

# Migrants in the UK: their characteristics and labour market outcomes and impacts

From research studies by

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*The views expressed in this report are those of the authors, not necessarily those of the Home Office (nor do they reflect Government policy).*

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In January 2001, the Home Office published a report on "Migration: an economic and social analysis". This was the first attempt within the UK to undertake a systematic analysis of the impacts of migration, and to better understand the extent to which the Home Office is achieving its aim to develop migration policy in the interests of "sustainable growth and social inclusion". The report identified a range of positive economic and social impacts arising from migration, and highlighted some of the challenges.

The findings have formed the basis for a new approach to migration policy across government, reflected most recently in the White Paper "Secure Borders, Safe Havens", published in February 2002. This recognises the important role that migrants play in our labour market as well as our society and culture: the fact that they can raise economic growth, and help to create jobs for the existing population.

The report highlighted the fact that little research has been undertaken into the impacts of migration, and suggested a number of areas where more research was required. As a response, the government set up a cross-departmental team to take forward new research and to consider the implications of its findings for policy development. One area of particular importance has been to assess better the labour market impacts and outcomes of migration – how do migrants perform in the labour market, what factors contribute to their success, and do migrants have an impact on the employment and earnings prospects of the existing population?

This paper outlines some of the existing knowledge on the economics of migration and summarises the results from several pieces of work commissioned and conducted by the Home Office and the Department for Work & Pensions (DWP) over the last eighteen months. The DWP research draws on the latest available data from the Labour Force Survey, and presents a range of key descriptive analyses relating to migrants in the UK. The Home Office research, consisting of two studies commissioned from University College, London (UCL) and the University of Leicester on the labour market outcomes and impact of migrants in the UK, are also summarised here.

The first part of this report presents an over-arching summary of all four studies, which is then followed by the executive summaries of each report. A full version of the first report listed below will be available on the DWP website and full versions of the other three will soon be added to the Home Office website.

The studies are:

- "Migrants in the UK: A descriptive analysis of their characteristics and labour market performance", Russel Haque (Department Work & Pensions);
- "Labour Market Performance of Immigrants in the UK", C. Dustmann, F. Fabbri, I. Preston, J. Wadsworth (University College London);
- "The Labour Market Outcomes and Psychological Well-Being of Ethnic Minority Migrants in Britain", M. Shields & S. Wheatley Price (University of Leicester);
- "The Local Labour Market Effects of Immigration in the UK", C. Dustmann, F. Fabbri, I. Preston, J. Wadsworth (University College London).

## 2 Who are the “migrant” population in the UK, and where do they come from?

Throughout these studies, migrants are defined as all those who were born outside the UK – a group which make up eight per cent of the total UK population, or almost ten per cent of the working age population (some 4.8 million people in total including 3.6 million people of working age). The composition of the current UK migrant population has, of course, been conditioned by immigration policy over the past 50 years. The foreign-born population is very diverse, including (amongst the working age group) people from elsewhere in the EU (23%) who are not subject to immigration controls, those from the Indian sub-continent (20%), from Africa (19%), and from the Americas (11%) including Canada and the USA.

Some migrants have been living in the UK for many years, and 47 per cent of them have acquired British citizenship – this work does not only focus on recent arrivals, although the economic and social outcomes for migrants may be very different depending on how long they have been here. However, almost a third of the total migrant population currently living in the UK arrived during the last decade, reflecting the increases in migration through all channels over this period. The 1990s have seen particular increases in the numbers of people in the UK from East European countries. The source countries from which migrants come are now much more diverse, although the current stock of migrants still reflects significant immigration waves in the 1960s and 70s.

As noted in the Home Office report in January 2001, migrants are geographically much more concentrated than the UK population as a whole – more than 40 per cent of migrants live in London, making up 26 per cent of London’s population. This compares to only ten per cent of the UK-born population living in London. International migration is expected to play an important role in London’s future population growth, and has been explicitly included in the Mayor’s recently published “Spatial Development Strategy for London”<sup>1</sup>. Migrants are also heavily concentrated elsewhere in the south of England and urban areas in general<sup>2</sup>. The “Secure Borders, Safe Havens” White Paper recognised that as well as bringing diversity, entrepreneurs, labour and other resources to local areas, migrant concentration can also place additional demands on local services. Work is underway across government to assess the scale of these effects.

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1 “Spatial Development Strategy for Greater London”, June 2002.

2 V. Robinson “Migrant Workers in the UK”, Labour Market Trends, September 2002.

### 3 **How do migrants perform in the labour market and what drives this performance?**

In terms of labour market activity, the foreign-born population overall tends to perform worse than the UK-born, with lower employment and labour market participation rates and a higher unemployment rate<sup>3</sup>. These outcomes are more marked for females than males and vary considerably according to different migrant groups. Migrants from “white” ethnic backgrounds tend to perform as well as, or better than the existing population – in terms of their employment and participation rates and wage levels. Migrants from ethnic minority backgrounds, on the other hand, do worse than the UK-born. Ethnic minority migrants are additionally less likely to be employed or to participate in comparison to people from the same ethnic group who were born in the UK.

Labour market outcomes among migrants do, however, vary substantially. In addition to the differences between “white migrants” and those from ethnic minority backgrounds, it is important to remember that there are also diverse outcomes for some people from the same country of origin – country of origin is not the only “causal” factor determining someone’s experiences in the UK.

The reports on labour market performance of migrants use a variety of data sources to investigate the factors affecting migrants’ labour market performances<sup>4</sup>. They use econometric techniques to control for certain characteristics such as age profile, educational levels, location, English language fluency and time since arrival in the UK so that individuals with similar characteristics can be compared. The University of Leicester study focuses on ethnic minority migrants and also quantifies how far different labour market outcomes and other factors affect the psychological well-being and perceived social support of different migrant groups.

They find that some of the differences described above are accounted for by differences in socio-economic factors. However, the differences in performance in many cases still remain, even after taking account of these key characteristics.

After controlling for such characteristics, migrants from ethnic minority groups are still generally found to have significantly lower levels of employment, participation and wages than the UK-born population (although the University of Leicester research only found this for the Bangladeshi and Pakistani groups). Ethnic minority migrants are additionally less likely to be employed or to participate in comparison to people from the same ethnic group who were born in the UK.

