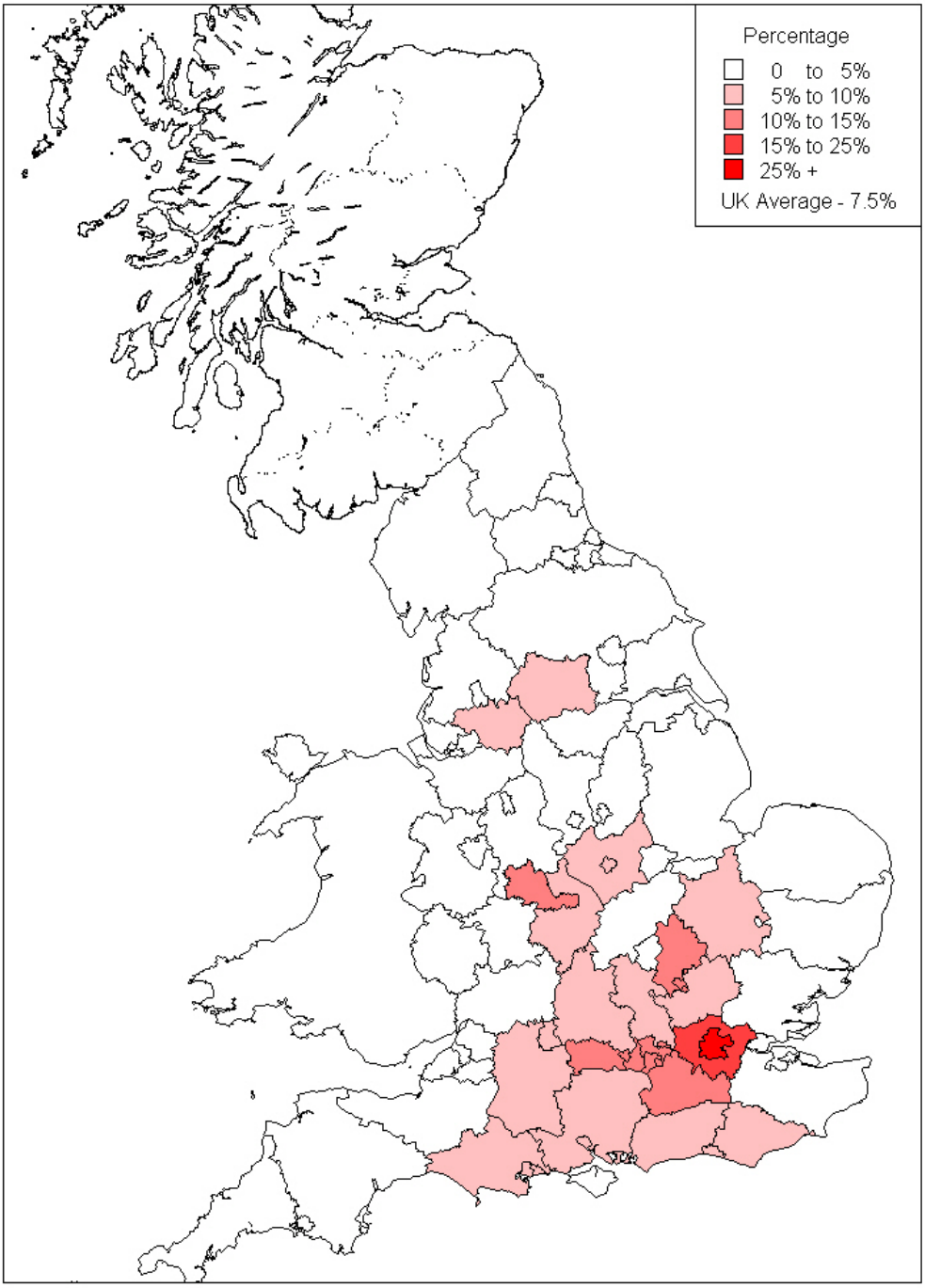
one of many factors limiting north-south migration. At the same time, the process of counter-urbanisation is likely to have increased the number of migrants living in inner cities, as they have occupied (social) housing that had been released as natives moved out. Similarly the US literature has tended to find that inflows of recent migrants have little effect on the locational decisions of native workers[60].

