

# UNDERSTANDING THE LABOUR MARKET IMPACT OF IMMIGRATION IN BRITAIN

## Introduction

This ongoing study concentrates on the processes which affect population, society and the economy in contemporary Britain as a result of increased international migration flow in Britain and investigates the impact of immigration on British labour market, with particular attention to the effects of immigration on the labour market outcomes of native workers. The research will fill a gap in existing knowledge about the impact of immigration on British labour market by exploring the relationship between skill levels of native workers, size and composition of the immigrant population, overall opportunity structure of the labour market and the labour market outcomes of native workers at the level of local labour markets. Furthermore it offers inter-UK comparisons that enable the significance of differences in (a) policy (b) skill levels of immigrants and (c) socio-demographic characteristics of the native population within a shared UK labour market to be tested. The data sources selected are the Labour Force Surveys [LFS], Annual Labour Force Surveys Local Areas data; the Annual Population Survey [APS] for 2004 and the Office for National Statistics supplementary data local areas data sets on ethnicity.

## Theoretical Approaches to the Study of Immigration Labour Market Effect

International research on immigration points to its profound consequences for the immigrant accepting society, and that literature cannot be addressed here. With reference to labour market impact, the popular belief is that immigrants have a negative impact on the wages and employment opportunities of the native born population. Statistical evidence (Camarota, 2004) shows that in the US labour market at the level of the national economy, an increase in immigration correlates with an increase in unemployment and economic inactivity among the native born population, especially among low skilled and unskilled workers. Immigrant populations tend to be concentrated both spatially and in particular sectors of industry and to change the skill composition of the labour market by increasing the supply of mostly unskilled labour. That, according to modern economic theory, leads to the violation of equilibrium in the labour market, and at least in the short run, negatively affects the wages and employment opportunities of native workers with comparable skills who compete with immigrants in the labour market (Friedberg, 2001; Borjas, 2003).

However, quantitative econometric studies do not provide conclusive empirical evidence (cf. LaLonde and Topel, 1992; Altonji and Card, 1992; Borjas, Freeman and Katz, 1992; Friedberg and Hunt, 1995; Cohen and Hsien, 2000; Dustmann, et.al, 2005; Friedberg, 2001; Cohen-Goldner and Paserman, 2005). Although the majority of studies find that immigrants have a small negative impact on the labour market outcomes of the least skilled native population, the size of the effect is substantially smaller than might be expected. Econometric studies in Europe show a stronger negative effect on employment and wages than that reported in the US and Israel (De New and Zimmermann, 1994; Winter-Ebmer. and Zweimuller. 1999; Hunt, 1992; Pischke. and Velling. 1997).

Attempts to account for these different findings have led to considerable criticism of some of the basic assumptions of quantitative research in this area and of elements of its methodology (Borjas, 1990). For example, there are implicit assumptions of a fixed quantity of jobs in the labour market, that are not reflected in reality. The influx of immigrants into the local labour market can create new jobs and additional demand for manpower, including low-skilled and semi-skilled labour force positions. Thus, urban economists and sociologists suggest that the arrival of immigrants in the labour market may boost development of both the service and manufacturing sectors (Sassen, 1988; Soja, 1989). Economic growth and the related increase in well paid native workers create a further demand for cheap labour force, i.e. they create additional jobs both for native population and immigrants (Waldinger, 1989). Thus research on the effect of immigration on the labour market outcomes of the native population needs to take account of the overall labour market opportunity structure as well as changes in those opportunities, which may result from or coincide with the arrival of new immigrants.

Furthermore, in an open economy native workers who are potentially or actually affected negatively by immigration can move to labour markets that are not affected by immigration, minimizing these effects

(Filer, 1992; Hatton and Tani, 2005). This point underlines the need to consider the internal migration of the native population in the study of the labour market effects of immigration. However, there is as yet no quantitative empirical research on the labour market impact of immigration that takes account of changes in the opportunity structure of the labour market or in the mobility of the native population, in terms of its movement between different types of economic activity.

Sociological research offers interesting additional insights: it focuses less on immigration than on ethnicity and considers how the size and the composition of ethnic minority population affects the labour market opportunities of the native population (Fosset et al, 1986; Model, 1997; Resenfeld and Tienda, 1999; Wilson, 1999). The major theoretical perspectives that inform the sociological studies on effect of immigration on the labour market are the concept of the ethnic queue (Lieberson, 1980), ethnic assimilation and ethnic pluralism (e.g. Glazer and Moynihan, 1964; Gordon, 1964), and the segmented and sheltered labour market (Fosset et al, 1986; Model, 1997; Portes and Jensen, 1987; Semyonov, 1988). Sociological research often puts the issue of the labour market impact of immigration into the broader context of immigrant incorporation and interaction with different groups of the host country population.

