

Immigration in the United Kingdom: The recession and beyond

March 2009

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Equality and Human Rights Commission

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Turmoil in financial markets and news of slowing growth has filled headlines in developed nations across the world. As unemployment rises and household budgets shrink, analysts, policymakers and the public are beginning to ask what the consequences will be for immigrants and for immigration.

This paper intends to provide a baseline of evidence for policymakers seeking to calibrate their immigration policy responses to the economic downturn, with a focus on the UK.

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Methodology

This paper draws on a series of inputs, including:

- An empirical analysis and literature review by Janet Dobson, Alan Latham and John Salt, Migration Research Unit (MRU), University College London (henceforth MRU).
- Analysis provided to MPI by Communities and Local Government (CLG).
- Two papers published in January 2009 by the Migration Policy Institute entitled 'Immigrants and the Current Economic Crisis: Research Evidence, Policy Challenges and Implications'; and 'Migration and the Economic Downturn: What to Expect in the European Union'.
- Nine papers and a conference held in New York on 19-21 November 2008.
- An expert meeting chaired by Trevor Phillips in London on 9 December 2008.
- A meeting hosted by the European Policy Centre in Brussels on 21 January 2009.

Acknowledgements

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Executive summary

Immigration in the United Kingdom: the recession and beyond

- The UK is now in recession. Steep declines in output across the whole economy have led to rising unemployment that will have implications for large numbers of workers.
- Over the past decade the UK has experienced substantial growth in its immigrant population. In the past five years, it has seen fundamental shifts in the composition of immigrant inflows, as EU enlargement dramatically increased the numbers of Eastern European workers coming to the UK – many on a temporary basis.
- Will the recession reduce immigrant inflows and encourage return migration, as immigrants find it more difficult to get jobs in the UK? There is already evidence that Eastern European workers are arriving in significantly smaller numbers; it seems highly likely that we have now seen the peak of Eastern European inflows and that the overall population from these countries will stabilise in coming years.
- International students are also expected to arrive in smaller numbers as education in the UK becomes less affordable – a worrying trend since international students help to fund UK higher education, and provide a valuable source of highly skilled immigrants for the future.
- However, immigration will by no means cease during the recession, primarily because the downturn is also affecting immigrant source countries, and because migration decisions are not governed solely by economic concerns. Family and humanitarian migrants, for example, are less likely than young, single, labour migrants, to be put off by a downturn in the UK. In particular, **return** migration is not likely to be highly responsive to rising unemployment for most immigrant groups (with Eastern Europeans representing a possible – but by no means certain – exception), as strong social and family ties encourage immigrants to remain in the country. Extensive evidence from past downturns strongly supports the argument that migration flows are only partially sensitive to economic conditions.

- Even if the UK does experience temporarily lower immigration levels, the overall impact of the recession on the size of the UK's immigrant population is likely to be small, especially in the long run. Annual inflows of migrants are small relative to the whole immigrant population: in 2007, for example, the net inflow of immigrants was less than four per cent of the UK foreign-born population (or about six per cent of the foreign national population). Even a dramatic decline of total net inflows – for example of 50 per cent, which is much less than historical evidence suggests will occur – would only represent a couple of per cent of the total immigrant population.
- Furthermore, in the long run, the underlying drivers of migration (including labour demand in high- and low-skilled jobs, existing migrant networks and demographic change) will remain strong, suggesting that migration flows will pick up again during the economic recovery.
- Perhaps the more important question, therefore, is how immigrants, native workers and their communities will fare during the downturn. Experience shows that immigrants are among those worst affected by economic downturns (particularly immigrants from outside of the Organisation for Economic Cooperation and Development (OECD)). The impact is likely to be strongest for low-skilled migrants who do not return home – many of whom are not eligible for benefits. Exploitation of vulnerable workers – migrant and native alike – will be an increasing concern during this period of high unemployment. Finally, there is some risk that new immigrants who arrive in the UK during the recession will become detached from the labour market for substantial periods of time.
- This has crucial implications for policymakers. At a time of recession, immigration issues pose challenges for integration in communities and for good relations in society. History tells us that the risk of social unrest and backlashes against immigrants grows during times of economic stress, as native workers feel increasingly insecure. In addition, expected high levels of immigrant unemployment will reduce their scope for economic and social integration. Combating these problems will require strong leadership from inside and outside of government. In particular, policymakers must focus on ensuring: effective integration measures targeted not just at immigrants but more broadly across society; active labour market policies to help vulnerable native and immigrant workers; enforcement of labour standards and some carefully judged adjustments to the immigration selection system.

Present immigration patterns

Immigration and the Labour Market

Migration and labour migration

This paper examines UK immigration in the context of current and future economic trends. Our primary focus, therefore, is on labour migration and immigrant employment patterns in the UK.