This result is particularly marked for Pakistani and Bangladeshi migrants. For example, the UCL study on outcomes found females from these groups to have participation rates of 54-57 per cent below the white population, though this is reduced to 31-34 per cent when individual characteristics are taken into account. With respect to wages, ethnic minority migrant groups are found to have average wages over ten per cent lower than the UK-born with some being considerably below this. Again, the Bangladeshi and Pakistani groups have the greatest wage differences.

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3 Those participating in the labour market (sometimes referred to as those who are economically active) consist of those in employment and those unemployed and looking for work.

4 “Labour Force Survey”, “Health Survey of England”, “Fourth National Survey of Ethnic Minorities”.

The principal factors which are found to influence migrants' labour market outcomes are the following:

- *education* – which generally has a positive effect on employment and participation for migrants
- *where qualifications are obtained* – UK qualifications are more highly valued in the labour market than qualifications obtained abroad;
- *English language fluency* – migrants from ethnic minority groups who are fluent in English have a significantly enhanced probability of employment (in the region of a 20% improvement) and can expect to have higher wage levels; and
- *years since migration* – migrants in general have a lower probability of participation and/or employment when they arrive which gradually improves the longer they stay in the UK. This implies a degree of “integration” over time for migrants, at least in terms of these economic indicators.

In terms of skills and qualification, migrants tend to stay on in education for longer periods of time than the UK-born. Migrants are also very polarised in terms of qualification levels - compared to the UK-born population a higher proportion of migrants have a degree whilst a higher proportion also have no qualifications at all. Furthermore, almost a third of migrants have “unrecognised” qualifications (compared to less than 10% of the UK-born) which may act as a barrier to their being able to access employment in the UK. These averages also hide a wide range of different outcomes for different migrant groups.

## 4 What impact do migrants have on prospects for the UK-born population?

There have been a number of international studies – primarily in the US and Germany – which have attempted to look at the impacts of migration on the employment and wage outcomes for the domestic population. They address the question of whether migrants compete with the existing population, making it harder for people to get jobs, and push down wages. Although simple traditional economic theory suggests that expanding the labour supply will drive down wages, allowing output to increase and raising GDP overall, in practice, the picture - and the statistical results – suggest a much more complex set of interactions.

Migrants might help to raise output by expanding the supply of labour and by filling recruitment difficulties. Whether migrants compete with the existing population for the same jobs depends partly on the existence and scale of any recruitment difficulties and partly on whether migrants bring skills that complement those of the existing workforce rather than acting as substitutes. A combination of skill shortages and a complementary skills mix can enable sectors to expand and make more efficient use of assets – in the UK, for example, helping to ensure that strawberries and daffodils do not “rot in the fields” due to the lack of a workforce to harvest them (boosting the demand for complementary roles such as managers and services such as transport)<sup>5</sup>. At the higher skilled end, migrants play a particularly important role in certain specific professions, accounting for 27 per cent of health professionals and nine per cent of teaching professionals in 2000<sup>6</sup>.

The notion that there is a “fixed” number of jobs to go round is also untrue. From a theoretical point of view there need not necessarily be an adverse impact on the existing population in the medium to long-run - the key determinant of migrant impacts is the degree of flexibility in the UK economy. Migrants can indirectly generate economic activity elsewhere (through knock-on effects), create jobs by employing people, and also help to develop *new* sectors and *new* ideas, resulting in some restructuring of the economy.

The international evidence on this issue shows that migrants do not have large negative effects on either wages or employment of the domestic workforce. One report in this collection by UCL looks at this issue for the first time in the UK context, and draws on data covering the last three decades. It uses a range of data sources (including the Labour Force Survey, the New Earnings Survey, and Census data) and different econometric techniques to analyse what happens to unemployment and wages in the UK labour market in response to immigration.

For unemployment, the UCL study finds, that migration does not have a statistically significant impact on overall unemployment for the existing population. The study goes on to specifically examine the effects on particular groups (e.g. by gender, age, skill level) and the impact of different migrants (by gender and source of immigration). Again, in almost all cases no strong evidence of an adverse effect was found, with the only possible exceptions being the semi-skilled and people age 51-65. The research, however, was not able to look at the impacts at a very detailed geographical level nor on the impacts on long-term unemployment or non-participation in the labour market.

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5 “BBC Countryfile”, 7 April 2002.

6 “Labour Force Survey 2000”.

The data on wages is less reliable and the conclusions must therefore be treated with some caution, although, again, no adverse effect is found. Immigration is found to have, if anything, a positive effect on the wages of the existing population – using the most robust data source which is available, an increase in immigration of one per cent of the non-migrant population leads to a nearly two per cent increase in non-migrant wages. This may provide evidence, albeit weak, that migrants may bring with them complementary skills to the existing workforce, and are helping to ease recruitment difficulties in the economy. However, further research with additional data is necessary to help substantiate these findings and explain the mechanisms underpinning them.

Findings from research in the US have previously suggested that new migrants compete directly with previous migrants, and that it is this group that suffers most from migration<sup>7</sup>. Importantly, the study on impacts finds that in the UK migrants *do not* have a negative effect on the employment prospects of previous migrants.

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7 For discussion see 'The New Americans: Economic, Demographic and Fiscal Effects of Immigration', National Research Council (1997).

## 5

## More work still to do...

These studies provide much more information on the role of migrants in our economy, their characteristics, importance and impacts - they are the first major studies of their kind in the UK. There is, however, still more to find out and the findings are somewhat constrained by the available data, which does not give sufficient detail to enable the impacts of migration at a very detailed group/geographical level to be identified. The availability of the 2001 Census data will provide a rich source of information to update the analysis in these reports, and in particular, will provide a much more detailed picture of the geographical concentration of migrants.

There are also particular problems in trying to understand migrant outcomes according to their route of entry (e.g. whether through work permits, for family reunion, or asylum). Illegal migrants are unlikely to be captured in these data sources, and asylum seekers are not completely represented by Labour Force Survey data as it is a household survey. The impacts of these groups would also merit further work. Similarly, there are difficulties in trying to quantify and understand the social impacts of migration.

In addition to trying to fill some of these information gaps, the Home Office is exploring the possibility of sharing and linking datasets across government departments.