In essence, existing sociological research on the immigration labour market effect is based implicitly on two different perspectives on immigrant incorporation – ethnic assimilation and ethnic pluralism - each offering a different interpretation on the labour market consequences of immigration. The assimilation approach emphasises the importance of the length of immigrant presence in the host country. According to this interpretation (Gordon, 1964; Eisenstadt, 1967) immigrants on arrival enter the lower ranks of the labour market, below all groups in the veteran population, including ethnic/racial minorities and longer-term immigrants and thus enhance occupational mobility of all native workers. However, the ethnic pluralism perspective points to the existence of complicated ethnic hierarchies, and suggests that immigrants are positioned depending on their relative prestige in the host country. The “ethnic queue” theory refers to multi-ethnic labour markets, where several ethnic groups are arranged in a complicated system of ethnic hierarchy based on various historical and/or political causes (Lieberson, 1980). It is based on an ethnic pluralism approach. Thus, according to the hypothesis, different ethnic groups in local labour markets compete for a limited amount of desirable jobs and employers offer the jobs to members of the least prestigious groups only if no members of a higher status ethnic group are available. The position of newcomers depends on the number and size of the ethnic groups in the same labour market that are ranked above the newcomers by employers. As a result, the effect of the immigrants on the host country labour market is viewed as potentially multidirectional – the immigrants will have a positive effect on those ethnic groups that are ranked above them, but a negative effect on those who are ranked below. Indeed, empirical findings show that employers often prefer to hire immigrants rather than local ethnic minorities and as a result, immigrants may displace native-born ethnic minorities in whole industries. For example, Waters (1999) indicates that Black Caribbean immigrants are displacing native-born Black Americans in the food industry, because employers believe them to be more reliable workers.

There is a limited amount of quantitative empirical research that takes into consideration all the ethnic groups present in local labour markets and shows that the labour market effect of immigrants depends on the relative size of the dominant ethnic groups in the area. Thus, empirical findings demonstrate a positive effect if the size of local ethnic minority is large while the size of the white majority is small (Friesbie and Neidert, 1977; Burr, Galle and Fossett, 1991; Tieda and Lii, 1987). That fits well the “ethnic queue” hypothesis - if a pool of the most attractive workers that form the dominant ethnic groups is relatively small, there are more chances that employers will go down the ethnic queue and hire local ethnic minority workers who will go up the occupational ladder, while a larger pool of new immigrants will provide enough workforce for a less desirable jobs.

Labour market segmentation and segregation is another important factor (Burr et.al., 1991). Spatial, or occupational segregation of either the new immigrants or local ethnic minorities reduces competition and minimizes the labour market effect of immigration (Fosset et al, 1986; Model, 1997; Resenfeld and Tienda, 1999; Wilson, 1999). For example, new immigrants or native born ethnic minorities may be employed in ethnic enclaves (Portes and Jensen, 1987; Zhou and Logan, 1989; Semyonov, 1988; Semyonov and Lewin-Epshtein, 1994); or they may be employed in ethnic occupational niches (Fossett et al, 1998; Model 1997) and sheltered from competition.

It is apparent that recognition of the multiethnic context of labour markets and taking account of the number and size of ethnic groups among the native population, along with consideration of the degree of labour market segmentation are very important in assessing the impact of immigration on the labour market.

### **The impact of immigrants on the UK labour market**

The UK has experienced increasing levels of both inward and outward international migration in recent years. Over the past decade migration into the country increased from 314,000 in 1994 to 582,000 in 2004, with most of the increase occurring after 1997. The inflow of non-British EU citizens to the UK increased from 14,000 in 2003 to 74,000 in 2004 (ONS, 2006). Citizens of the ten EU accession countries made up an estimated four fifths of the increase. Fears that an influx of cheap workers from Eastern and Central Europe would reduce the wages of native workers or push them out of jobs were expressed long before 2004. A study for the Department for Education and Employment on the possible labour market impact of Eastern European immigrants suggested overall losses to the native population from immigration by unskilled workers and overall gains if immigrants were skilled (Bauer and Zimmermann, 1999). This underlines the need for attention to skill levels of both immigrant and native population.

Existing research evidence is insufficient in relation to the growing significance of this issue in Britain. Since 1999 there has been only one academic paper of empirical research on impact of immigration on employment and wages of native workers in the UK. Dustmann et al (2005) examined the impact of a proportion of immigrants in 17 regions on the employment and wages of native born Britons of three different skill levels and found little evidence of a negative effect of immigration on native outcomes. However, this research only includes data on immigration up to 2000 and thus pre-dates the recent immigration. In addition the study has a number of the methodological limitations, including insufficient attention to the individual characteristics of workers and reliance on regional information rather than local labour market information.

