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MIGRATION: AN ECONOMIC AND SOCIAL ANALYSIS

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

EXECUTIVE SUMMARY

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

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

7. Chapters 4 and 5 examine the policy framework: Chapter 4, focusing on the Home Office's aim to regulate migration to the UK in the interests of social stability and economic growth [argues that it is clearly correct that the Government has both economic and social objectives for migration policy. However, the current aim could be further developed, and made more operational, to reflect better the overall objectives of the Government, and the role of other Departments.] Chapter 5 summarises the current immigration system. It views migration policy as a continuum, running from entry controls to settlement to integration; thus, it covers not only entry control and settlement policy, but also reviews other policies that the post-entry integration of migrants into UK economy and society impacts upon.

8. Chapter 6 then analyses the economic and social outcomes of policy, both for the migrants themselves and for the UK as a whole. The principal findings are the following:

- **Migrants are very heterogeneous**, differing at least as much from each other as they differ from the general population. There is some evidence that migrants are concentrated at the upper and lower ends of the skill and income spectrums.
- **Migrants are [reasonably successful] in the labour market**, [with higher average incomes than natives, though lower activity rates. The key determinants of success are education and English language fluency, which interact in complex ways. Key barriers to migrant labour market success are lack of general knowledge about the UK labour market; restrictions on access to employment; and lack of recognition of qualifications and/or access to certification/re-certification.] ^{have mixed success}
- **Migrants tend to flow to areas where there is excess demand for labour** (notably in London and the South-East) and are often adept at taking advantage of labour and skills shortages; however, many migrants live in neighbourhoods with relatively high levels of unemployment.
- **There is little evidence that native workers are harmed by migration.** There is considerable support for the view that migrants fill labour market gaps, hence improving productivity and reducing inflationary pressures. However, continued skill shortages in some areas and sectors, and substantial presence of irregular migrants in others, suggests that legal migration is, at present, insufficient to meet demand at either the low or high-skill ends of the labour market. Migrants' impacts on congestion and other externalities are difficult to estimate, but may be important.
- **Migration also has implications for the countries of origin.** The migration of skilled workers might in some circumstances have a negative impact on development and poverty reduction in poor countries, though the effects are complex and will vary by country, by sector and over time.
- **The broader fiscal impact of migration is likely to be positive**, because of migrants' favourable age distribution. Again, employment is a key determinant.
- **Not enough is known about migrants' social outcomes.** Migrants [are not disproportionately involved in crime,] nor do they disproportionately claim benefits, although once again there is considerable heterogeneity. As with natives, lack of employment is highly likely to be correlated with exclusion; in the case of migrants,

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

- [The more general social impact of migration is very difficult to assess. Benefits include a widening of consumer choice and significant cultural contributions; these in turn feed back into wider economic benefits.]

9. Chapter 7 and 8 assess the policy framework in the light of these outcomes, and make some suggestions about options for future policy development. In Chapter 7, several broad themes emerge about the present system:

- the entry control system is quite flexible in some areas, but not in others, and the different entry controls are sufficiently not joined up;

[the entry control system is not closely related to the stated policy objectives. This is particularly true in the social area, where in the past the implicit assumption has largely been that keeping people out promotes stability;]

- there has been more consideration of economic objectives, but only in some areas, and in no great depth;

- securing the successful integration of migrants has not generally been a priority either in designing entry and settlement controls or post-entry policies;

10. Chapter 8 argues that, as a consequence, while the flexible nature of policy in some areas yields economic benefits, performance in relation to objectives is likely to be sub-optimal in three key areas:

- The labour market: current policy does not meet demand either at the low or the high skill end of the labour market. This inflicts significant economic costs.

- Irregular migration: because current policy does not meet the demands of the labour market at the lower end, it has led to high and increasing levels of irregular migration. This is both unsustainable and undesirable in economic and social terms. Improvements to the control system are necessary, but not sufficient.

- The entry control system is not sufficiently joined up with other areas of government policy, and post-entry policies do not sufficiently address socio-economic objectives.

[In practice, entry controls can contribute to social exclusion,] and there are a number of areas where policy could further enhance migrants' economic and social contribution, in line with the Government's overall objectives.

11. Finally, the report briefly outlines some suggestions for future policy development. Options that might be considered include:

- building on the recent review of the work permit system, a move to a simpler, more transparent and market-driven system for high-skilled workers;

- [the introduction of a legal channel for low-skilled migration;]

- [a coherent post-entry migration policy, designed to ensure that migration does indeed contribute to the Government's economic and social objectives.]

12. This will require policies on migration to be better integrated with other Government policies – in particular, in the labour market and on social exclusion. Migration is neither a substitute nor an alternative for other labour market policies, notably those on skills, education and training; rather, migration policies should complement other

- DRAFT -

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.