Alongside these analyses of economic impacts, the Home Office and other government departments have an active programme of current and planned research covering key areas including:

- Social effects of migration – e.g. impacts in local areas where migrants settle;
- Citizenship and Nationality – research on integration of migrants in the UK;
- Asylum – research on evaluating and improving various aspects of the asylum system;
- Data sources – improving the existing information sources on the flows of migrants and the composition of the migrant population in the UK;
- Economic and fiscal impacts – developing existing research on the fiscal impacts of migration and on the labour market (e.g. identifying skill shortage vacancies and recruitment difficulties);
- Understanding migration flows – providing information on flows of migrants into and out of the UK and seeking to explain the motivations of migrants;
- Analysing the Illegal Population – the size, characteristics and impact of those illegally resident and working in the UK;
- International Issues/Comparisons – research on international migration flows and other countries' procedures for managing migration flows; and
- Source countries – research on the impact of migration on the source countries, especially developing countries.

This on-going research will help us to continue to improve and develop our understanding of the impacts of our immigration and inclusion policies, enabling us to develop them over time in the interests of “sustainable growth and social inclusion”<sup>8</sup>.

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8 Further information on the research activities of the Home Office can be found on the website of the Research Development and Statistics Directorate (<http://www.homeoffice.gov.uk/rds/index.htm>).

# **6 “Migrants in the UK: A descriptive analysis of their characteristics and labour market performance, based on the Labour Force Survey”**

**(by Russel Haque, Department for Work & Pensions)**

Full report will be available at [www.dwf.gov.uk](http://www.dwf.gov.uk)

## **Introduction and data**

This report brings together a range of statistics and evidence from the UK Labour Force Survey, in order to shed light on the key issues surrounding the migrant population in the UK in 2001. The data allows us to look at detailed characteristics of the migrant population (defined as those who are foreign-born), how they compare to the UK-born population, and their labour market performance.

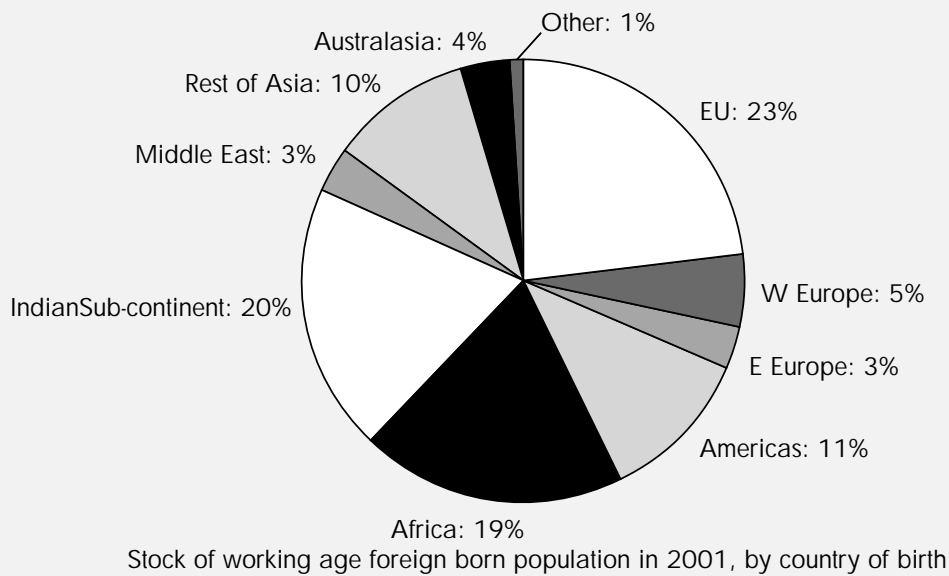
The data relates to the year 2001 and covers the UK population of working age (16 – 59 for women and 16 – 64 for men), unless stated otherwise. In this report we have defined migrants as those who are foreign-born, instead of foreign nationality, and compared them with those who are UK-born. About half of those who are foreign-born have UK nationality.

## **Summary of findings**

### ***Characteristics of the migrant and UK-born population***

The report shows that migrants represent a significant and growing minority in the UK. Currently, 3.6 million people of working age are foreign-born, representing about ten per cent of the working age population (or 4.8 million people of all ages – about 8 per cent of the total population). They also represent a diverse group, coming from a wide range of countries from very different parts of the world. Many are from other industrialised countries (both English speaking and non-English speaking backgrounds), while others come from less developed countries.

### ***The origin of migrants in the UK***



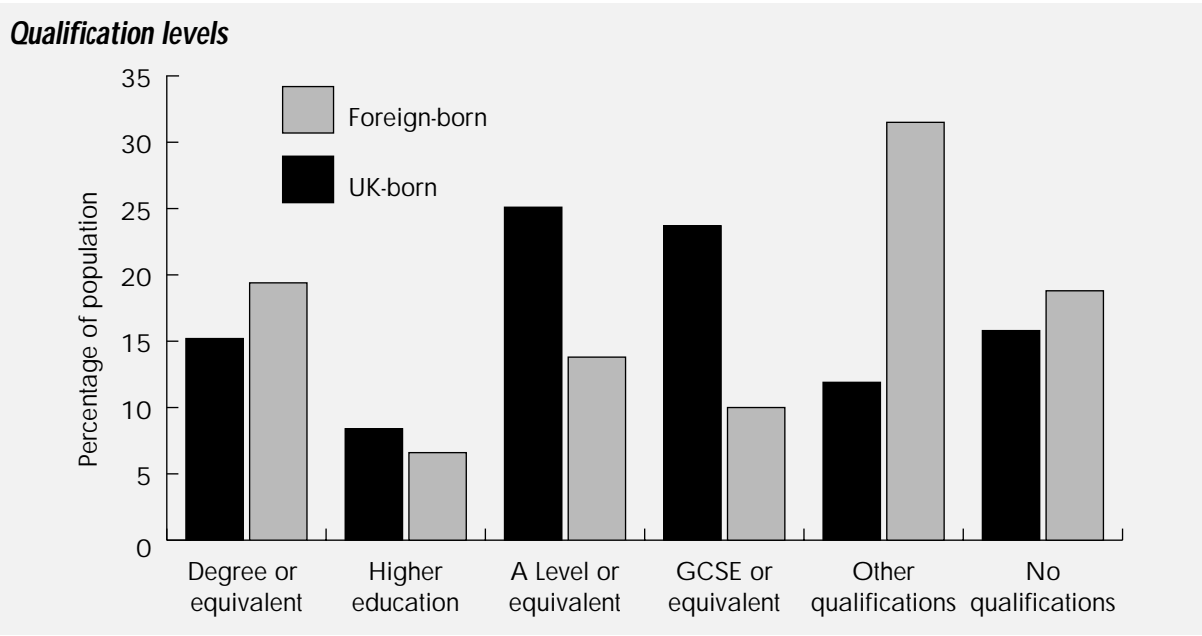
The largest proportion of migrants currently in the UK arrived in the 1990s – 31 per cent<sup>9</sup>. However, this is not a consistent trend, as large proportions who arrived in the 1960s and 70s reflect significant immigration waves during these periods. The exception to this is the group from Eastern Europe, which shows a much larger proportion having arrived in the 1990s.