### **Comparison between Scotland and England**

Although the problem of population aging is common for many Western societies, in Scotland it is accompanied by the population decline, which is assessed as among the fastest in Europe. For this reason the Scottish government sees immigration as a source of population growth and there are discussions about the adoption of an independent immigration policy. There is a recent initiative to encourage highly skilled third countries' nationals to live and work in Scotland through the "Fresh Talent" scheme. Currently, the educational profile of immigrants in Scotland is higher than elsewhere in Britain (IPPR, 2005). There are some differences between the socio-demographic profiles of the population in England and in Scotland, suggesting a slightly smaller share of the economically active population and larger unemployment in Scotland; and a higher percentage of people in manual occupations, along with fewer people in service class occupations. In addition there is a larger proportion of people without educational qualifications in Scotland than in the rest of Britain. At the same time in Scotland there is a larger share of people with academic degrees (see Appendix 1). In fact, there is stronger resemblance between the educational and occupational profiles of the native born and immigrant populations in Scotland than in the rest of Britain. There is considerable research evidence that points to the importance of the degree of match in the characteristics of immigrants and the local population in determining immigrant labour market impact (cf. Borjas, 1990). Immigration impacts in Scotland have not been studied separately in the past because of the low numbers of immigrants. However, the boosted samples in the Scottish Labour Force Survey for years 2004-2006 make possible a detailed analysis of the issue of immigration impact on the level of local labour markets in Scotland.

### **Research Questions**

This research aims to overcome existing methodological shortcomings and to adopt a sociological approach to the study of the immigration labour market impact informed by the theoretical background outlined above. The following research questions are addressed:

1. What are the variations between local labour markets in terms of the outcomes for native workers in employment status, wages and occupational status? To what extent do those variations result from

- characteristics of workers, such as their demographic characteristics and educational level? To what extent do they result from ethnicity?
2. To what extent can spatial variations in the outcomes of native workers be attributed to the differences between local labour markets in (a) employment opportunity structure, in terms of the rates and unemployment and economic activity and number of existing job vacancies; (b) demographic profile of the population; (c) educational, occupational and industrial characteristics of the population; (d) ethnic composition of the population.
  3. Are the average outcomes of native workers in a local labour market correlate with size of the immigrant population? Does the correlation still exist after controlling for variations between the local labour markets in the employment opportunity structure and in the socio-demographic profiles of their populations? To what extent can spatial variations in individual labour market outcomes be attributed to spatial variations in the concentrations of the immigrant population?
  4. How does this immigration effect vary according to such characteristics of immigrants as (a) their national origin; (b) their year of arrival in the UK; and (c) their level of education?
  5. Are there differences in the immigration impact between Scotland and the rest of Britain? To what extent can those differences be attributed to variation in labour market opportunity structures, native population socio-demographic characteristics, size of immigrant population?

## **Methodology and Data Sources**

The analysis is conducted by using the multilevel regression technique, through estimation of linear and logistic regressions. The analysis is conducted on the level of individual and local labour markets. The individual level units of analysis are individuals who were either born in the UK or immigrated to the UK under age 6 and hence have British educational experience and labour market skills. The units of analysis at the level of local labour markets are Unitary Authorities across Britain. The dependent variables in the regression models are the individual labour market outcomes in terms of (1) odds of participation in the labour force; (2) risk of unemployment (3) odds of self-employment (4) odds to have unskilled occupations (5) monthly gross income from work. The independent variables in the regression analyses are the individual's demographic characteristics (age, gender, highest educational qualification, family type) and ethnicity; the Local labour markets level independent variables will include information on demographic, educational, occupational and industrial profiles of population; percentage of ethnic minorities; rates of unemployment and economic activity of population.

Research questions 1 to 5 are addressed by using data from the Annual Population Surveys (APS) for 2004-2006 which were designed to provide for the first time reliable estimates at small area level in one time-point. The APS(s) provide enhanced annual data for Britain covering a target sample of at least 510 economically active persons for each Unitary Authority (UA)/Local Authority Districts (LAD) and offers the unique opportunity to conduct analysis on the level of rather small local areas as they offer large and representative samples included (UA)/(LAD). The aggregate level characteristics are obtained from the annual local area LFS (ALA-LFS) data sets which contain information on demographic, educational, occupational and industrial profile of population; percentage of ethnic minorities; rates of unemployment and economic activity of population at the level of local areas. There are also extensive supplementary regional and local area data from annual local area Labour Force Surveys produced by the Office for National Statistics (ONS). The size and characteristics of immigrant population at the level of UA/LAD is estimated from the APS. The characteristics of the immigrant population at the level of local labour markets will include its relative size, ethnic composition, and year of arrival in the UK. Additional characteristics of the ethnic profile of local labour markets are provided by the rates of employment and economic activity of ethnic minorities, percentages of ethnic minorities in professional, managerial and semi-professional occupations and in manufacturing and service industries.

