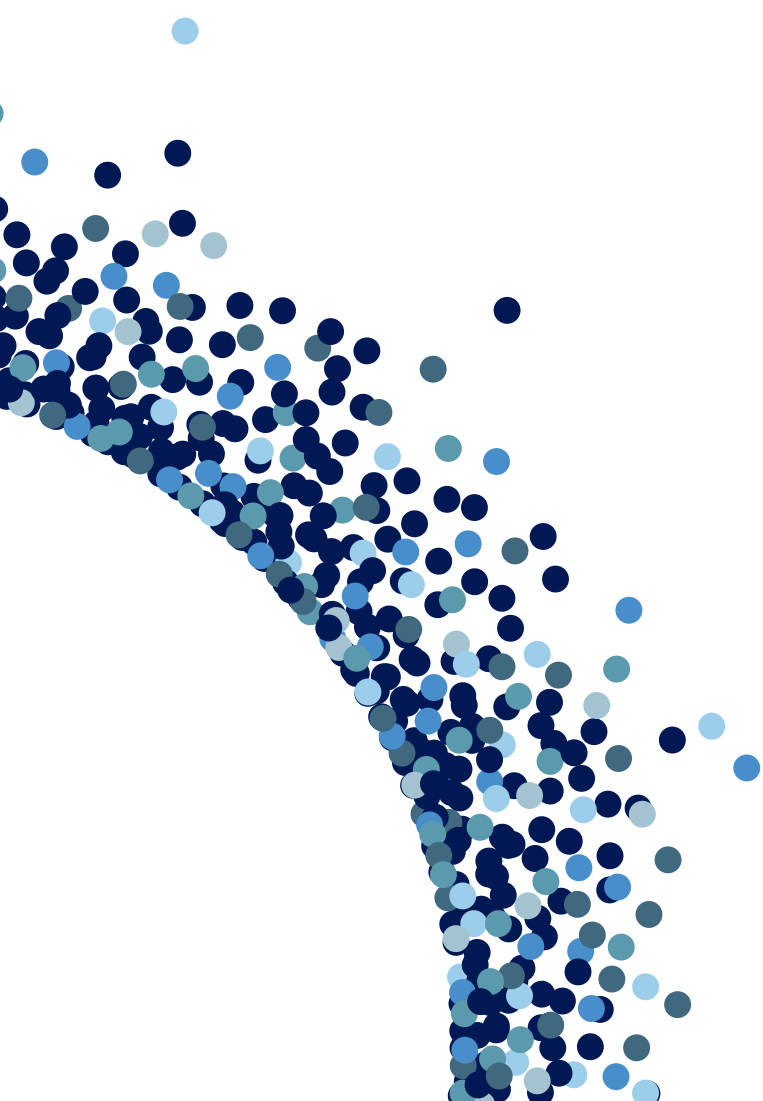




BRIEFING

The Labour Market Effects of Immigration



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This briefing discusses the impacts of immigration on the labour market in the UK, focusing on wages and employment.

Key Points

The impacts of immigration on wages and employment of existing workers depend on factors such as whether migrants' skills are complements or substitutes to the skills of existing workers, and how immigration affects the demand for labour

Research shows a very small impact of overall immigration on employment and unemployment of UK-born workers, though this effect is stronger among those with lower levels of education

Research suggests that immigration has small impacts on average wages of UK workers but that the impacts are not evenly distributed: low-waged workers are more likely to lose while medium and high-paid workers are more likely to gain

The wage effects of immigration are likely to be greatest for resident workers who are migrants themselves

Understanding the evidence

The outcomes of any study of the impacts of immigration depend on how "migrants" are defined. All available research studies on the labour market effects of immigration in the UK define migrants as foreign-born persons (for a discussion of alternative definitions, see the briefing [Who Counts as a Migrant?](#)).

It is important to distinguish between the effect of immigration on the average wage of all workers in the economy, and on the wages of different groups of workers along the wage distribution (e.g. low, medium and high-paid workers). It is possible, for example, that immigration leads to a rise in the average wage of all workers, but to a fall in the wages of some low-paid workers. Similarly, immigration may not affect the overall employment outcomes of existing workers, but it may impact on the employment outcomes of specific educational groups.