6.38 Some have argued[61] the expansion of corporate headquarters, international finance and related activities in global cities has led to the creation of both well-paid professional jobs and low wage service jobs such as cleaners, caterers and domestic help. Migrants are attracted to such cities to fill jobs at both end of the spectrum, and to supply services through small businesses (various shops and taxis) including in deprived communities.

6.39 Others[62] have argued that when migrants are clustered in poorer housing estates with high unemployment, it can be difficult to escape these conditions and to integrate into the wider community. So while at least some cities offer considerable opportunity, it is not certain that migrants will be in a position to take advantage of that opportunity.

[60] David Card (1996), "Immigrant inflows, native outflows, and the local labour market impacts of higher immigration", Working Paper 368, Princeton University.
[61] For example, Saskia Sassen (1991), *The global city: New York, London, Tokyo*, Princeton University Press.
[62] For example, C. Peach (1995), *Does Britain have ghettos?*, Oxford University Press.

Migrants as a Share of Population



Wider externality effects

6.40 The relative concentration of migrants in particular areas means that they can contribute to a number of externalities. For example, they can, in theory, 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.

6.41 Similar to the assimilation seen in the labour market, many of these pressures reflect the fact that existing infrastructures are unable to adapt quickly enough, to large changes in a local population. This is particularly marked when those new entrants to the area have new and particular needs and characteristics – for example, a lack of fluency in English, or different cultures and religions. Thus while there may, in theory, be negative (as well as positive) externalities associated with migration, these often reflect transitional and adjustment costs that can be managed through effective migration and integration policies.

6.42 It is not clear that migration has, in practice, 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.[63]

	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

6.43 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. These effects have been recognised recently, both by increased funding from DfEE for schools taking on the children of asylum seekers, and by the fact that children recently arrived from overseas who have difficulties with English will not be included in the figures for school performance league tables[64]. Hospitals and health services may, in theory, also come under particular pressure, and tension may also centre on access to social housing (where migrants are eligible), although the focus of debate has been on ethnic minorities, not

[63] 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.

[64] "Performance tables to take asylum seekers/refugees into account", DfEE Press Notice 338/00, 20 July 2000

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.

Impact of emigration

6.44 As set out in chapter 3, the UK experiences substantial outflows of emigrants each year, in part reflecting the temporary nature of some of the migration to the UK, in part emigration of UK nationals. The more these emigrants keep in touch the more likely this emigration (in particular where it is of skilled workers) is to be beneficial to the UK. They will form networks, trade and investment links, and potentially return with improved skills etc in due course.

6.45 Migration, especially of skilled workers, can also have an important impact on the countries of origin: particularly developing countries. 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. 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 characterised by a very large Indian migrant workforce.

6.46 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 and the impact of their emigration. 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

6.47 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), and the fact that migrants in work have higher average wages than natives. 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.

6.48 Migrants have a direct impact on government expenditure and revenue by paying taxes, claiming benefits (where entitled) 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.

6.49 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

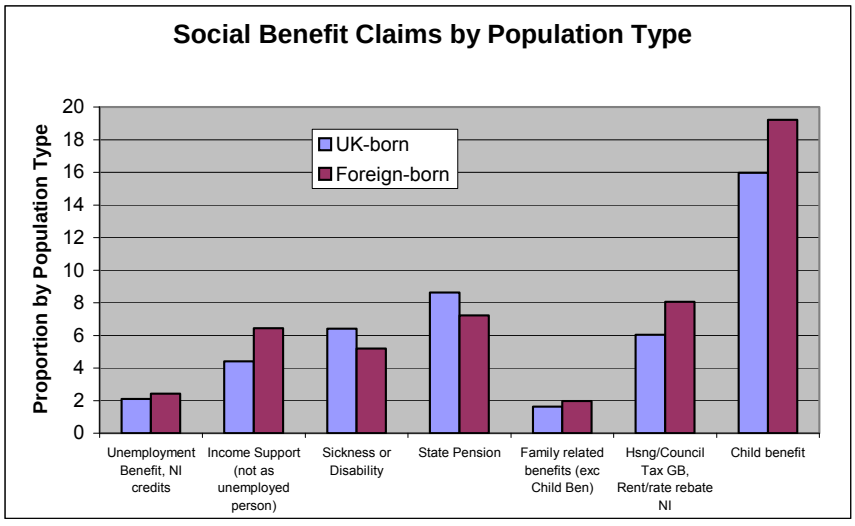
contribution – particularly since during the period in which they are most likely to be unemployed, immediately after arrival, they may be ineligible for unemployment benefits.