Once in the UK, migrants tend to be concentrated heavily in London, though there are many in other parts of the UK. Migrants tend to be of working age, and particularly concentrated in the ages of 25 – 49. Among those of working age, about half of the foreign-born are female (49%), similar to that of the UK-born (47%).

The foreign-born population is concentrated at both the low and high end of the skills distribution. The foreign-born are more likely to be highly qualified, with 19 per cent of working age people holding degrees, compared to 15 per cent among the UK-born. However, a greater proportion among the foreign-born also have no qualifications (19% compared to 16%), while fewer among the foreign-born also have intermediate levels of qualifications such as GCSEs or A levels. Notably, a much greater proportion among the foreign-born have other (mainly unnamed) qualifications (32% compared to 12% among the UK-born).

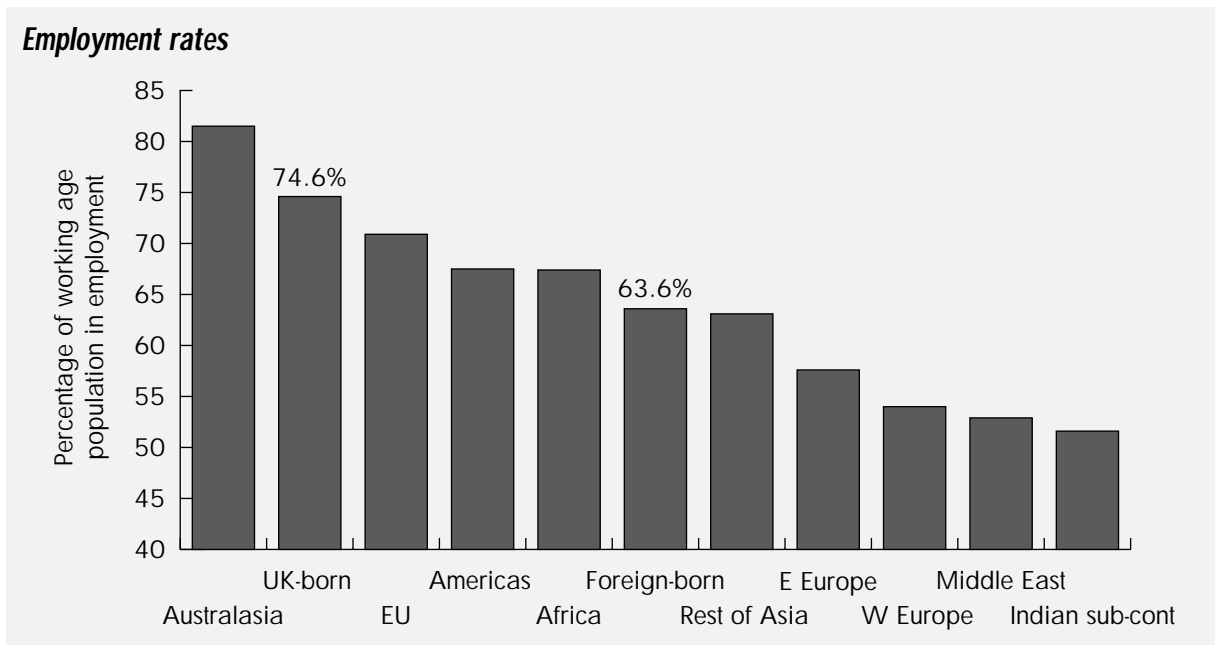
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9 This refers to the year of arrival of those who are foreign-born and currently in the UK, in 2001.



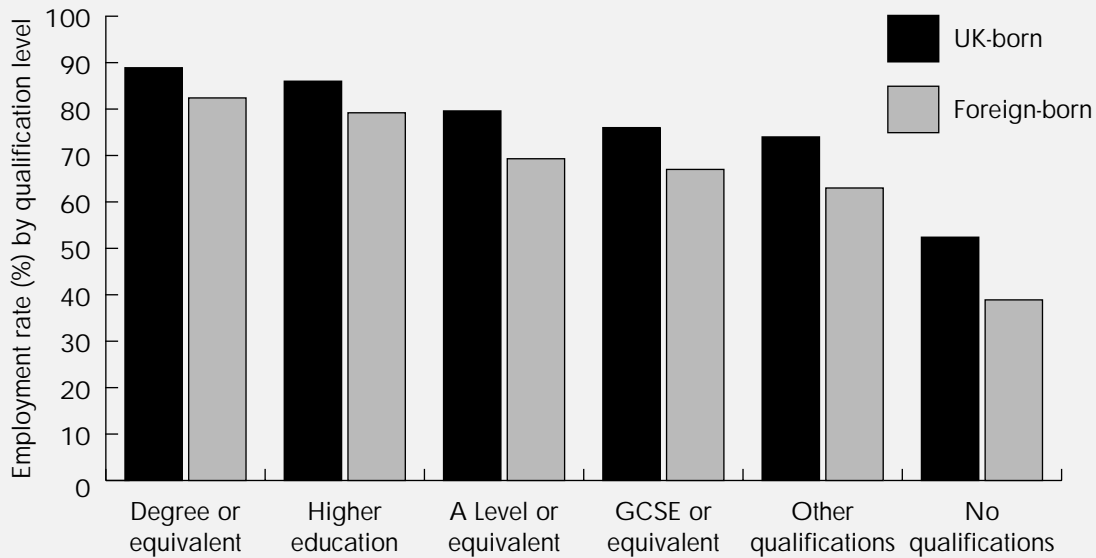
***The labour market performance of migrants and the UK-born***

Migrants generally fair worse than the UK-born in terms of participating in the labour market and finding work. The employment rate among migrants is around 64 per cent, compared to around 75 per cent for the UK-born. But there are substantial variations in labour market experience as well.