Theory does not predict exactly what the labour market effects of immigration will be

The impacts of immigration on the labour market critically depend on the skills of migrants, the skills of existing workers, and the characteristics of the host economy. They are also likely to differ between the short and long run when the economy and labour demand can adjust to the increase in labour supply.

Immigration affects the labour supply, as it increases the pool of workers in certain sectors of the economy. At the same time, immigration is likely to increase the demand for labour, as migrants expand consumer demand for certain goods and services. That is, immigration may increase competition for existing jobs in certain occupational sectors but it can also create new jobs.

The immediate short-term effects of immigration on the wages or employment of existing workers depends on the extent to which migrants have skills that substitute or complement those of existing workers (e.g. Borjas 1995).

When migrant workers are substitutes for existing workers, immigration is expected to increase competition for jobs and reduce wages in the short run. In terms of employment, the extent to which declining wages increase unemployment or inactivity among existing workers depends on their willingness to accept the new lower wages. If, on the other hand, the skills of migrants are complementary to those of existing workers, all workers experience increased productivity which can be expected to lead to a rise in the wages of existing workers. In general, workers in low skilled occupations are expected to face more competition from migrants because the skills needed for those jobs are easier to acquire and are less specialised.

Second, in addition to expanding labour supply, immigration can also expand the demand for labour and, thus create new jobs. This is because there is not a fixed number of jobs in the economy (the so-called “lump of labour fallacy”). Migrants expand consumer demand for goods and services, and employers may increase production in sectors where migrant labour is used (e.g. agriculture or care sectors).

Changes in wages and employment are not the only ways in which an economy responds to immigration. There are at least two other adjustment mechanisms (see e.g. Dustmann, Glitz and Frattini 2008). First, immigration may change the mix of goods and services produced in the economy and thus the occupational and industrial structure of the labour market. For example, the immigration of low-skilled workers may expand the production (provision) of certain products (service) that use low-skilled labour intensively. The expansion of the sector may then increase demand and drive wages back up. Similarly, immigration may change the technology used for producing (providing) certain products (services). For example, the immigration of skilled workers may encourage innovation and the adoption of more skill intensive technologies which would again affect labour demand. The extent to which investment and labour demand respond to immigration depends on the characteristics of the economy. During an economic downturn labour demand may respond more slowly than during times of economic growth.

Research shows a small impact of overall immigration on the employment and unemployment rates of UK-born workers

A number of studies have examined whether immigration leads to higher unemployment or inactivity among existing workers, and most have found either small effects or no effect.

Reviewing the results of 12 studies conducted between 2003 and 2018, the Migration Advisory Committee (2018) drew three conclusions. First, that immigration has little or no impact on average employment or unemployment of existing workers. Second, that where an impact is found it tends to be concentrated among certain groups – i.e. a negative effect for those with lower education and a positive effect for those with higher levels of education. And third, that the impact may depend on the economic cycle; some—though not all—studies have found adverse effects on employment or unemployment specifically during downturns.

For example, Dustmann et al. (2005) concluded that immigration had no effect on the overall employment outcomes of UK-born workers but did find adverse effects on the employment of UK-born workers with intermediate education and a positive impact on those with A-levels or university degrees. Lemos and Portes (2008) analysed the impact of labour immigration of EU-8 workers on claimant unemployment, finding little evidence of an adverse effect. Another study focusing on London, the region with the highest levels of migration over the past few decades, also found no negative effects (Fingleton et al, 2019).

MAC (2018) also produced new results, suggesting that immigration from EU countries during the 34-year period from 1983 to 2017 had reduced the employment rate of the UK-born working age population by around 2 percentage points and increased unemployment by 0.6 percentage points. However, it also noted that with employment rates at a historic high towards the end of this period, one should “be cautious in suggesting these outcomes could be much better than they already are.”