6.50 A recent US study found that migrants pay on average $80,000 more in taxes than they receive over their lifetime[65] (under certain assumptions about taxation). 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.[66] Similarly, our initial 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 £0.8 to £8 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 £0.8 and £8 billion (the equivalent of up to 3p on the basic rate of income tax).

6.51 These results provide a one-off snapshot of the fiscal impact of the current cross-section of migrants, and are sensitive to the underlying assumptions[67]. 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 reasonably clear that, on average and overall, **migrants are not a burden on the public purse**.

Use/consumption of benefits

6.52 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. To some extent, the relative use of benefits reflects different eligibility rules for different types of migrants, particularly recent arrivals.



[65] James P. Smith and Barry Edmonston (Eds.), *The New Americans: economic, demographic, and fiscal effects of immigration*, 1997.
[66] Spencer, ed., *Immigration as an Economic Asset: The German Experience*, 1994.
[67] This analysis is reported in more detail in the joint Home Office and PIU research report on "The Migrant Population in the UK: Fiscal Effects".

Social outcomes

6.53 Not enough is known about migrants' social outcomes. 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.

6.54 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. 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.

6.55 Migrants' experience of social exclusion cannot be measured. However, as for natives, lack of employment is a key cause of wider social exclusion. And the data show that migrants do not disproportionately claim benefits.

Consumer choice

6.56 Increased travel and 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.

6.57 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 together[68]. The market in ethnic food for home cooking was in 1996 worth £129 million a year[69].

Education

6.58 Migration has introduced greater diversity into UK schools in a variety of ways – more diverse pupils, teachers, and experiences and interests for study. The UK is the second largest receiving country of foreign students after the US, with 17% of the English-speaking 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. Chapter 5 describes the recent moves by the government to attract more foreign students to the UK. A 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.

[68] *Independent on Sunday,* 3 March 1996.
[69] *Financial Times,* 25 May 1996.

Other contributions

6.59 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-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"[70].

6.60 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, the Jews and the Ugandan Asians, 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.[71]

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

[70] 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

[71] *Understanding British Citizenship Application Rates*. Home Office (Nigel Charles). 1997.

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.[72]

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 "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.

6.61 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.[73] This is true even for many of those who favour a more restrictive attitude to immigration controls.

Social exclusion

6.62 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).

6.63 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 difficulties[74].

6.64 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 treatment[75]. Lack of documentation also inhibits access to essential private services (e.g. opening a bank account and connecting to utilities).

6.65 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

[72] Enid Wistrich, David Smith, Tunc Aybak, *The Migrants Voice in Europe*, Middlesex University, 2000.
[73] See, for example, the British Social Attitudes Survey 15th Report.
[74] 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.
[75] *A person before the law: the CAB case for a statement of rights for people with limited leave in the UK.* NACAB February 2000.

these problems are often most acute for the most vulnerable – asylum seekers and refugees – as the Audit Commission[76] recently reported.

6.66 Between 1995 and 1999, around a third of asylum seekers obtained permission to stay in the UK and, in practice, a higher proportion remain (for example through marriage). The long term impact of good or poor 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".[77]

6.67 Public attitudes to migrants in the UK are similar on average to those across Europe[78]. 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 higher levels of victimisation among ethnic minorities. 13% of refugees in one study considered racism and discrimination a barrier to their successful settlement.[79] And, as noted earlier, local concentrations of migrants can cause tensions around schools and social housing.

[76] *Another country, implementing dispersal under the Immigration and Asylum Act 1999,* June 2000. Audit Commission.
[77] *A consultation paper on the integration of recognised refugees in the UK,* Home Office, October 1999.
[78] Various Eurobarometers, on Europa web-site.
[79] Bloch (2000)

7. Possible future policy development

7.1 Chapters 4 and 5 of this research study set out the government's aims and objectives governing migration policy, and the range of entry control, settlement and integration policies which are currently in place. Chapter 6 went on to consider what we know about the economic and social impacts of these policies. This chapter considers, on the basis of this analysis, where there is scope for further developing the aims, objectives and policies for migration in order to make them more consistent and to enable migration to better serve the government's broader high level objectives.