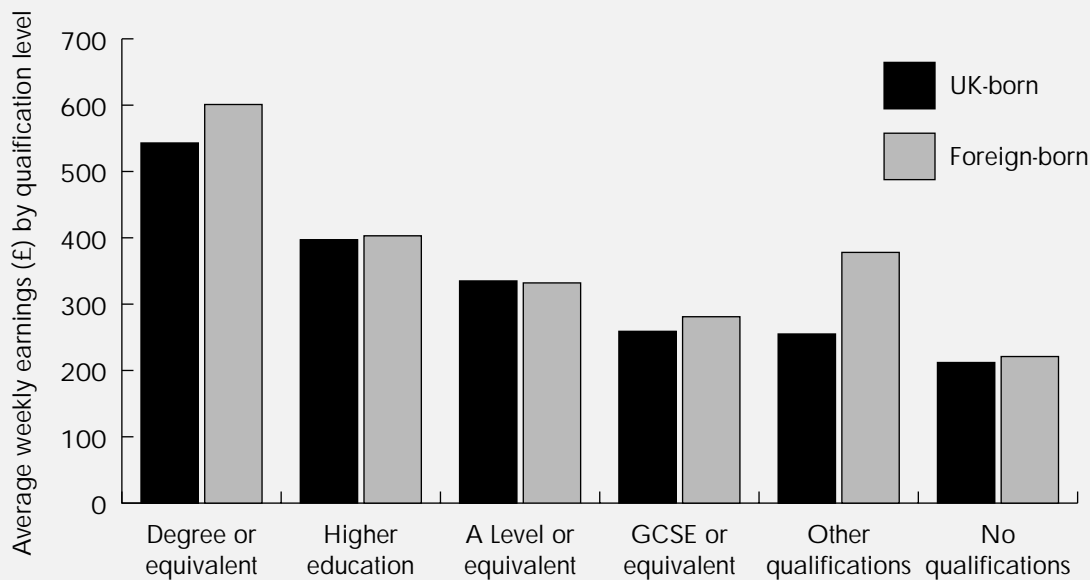
Generally, those from other industrialised countries tend to do better than those from poorer backgrounds. However, even among those from industrialised countries, the chances of finding work are evidently better for those with English-speaking backgrounds. This employment disadvantage for migrants exists consistently at all skill/qualification levels. Both the highly-skilled and low-skilled migrants have difficulty competing for jobs with their UK-born counterparts, though the gap is generally larger at the lower-skill levels.

### Employment rate and educational qualifications



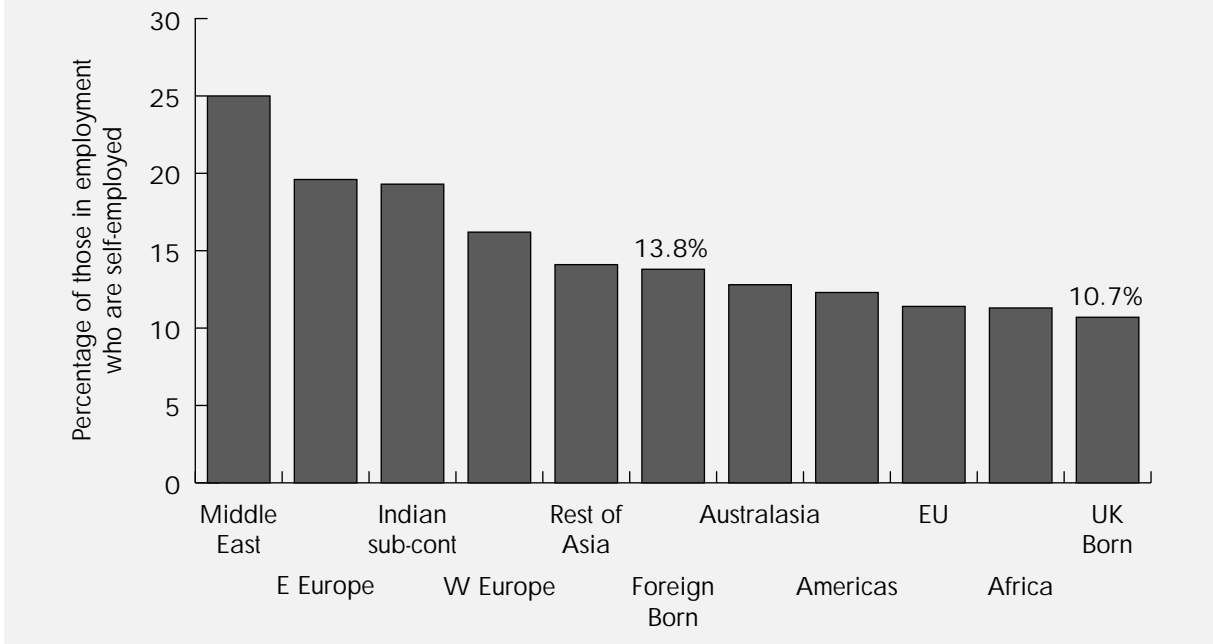
Those migrants who do find work tend to earn more on average than the UK-born. Average gross weekly earnings among migrants is £403, compared to £338 among the UK-born (that is, about 19% more). This is true, to a greater or lesser extent, at virtually all skill/qualification levels.

### Earnings and educational qualifications



Many among the foreign-born are also self-employed, indeed more so than the UK-born. Generally, but not strictly, those coming from less developed countries are more likely to be self-employed, while those from western countries are closer to the UK-born in this respect. Evidently, many groups who have the poorest labour market performance in terms of employment tend to be more in the entrepreneurial mould. This may be partly due to discrimination in the labour market, which drives people to seek alternative forms of earnings, but also partly due to cultural reasons.

### Self-employment



### Conclusions

The foreign-born population comprise an important part of UK society and labour market and we are, therefore, interested in their characteristics and behaviour. The analysis in this report clearly shows that the foreign-born population in the UK is not a single homogeneous group. It comprises many different groups and individuals, with different histories, backgrounds and characteristics. Their experiences in the labour market also vary considerably, with some groups enjoying more success than others.