The 2004-2006 APS(s) data are also used for assessment of differences in immigration impact between Scotland and the rest of Britain. For this purpose the variable which distinguishes between the UK countries is introduced in the multilevel analysis and amount of variance in the dependent variables resulting from within-UK differences are assessed.

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## APPENDIX 1

Table 1. Level of Highest Qualifications (Aged 16-74), England, Wales and Northern by birth-cohort (row percentage). Source 2001 Census SARs data

Birth-cohort	Level of Qualification <sup>1</sup>					Other qualifications/level unknown (England and Wales only)
	No qualifications	Level 1	Level 2	Level 3	Level 4/5	
1972-1985	14.2%	17.2%	29.1%	17.7%	19.4%	2.3%
1956-1971	17.3%	25.3%	22.1%	7.1%	24.1%	4.2%
1937-1955	40.1%	12.4%	13.2%	4.5%	18.3%	11.5%
Total	24.9%	18.3%	20.7%	9.0%	20.6%	6.4%

<sup>1</sup> Level 1: 1+ 'O' level passes, 1+ CSE/GCSE any grades, NVQ level 1, Foundation GNVQ

Level 2: 5+ 'O' level passes, 5+ CSEs (grade 1), 5+ GCSEs (grades A-C), School Certificate, 1+'A' levels/ AS levels, NVQ level 2, Intermediate GNVQ

Level 3: 2+ 'A' levels, 4+ AS levels, Higher School certificate, NVQ level 3, Advanced GNVQ

Level 4/5: First degree, Higher degree, NVQ levels 4 and 5, HNC, HND, Qualified Teacher status, Qualified Medical Doctor, Qualified Dentist, Qualified Nurse, Midwife, Health Visitor

**Table 2. Level of Highest Qualifications (Aged 16-74), Scotland by birth-cohort (row percentage). Source 2001 Census SARs data**

Birth-cohort	Level of Qualification <sup>2</sup>				
	No qualifications	Group 1	Group 2	Group 3	Group 4
1972-1985	11.8%	34.8%	27.7%	9.9%	15.8%
1956-1971	22.5%	29.5%	15.6%	9.2%	23.3%
1937-1955	46.4%	18.0%	10.4%	4.7%	20.4%
Total	28.7%	26.6%	16.9%	7.7%	20.2%

<sup>2</sup> Group 1: 'O' Grade, Standard Grade, Intermediate 1, Intermediate 2, City and Guilds Craft, SVQ level 1 or 2 or equivalent Group 2: Higher Grade, CSYS, ONC, OND, City and Guilds Advanced Craft, RSA, Advanced Diploma, SVQ level 3 or equivalent. Group 3: HND, HNC, RSA Higher Diploma, SVQ level 4 or 5 or equivalent Group 4: First degree, Higher degree, Professional Qualification

**Table 3. Occupational distribution by the UK country (row percentages). Source 2001 Census SARs data**

Country	International Standard Classification of Occupations									
	Armed Forces	Legislator, Senior Officials and Managers	Professionals	Technicians and Associate Professionals	Clerks	Shop and Market Sales Workers	Skilled Agricultural and Fishery Workers	Craft and Related Trades Workers	Plant and Machine Operators	Elementary Occupations
England	0.432	13.6	11.2	11.1	15.2	17.7	0.9	8.8	8.09	12.9
Scotland	0.498	10.9	10.5	11	14.2	18.6	1.6	9.4	9.22	14.1
Wales	0.261	10.8	9.92	10.4	13	19.32	1.8	9.7	10.2	14.7
Northern Ireland	0.866	8.93	9.41	9.48	14.9	17.76	2.1	11	11	14.3

**Table 4. Economic activity by the UK country (row percentage). Source 2001 Census SARs data**

	Economic Position of Family Reference Person		
	In employment	Unemployed	Economically inactive
England	83.4%	2.1%	14.5%
Scotland	81.1%	2.4%	16.5%
Wales	78.8%	2.2%	19.0%
Northern Ireland	76.3%	3.1%	20.7%