7.2 First, it should be made clear that aspects of the system function relatively well in a number of respects. In practice, it permits a substantial amount of economic migration, largely to meet labour market demand. The social and economic outcomes partly reflect the way in which present and past policies have operated and have been generally positive – both for many individual migrants and for the UK as a whole. We should not lose sight of this. However, migration policy as a whole is not joined-up, and is not closely related to its stated objectives, either economic or social. This has likely contributed to the varied and polarised experiences of migrants in the UK. There is considerable scope for better coordination across the different aspects of migration policy, and between migration and other policy areas.

7.3 There are four broad areas where migration policy could be better focussed on achieving its aims and objectives (and could contribute more to high level objectives):

- migration and the labour market – both encouraging entrepreneurs and new businesses to come to the UK, and addressing skill shortage at all skill levels;
- illegal migration – considering a broader range of policy measures to stop the rise in irregular migration;
- entry control – better integration with objectives for migration and with other broader objectives; and
- post-entry policies – to make the link between the decision to allow migrants to enter the UK and their economic and social outcomes.

7.4 A key message of the analysis and assessment is that we know relatively little about migration – in particular, the characteristics and motivations of different migrants and their (likely differing) economic and social impacts and experiences. Thus while the following does highlight a number of areas where there is scope to consider and review policy, it also identifies the key areas where further research and analysis is required. Much of the economic analysis is based on a small number of studies and often relatively small datasets, and far less is known with any confidence on the social side. There is a real need for more research and analysis on the social and economic aspects of migration in the UK. There is also much that can be learnt from experiences from other countries, while being aware of the different circumstances that they face.

Where might policy be reviewed?

7.5 The analysis and assessment in this paper suggests a number of areas where policy could be developed – supported by further research and analysis – to help improve performance of the migration system.

Migration and the labour market

7.6 Different entry routes all impact on the labour market, but in different ways, and with no real coordination across the different routes or with broader objectives. There are ongoing problems with skill shortages at all skill levels which migration is meeting in part, and migration also benefits innovation and entrepreneurialism – raising productivity and creating new jobs.

7.7 A number of reforms to the work permit system have been introduced (or are being piloted) to make it easier for innovators, entrepreneurs and highly talented people to enter the UK. However, the broader climate for innovation and new businesses in the UK will also be an important factor in attracting entrepreneurs to the UK, as will the wider social and cultural environment. The UK has had some successes in attracting entrepreneurs from elsewhere in the EEA, but there may be merit in considering why they chose the UK, why more do not choose the UK and where the barriers are (given the absence of migration policy obstacles).

7.8 On skill shortages, current policy results in significant unsatisfied demand at all skill levels in the labour market. 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, there may be a role for migration as a temporary response while EEA residents are trained, or where the increase in demand is itself temporary, or where EEA residents are unwilling to acquire those skills. Skill shortages and unfilled vacancies manifest themselves at all skill levels:

- Attracting high skilled migrants is a growing problem. There is increasing competition between destination countries for "the brightest and the best" and a limited supply. While entry controls have a part to play, the wider opportunities and characteristics of the UK are also likely to be significant.

- Recent reforms to the work permit system have made it easier for some migrants with intermediate skills to enter the UK. Experience of this development will help to inform analysis of whether other intermediate skills should be given similar treatment.

- Allowing entry of low skilled workers on a small scale has been relatively successful in filling vacancies in some sectors (notably in agriculture, through the seasonal agricultural workers scheme). There may be scope to extend this treatment to other sectors, either where the unmet labour demand is seasonal or temporary, or more generally.

7.9 In each case, many aspects of migration policy and subsequent policies on integration are possible instruments. For example, attracting more EEA nationals, helping those granted asylum or entering as dependents or through family unification to better use their abilities in the labour market, or reviewing existing work related categories.

Illegal migration

7.10 Illegal migration has occurred for a number of reasons. In part because there is unmet demand in the labour market (particularly, but not only) at the lower end, and in part because of other exogenous pressures (including civil war, and economic, social and political instability). While improving control is a necessary condition for addressing this problem, it is unlikely to be sufficient. Increasing opportunities for legal entry to the UK *may* take pressure off irregular migration (particularly to the extent that it helps to meet the demand for this sort of labour), though there is much more research needed in this area.