# 7 Executive summaries of labour market reports

The executive summaries of the three labour market reports are reproduced below. Their references to particular chapters or sections refer to the sections of the full studies. These full studies are available on the Home Office website at the addresses given.

## **“Labour Market Performance of Immigrants in the UK” (by Christian Dustmann, Francesca Fabbri, Ian Preston and Jonathan Wadsworth, University College, London)**

Full report will be available at [www.homeoffice.gov.uk/rds/onlinepubs1.html](http://www.homeoffice.gov.uk/rds/onlinepubs1.html)

### ***Executive summary***

This document is a report commissioned by the Home Office to analyse the performance of immigrants in the UK labour market. It attempts to draw a comprehensive picture of the labour market performance of immigrants, and the process of adaptation relative to the British-born white population. Four indicators of economic performance are investigated: (i) employment, (ii) labour force participation, (iii) self-employment, and (iv) wages. The analysis distinguishes between males and females, and between groups of different origin. The effects of specific variables on these outcomes are investigated in detail. The report also considers labour market outcomes of ethnic minority individuals who are born in the UK, and compares their outcomes with those of British-born white individuals, and of ethnic minority individuals who are foreign-born.

The report commences in Chapter 2 with a brief explanation of the underlying theoretical framework, and the statistical methodologies used for the various parts of the analysis. In addition, a brief survey of the previous literature that investigates issues addressed in this report for the UK is provided. It ends with a description of the main data source used in this survey, the British “Labour Force Survey” (LFS).

Chapter 3 uses data from the LFS over the period from 1979 to 2000 to describe basic features of the foreign-born population in the UK, their allocation to different labour market segments, how their employment and participation probabilities have changed over time, and compares these outcomes to those of UK-born whites. The main findings can be summarised as follows:

- about one-third of all working age immigrants have arrived over the last ten years. The composition of new arrivals over the last half-century has changed considerably, with many of the recent arrivals coming from European Union (EU) countries, and non-EU European countries;
- in the year 2000, foreign-born individuals constitute about nine per cent of the working age population in the UK. On average, immigrants have spent 19 years in the UK in 2000, but there are large differences across the different origin groups.

- many immigrants arrive at a very young age: of the working age population in 2000, about 30 per cent have arrived before the age of 16;
- the immigrant community as a whole is well educated. In 2000, there were five per cent more graduates among immigrants than among white British born. There is however large variation according to country of birth;
- immigrants are heavily concentrated in the capital. In 2000, nine per cent of British born whites of working age lived in London, compared with 40 per cent of the foreign-born, and 45 per cent of British-born ethnic minorities. The concentration of foreign-born individuals in London has increased between 1979 and 2000;
- employment and participation rates of foreign-born ethnic minority individuals are considerably lower than those of British-born whites. These differences have increased substantially since 1979. Employment and participation of minority immigrants is more volatile over the economic cycle. The labour market performance of foreign-born white immigrants is very similar to that of British-born white individuals. Females from the Bangladeshi and Pakistani communities have the lowest participation rates among ethnic minority individuals; and
- industrial concentration differs quite substantially across immigrant communities.

Chapter 4 investigates the economic performance of foreign born individuals, in comparison to UK born whites, distinguishing between employment, participation, self-employment, and wages. The analysis distinguishes between different origin groups, and males and females. The analysis is conducted both with and without consideration of the role of socio-economic characteristics and regional distribution.

- Comparing white British-born individuals with immigrants of the same age, education, other measurable characteristics, and geographical allocation, we find that white immigrants have similar employment probabilities to UK-born whites. Minority immigrants have on average lower employment probabilities, with Pakistanis, Black Africans, and Caribbeans being the most disadvantaged. This is true for both men and women.
- Participation rates differ substantially between immigrant communities, with some (predominantly the white communities) being similar to British-born whites, while others (predominantly some non-white minority communities) have substantially lower participation probabilities, even if we allow for differences in socio-economic characteristics and regional allocation. Pakistanis and Bangladeshis are among those with lowest participation probabilities.
- Self-employed immigrants are strongly concentrated in some sectors. Concentration differs according to origin. One out of two self-employed immigrants from the ethnic minority communities is active in the distribution, hotel and restaurant sector (compared to one in six in the British-born white population). White immigrants are concentrated in both the construction sector, and the distribution, hotel and restaurant sector. Compared to UK born whites of same characteristics, white male immigrants have slightly higher probabilities of being self-employed. There is large variation across minority immigrants: while Pakistanis,

Afro-Asians and Chinese are more likely to be self employed, Caribbeans and West Africans are less likely to be self-employed, compared to white British born individuals.

- For wages, there is a dividing line between white and non-white immigrants. While individuals from most white immigrant communities have on average higher wages than UK-born whites with the same characteristics, immigrants from all ethnic minority communities have lower wages. This is true for both males and females, with differences being more accentuated for males. Wage differentials are substantial, reaching about 40 per cent for male Bangladeshis.

Chapter 5 investigates the relative change in the economic outcomes of immigrants relative to British born whites over the immigration cycle, under consideration of socio-economic characteristics. We distinguish between four groups: ethnic minority immigrants, immigrants from Ireland or the EU, white immigrants from old Commonwealth countries, and white immigrants from new Commonwealth countries.

- Employment and participation probabilities for white immigrants remain relatively stable over the migration cycle, compared to British-born whites. Employment and participation probabilities of minority immigrants are initially substantially lower than those of British-born whites, but there is adaptation. We estimate that after about 20 years of residence, participation and employment probabilities are similar to those of UK-born whites. Differences for females from ethnic minority communities are much more pronounced. Female immigrants do not appear to reach parity of employment rates with white British-born individuals no matter how long they have been resident in Britain.
- Self-employment probabilities increase for all groups after arrival, relative to British-born whites. Ethnic minority immigrants and individuals from the Irish community/EU are more likely to be self-employed than UK-born whites about five years after arrival.
- Our estimated wage differences relative to British-born whites conditional on length of residence are quite unstable, mainly due to the relatively small numbers of observations. Overall, wages of white immigrants seem to vary little with length of residence relative to British-born whites. Wages of minority individuals seem to converge slightly to those of British born whites as length of residence increases.