Immigration has small impact on average wages but the effects are not evenly distributed: low-waged workers are more likely to lose while medium and high-paid workers are more likely to gain

Empirical research on the labour market effects of immigration in the UK suggests that immigration has relatively small effects on average wages, with negative effects on low-paid workers and positive effects on high-paid workers.

Reviewing 12 studies conducted between 2003 and 2018, MAC (2018) concluded that immigration had had little impact on average wages. Some studies (e.g. Nickell and Saleheen, 2015) had found a small negative impact on average wages while others (e.g. Dustmann et al, 2013) found positive average effects.

As with the impacts on employment and unemployment, several studies have found that effects are different for high vs. low skilled/paid workers. For example, Dustmann et al (2013) find positive effects for most workers but negative effects for the lower paid; they found that a 1 percentage point increase in the ratio of migrants to non-migrants leads to a 0.6% decrease in wages for workers at the 5th earnings percentile and a 0.5% decrease at the 10th percentile. Another study focusing on wage effects at the occupational level found that, in the unskilled and semi-skilled service sector, a 1 percentage point rise in the share of migrants reduced average wages in that occupation by about 0.2% (Nickell and Salaheen 2015).

The MAC (2018) estimated that an increase in the number of EU migrants corresponding to 1% of the UK-born working-age population resulted in a 0.8% decrease in UK-born wages at the 5th and 10th percentiles (i.e. people in the bottom 5–10% of earners), and a 0.6% increase at the 90th percentile (i.e. high earners). In practice, this means that between 1993 and 2017, the total effect of EU migration on the wages of UK-born workers was estimated to be a 4.9% reduction in wages for those at the 10th earnings percentile, a 1.6% reduction at the 25th percentile, a 1.6% increase at the 50th percentile, and a 4.4% increase at the 90th percentile. The calculation of the total impact should be interpreted with caution, however, because the model estimates the short-run response to migration, which is expected to disappear over time (MAC, 2018: 32).

Finally, research suggests that any adverse wage effects of immigration are likely to be greatest for resident workers who are themselves migrants. This is because the skills of new migrants are likely to be closer substitutes for the skills of migrants already employed in the UK than for those of UK-born workers. Manacorda, Manning and Wadsworth (2012) analyse data from 1975–2005 and conclude that the main impact of increased immigration is on the wages of migrants already in the UK.

Evidence gaps and limitations

It is important to recognise that the analysis of the labour market effects of immigration faces a number of methodological challenges. For example, as migrants often go to areas that are experiencing economic growth and strong labour demand, immigration can be both a cause and consequence of changes in wages and employment. This makes it difficult to establish causality.

Another problem is that international immigration into a certain area may cause some workers to leave that area and migrate to other parts of the country or abroad. Whenever this happens, the labour market effects in a certain area are dissipated across the country which makes correct measurement through local labour market analysis more difficult.

There can also be difficulty in distinguishing whether migrants are actually impacting the wages of UK-born workers, or whether the figures for the average wage are being changed as a result of migrants growing as a proportion of

the workforce whilst being paid less (or more) than non-migrants, without them necessarily affecting actual wages UK-born workers receive (Nickell & Salaheen (2015) address this problem in their analysis).

A fourth methodological challenge arises from the quality of data on migrants, and especially specific subgroups of migrants, which are often based on small samples of the population and can thus lead to significant measurement error.

Empirical research has employed various methods and econometric techniques to address these issues, but none of them are perfect and some difficulties and caveats always remain.

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Related Material

Migration Observatory briefing [Who Counts as a Migrant?](#)

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The Migration Observatory

Based at the Centre on Migration, Policy and Society (COMPAS) at the University of Oxford, the Migration Observatory provides independent, authoritative, evidence-based analysis of data on migration and migrants in the UK, to inform media, public and policy debates, and to generate high quality research on international migration and public policy issues. The Observatory's analysis involves experts from a wide range of disciplines and departments at the University of Oxford.



COMPAS

The Migration Observatory is based at the Centre on Migration, Policy and Society (COMPAS) at the University of Oxford. The mission of COMPAS is to conduct high quality research in order to develop theory and knowledge, inform policy-making and public debate, and engage users of research within the field of migration.

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