Entry control

7.11 The current entry control system is not sufficiently joined up with other areas of Government policy, and post-entry policies do not address social and economic objectives. In addition, 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 :

- 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 considered[80].
- 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 OLS, 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 that regulate their entry.
- It is often implied 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 in Chapter 6 suggests that the two often go hand in hand: an economically beneficial migration policy will also have positive social impact, and vice versa.

[80] Opportunity for all, Tackling poverty and social exclusion, First annual report, Cm4445, 1999

7.12 This suggests that Aim 6 needs to be developed over time, and made more operational, to reflect better the overall objectives of the government, and the role of other Departments.

7.13 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, the FCO and DfID. 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 7.1: 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 inclusion in a safe, just and tolerant society
- 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 successful inclusion of migrants into society

Post-entry policies

7.14 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 once they pass entry control. Exceptions are where 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.

7.15 Post-entry migration policy has a potentially powerful role in influencing migrants' economic and social outcomes and their economic and social impacts on natives. Thus there appears considerable scope for more substantive and coordinated post-entry policies designed to ensure that migration does indeed achieve the Government's economic and social objectives.

<u>Where is further work needed to inform any review?</u>

7.16 Any such policy review would need to take account of the complex interactions between migration policies and other policies. For example, those on education and training for the existing population; policies aimed at getting the unemployed back to work and increasing participation rates for the inactive; and specific policies aimed at improving the social inclusion of other disadvantaged groups in the UK. In addition, future policy development would need better information about the impacts of current policies and the potential impacts of any policy changes – notably on congestion, impacts on public services, and impacts on source countries (particularly developing countries).

7.17 There are a number of areas where further research and analysis would contribute to the debate:

- A more thorough review of international experiences, of the different types of migration and the different policy approaches.

- Better identification of migrants entering through the different migration channels, their characteristics, motivations and outcomes: trying to explain why their outcomes differ. In particular:
  - better information on illegal and irregular migrants – who they are, how they get here, what they do when they get here, where they live and where they work; and
  - better information on asylum seekers – in particular their characteristics and motivations.

- A clearer understanding of where different types of migrants settle within the UK (by entry route and characteristics), and why. And a better understanding of the wider impacts of where migrants settle – on congestion, housing, and other services at the local level.

- More information on the social outcomes for all migrants, including ways of measuring their contribution to UK society, and in particular whether and where they suffer social exclusion and which characteristics, factors and policies can help their inclusion.

- Evaluation of the impacts and implications of recent changes in migration policy – particularly the changes to the work permit system, and the new approaches being piloted.

- A wide range of labour market analyses – in part to validate the results reported in Chapter 6 and that experiences abroad (notably the US) are also applicable in the UK. Key areas are likely to include:
  - geographical, industrial and occupational variation in labour market (and broader economic) outcomes;
  - the impact of English language fluency, education, and non-UK qualifications on labour market outcomes;
  - outcomes by entry route and type of migrant (on a longer timeframe, it may be possible to add questions on route of entry to the LFS);
  - impacts of migrants on resident workers; and
  - how these effects change over time (including potential longitudinal analyses).

- More generally, examining how the impacts of migration vary over time, both in the labour market and in the social and wider impacts: in particular whether these are different in the short term and longer term.

7.18 All of this research and analysis is likely to be important in helping to determine whether and where policy should be reviewed. It will also be important in informing any such review and, in particular, in determining the characteristics, criteria and design of any new policy measure.

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
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Sandy Buchan	Refugee Action
Dick Williams	Refugee Council

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.

Des Storer	Government of Australia
Nicol MacDonald	Government of Canada
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Diane Coyle	The Independent
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Kathleen Newland	Carnegie Endowment for International Peace
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Clive Saville	UK Overseas Students Association

The team also met and corresponded with a number of officials from the Cabinet Office, Department for Education and Employment, Department of International Development, Department of Trade and Industry, Foreign and Commonwealth Office, HM Treasury, the Home Office, 10 Downing Street, and the Bank of England.

ANNEX 2: LIST OF SOURCES

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