Drawing on existing literature, Chapter 6 investigates differences in language proficiency across immigrant groups from ethnic minority communities, the way language relates to observable characteristics, and the association between language and economic outcomes. It also investigates wage differences of immigrants between the public and the private sector, and compares them with those of British-born white workers.

- There is considerable variation in language proficiency across the various minority immigrant groups. Bangladeshis and Pakistanis have the lowest proficiency in the English language.
- Language proficiency improves with time of residence, is higher for the more educated, and is higher the lower the age at which the immigrant entered the country.
- Language fluency is strongly and positively associated with the probability to be employed, and with wages. Language proficiency is likely to reduce the gap between UK-born whites and minority immigrants considerably.

- The wage differential between immigrant men and white British-born men is smaller in the public sector than in the private sector.

Chapter 7 compares economic outcomes of ethnic minority individuals born in the UK with those of British-born whites, and foreign-born individuals of the same ethnic community.

- For males, there is some improvement of British-born ethnic minorities in terms of employment and participation probabilities, relative to minority immigrants. However, British-born ethnic minority individuals from most minority communities are still less likely to be employed, or to participate in the labour market, relative to their white peers. For females, British-born ethnic minority individuals have improved their relative employment and participation probabilities substantially, compared to immigrants of the same ethnic origin.
- Wages of British-born minority individuals are more similar to those of their white peers, compared to minority immigrants of the same origin. There are still wage penalties for some ethnic groups. Most disadvantaged seem to be Black African British-born individuals, who have, on average, around 20 per cent lower wages than their white peers (with similar numbers for females).

## **“The Labour Market Outcomes and Psychological Well-Being of Ethnic Minority Migrants in Britain” (by Michael Shields and Stephen Wheatley Price, University of Leicester)**

Full report will be available at [www.homeoffice.gov.uk/rds/onlinepubs1.html](http://www.homeoffice.gov.uk/rds/onlinepubs1.html)

### ***Executive summary***

This document details the investigations of a Home Office Research project into the economic and social factors associated with ethnic minority migrants' labour market outcomes. It examines the quantitative significance of these factors in influencing ethnic minority migrants' access to employment and their participation in the labour force and in determining the psychological and psychosocial well-being of ethnic minority migrants living in England. In this study the term ethnic minority migrant refers to someone who was both born outside the United Kingdom (a migrant) and who self-reports their ethnicity as being other than White (a member of an ethnic minority).

Survey data, from the “Fourth National Survey of Ethnic Minorities”, conducted in 1994, and the “Health Survey of England”, in 1999, are analysed using both summary statistical techniques and multivariate econometric models.

Chapter 1 outlines the motivation, aims and objectives, policy relevance and methodology of the study. It also outlines some of the key limitations of the data analysis. The principal motivation has been the lack of research into the labour market outcomes of migrants in the UK as compared to other countries. This is despite evidence elsewhere of important differences between the labour market performance of migrants and non-migrants.

Chapter 2 details the essential features of the two data sources used, defines the key measures and describes the populations under study. Migrants comprise a larger proportion of the population in the UK than ethnic minorities. Ethnic minority migrants constitute a minority of the migrant population. Of the groups investigated, Pakistani and Bangladeshi migrants have the lowest levels of success in the labour market.

Chapter 3 outlines the theoretical background to our exploration of the employment and labour market participation of individuals, and in particular migrants. In particular, previous work has shown the explanatory power of migrant characteristics, such as country of birth, years since migration, the nature of qualification and language fluency, in similar empirical analyses.

Chapters 4 and 5 report the results of multivariate analyses, which quantify the factors that are crucial to ethnic minority migrants' labour market outcomes. Several findings emerge.

- After allowing for factors likely to influence the likelihood of getting a job, such as educational qualifications, most male migrants are just as likely to be in employment and active in the labour market as the existing population.
- All female ethnic minority migrants are less likely to be economically active, and hence employed, than females from the majority population, even after controlling for job-related characteristics.
- Even after accounting for differences in job-related characteristics, across the various ethnic minority migrant groups, Pakistani and Bangladeshi migrants appear to be less successful in the labour market. This may be due to a lower demand by employers for males, and a reduced willingness to engage in the labour market amongst females, from these migrant groups.

- Educational qualifications are critical to ethnic minority migrants' labour market success.
- UK qualifications have an advantage over foreign qualifications at the same level.
- Recently arrived ethnic minority migrants have significantly reduced employment and participation rates.
- English language speaking fluency dramatically increases predicted employment rates.
- The labour market premium to fluency is greatest for those ethnic minority migrant groups with the least success in the labour market and the lowest fluency rates.

Chapter 6 details the theoretical and empirical findings from economic investigations into the determinants of individual psychological well-being. Importantly, previous studies have shown that unemployment has a severely detrimental effect on such outcomes whilst income does not necessarily enhance the psychological well-being of individuals.

Chapters 7 and 8 investigate the psychological and psychosocial well-being of ethnic minority migrants using descriptive and multivariate statistical techniques. Psychosocial well-being is measured with reference to a score for an individual's 'perceived social support'. A number of empirical results are found.

- Ethnic minority migrants, generally, report similar levels of psychological well-being to those of the majority population, with and without controlling for differences in characteristics.
- Employment is crucial to the psychological well-being of ethnic minority migrants, with unemployment and physical ill-health having substantial adverse effects.
- Victims of crime, and ethnic minority migrants living in fear of racial harassment, have significantly lower levels of psychological well-being.
- All ethnic minority migrant groups report significantly lower levels of psychosocial well-being than the majority population, even after characteristic differences are accounted for.
- Higher qualification levels, and increased household income, are associated with improvements in the psychosocial well-being of ethnic minority migrants.

Chapter 9 summarises our main findings, reiterates the limitations of the study, presents some conclusions and discusses policy implications. The main limitations are.

- although the best available data sources are used, they fail to accurately represent the resident migrant population in the UK;
- sample size limitations preclude the analysis of different ethnic minority migrants groups separately; and
- the design of the surveys limits the extent to which causal and time-varying conclusions can be drawn.

The primary recommendations for future primary data collection are:

- substantial investments could be made in large, nationally representative, surveys which take into account the need for detailed information on migrants;
- such surveys ought to incorporate a longitudinal or panel element and capture the adjustment experience of migrants over their first ten years in the UK;
- “The British Household Panel Survey” and the quarterly “Labour Force Survey UK”, with suitable extensions in coverage and questionnaires, might be well suited to this task;
- all primary data collectors could be encouraged to take the needs of migrant research into account when designing their surveys; and
- further investigation of the psychosocial well-being of ethnic minority migrant groups is needed, in order to isolate effective sources of social support, which can then be promoted.

The principal policy recommendations, following from this study, are:

- greater assistance could be provided to employers to help them accurately assess the value and level of non-UK qualifications;
- the government could encourage existing ethnic minority migrants to acquire UK qualifications and greater fluency in the English language;
- a greater proportion of future migrants could be selected for their suitability to the needs of the UK labour market, using the appropriateness of their qualifications and their levels of English language fluency, amongst other factors, as criteria;
- English language training could be provided for successful asylum applicants to enable rapid access to employment opportunities;
- Recent ethnic minority migrants could be given appropriate employment advice and support to enable them to quickly engage in productive labour market activity;
- The psychological well-being of ethnic minority migrants, as well as the general population, would be enhanced if government policies that aim to lower unemployment, improve health outcomes, reduce crime and tackle racial harassment are successful; and
- Increasing educational attainment and household incomes of ethnic minority migrants will substantially enhance their psychosocial well-being.

This study has conducted a detailed analysis of the labour market outcomes of ethnic minority migrants, and their connection with measures of individual and social-contingent well-being, using the best available sources of information and robust statistical techniques. Nevertheless, many issues remain unresolved and many migrant groups have yet to be examined at all. Substantial ongoing support is needed for primary data collection, secondary empirical analysis and evidence-based policy evaluation. Only then will the full impact of current government policies be understood and future policies be able to be confidently formulated, and reliably implemented, to the benefit of the migrants themselves, and the whole population of the UK.

## **“The Local Labour Market Effects of Immigration in the UK”**

**(by Christian Dustmann, Francesca Fabbri, Ian Preston and Jonathan Wadsworth, University College, London)**

Full report will be available at [www.homeoffice.gov.uk/rds/onlinepubs1.html](http://www.homeoffice.gov.uk/rds/onlinepubs1.html)

### ***Executive summary***

This report, commissioned by the UK Home Office, is concerned with an empirical analysis of the impact of immigration on outcomes of currently resident workers in local labour markets. Until now, no such analysis has been undertaken for the UK. Our investigation is therefore the first to consider this important issue for the UK. The report attempts to provide a comprehensive analysis of the mechanisms by which immigration may have an effect on labour market outcomes of workers. This involves careful analysis of relevant theoretical economic models. Based on these considerations, an empirical analysis is attempted, drawing together several UK data sources which are appropriate for this purpose. The report carefully examines the empirical problems that may arise, and discusses implementable remedies. The analysis concentrates on employment effects and on wage effects of immigration. Distinctions are made, where possible and meaningful, between different demographic groups, and different skill groups.

Our results show consistency across different data sources. The main finding is that if there is an impact of immigration on unemployment then it is statistically poorly determined and probably small in size. The estimation of effects of immigration on wages is based on fewer years' data. Higher immigration appears to be associated with higher wage growth in the currently resident population.

Chapter 2 briefly discusses economic theory regarding the effects of immigration on economic outcomes. We show that usual theoretical models do not establish a presumption for or against the existence of long-run employment or wage effects. On a theoretical level, the effects of immigration on labour market outcomes depend crucially on assumptions regarding the flexibility of the economy in other respects and the tradability of its output on world markets. More specifically, if the economy is characterised by a large and heterogeneous traded goods sector, employment and wages may be insensitive to immigration, at least in the long-run. In such a case, the long-run effect of immigration is absorbed by changes in the output mix. If, on the other hand, there is little flexibility in the output mix of traded goods, then it may in fact seem more reasonable to expect long-run effects of immigration on both wages and employment. It is therefore quite compatible with standard economic theory for immigration to have no long-run wage or employment effects. Even within such models however, short-run effects are typically to be expected as the economy adjusts, provided that the skill composition of the immigrant inflows differs from that of the resident population.

Chapter 2 also reviews briefly the findings of literature on the impact of immigration on wages and employment. The basic message of nearly all studies for the US and for European countries is clear: adverse employment and wage effects of immigration are, if they exist at all, very small.

Chapter 2 then explains briefly the several sources of data used for the analysis in this report.

Chapter 3 discusses the problems that may arise in empirical estimations, suggests ways to address these problems, and explains in more detail the extent to which these solutions are implementable using the data sources available for the UK. The main conclusions to be drawn from this discussion are:

- Simple correlations between the level of the immigrant/non-immigrant ratio and economic outcomes are likely to give misleading indications about the effect of immigration, since persistent differences in the stock of immigrants across regions may be correlated with persistent differences in economic prosperity.
- Correlation between the inflow of immigrants and the change in economic outcomes between two points in time, and across local areas, may likewise lead to misleading estimates of immigration impacts, as shocks to the economic success of a particular region may lead to increased immigration.
- Out-migration of existing residents as a response to economic effects of immigration may again compromise the accuracy of the estimated impact of immigration.

We explain in detail how these problems can be addressed, and how possible solutions are implemented in later sections.

Chapter 4 analyses data from the Censuses of 1971-1991 and the New Earnings surveys of 1980-1990. These data sources have serious weaknesses in the current context, particularly in that they do not allow a distinction to be drawn between unemployment and wage levels of those already resident and those of immigrants. The basic results from the most robust estimators indicate an association between higher immigration inflows, lower employment growth and higher wage growth. However it is impossible given the nature of the data, to infer any effects on employment or wages of existing residents.

Chapter 5 analyses data from the Labour Force Survey. Access to the microdata on individual outcomes allows considerably more robust conclusions to be drawn. There is some weak evidence that immigration affects employment prospects of existing residents negatively but estimated effects are typically small and statistical precision is weak. Wages seem to be, if anything, positively affected by immigration inflows but again statistical reliability of these estimates is sometimes weak. Future research needs to address this point in more detail using better data.

Chapter 6 discusses the results of our analysis, draws some tentative conclusions, and gives some recommendations. The basic finding is that there is no strong evidence that immigration has any large adverse effects on employment prospects or wages of existing residents.