- Immigrants move for four primary reasons: to work (labour migration), to join their families, to escape from political persecution or natural disasters, or to study abroad.
- Overall labour immigration is driven by several factors. Among the most important are labour demand in the receiving country relative to supply in the sending countries, the 'opportunity differential' between senders and receivers, the existence of established immigrant communities in the host country, and importantly, host country immigration policies.
- The proportion of 'official' labour migration to developed countries is often relatively small: about 40 per cent in the UK, 26 per cent in Australia, and as little as six per cent in the US.¹
- However, the majority of family and humanitarian migrants work after arrival (some family migrants, in fact, come in order to work). International students are increasingly being encouraged to transfer to temporary or permanent worker status. This makes the number of immigrants and potential immigrants affected by economic conditions quite large.
- Changing economic conditions are likely to affect all types of immigrants and their families, not just official labour migrants. They will affect foreign-born workers already present in host countries, as well as those who are considering migrating.

The following pages review the nature of immigration to the UK, in order to inform an analysis of the likely impact of economic conditions during the current downturn.

¹ OECD (2008)

UK Immigrant Flows

The UK had about 6.6 million immigrants in 2008 – defined as individuals born abroad, or the **foreign-born**. There were 4.2 million foreign **citizens**, however – a lower figure primarily because of naturalisations.¹ (Throughout this paper we will refer either to foreign-born individuals or foreign nationals, depending on the data source in question.)

In 2007 the UK received a gross flow of 580,000 people and a net flow of about 240,000.² British nationals are net emigrants. Immigration has increased substantially over the past decade, as the UK has become more open to the global economy through migration. Several factors, including government policy, have facilitated this trend. Since 2004, freedom of movement from new Eastern European member states (henceforth A8) has also contributed to rising immigration levels.

Together, foreign-born workers from different entry categories make up 12.1 per cent of the UK's labour force – up from seven to eight per cent a couple of decades ago. This proportion is high by historical British standards, but below that of other developed countries such as Australia, Canada, the United States, Ireland, Germany, Sweden and Switzerland.

During this period, immigrants have become an increasingly important source of labour in certain sectors. For example, foreign-born workers are thought to make up over 80 per cent of the seasonal agricultural workforce during peak months.³

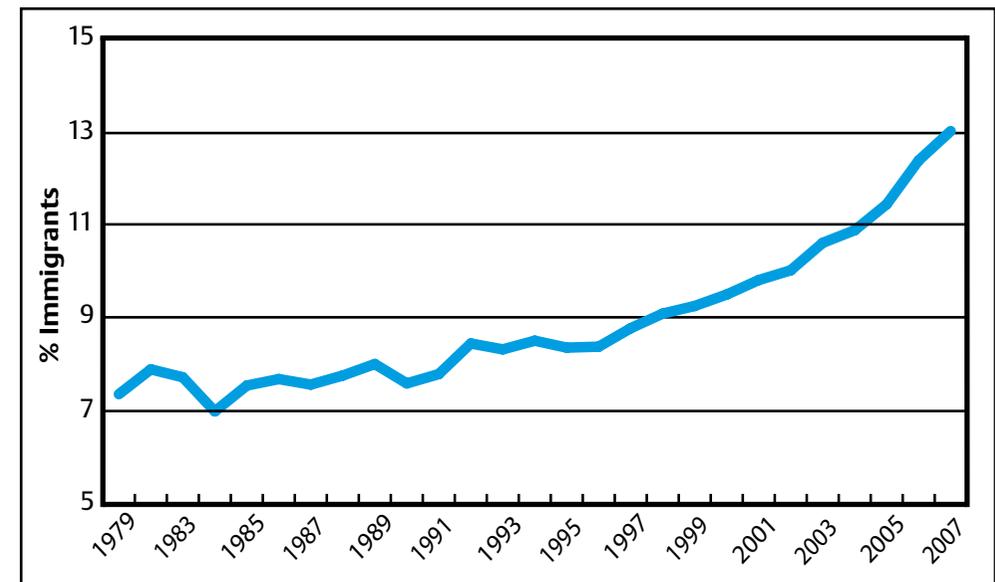
¹ Salt (2008) ² ibid ³ Scott (2008)

Total immigration to the UK, 1997-2006

	British	Non-British	Total
Gross Immigration	902,000	3,668,000	4,570,000
Gross Emigration	1,521,000	1,450,000	2,970,000
Net Immigration	- 619,000	- 619,000	+ 1,599,000

Source: Somerville and Sriskandarajah, 2009 forthcoming. Total International Migration, Office for National Statistics 2006. Notes: Numbers may not round; minus sign refers to net outflow and plus sign refers to net inflow.

Share of immigrants in the UK working age population



Source: Labour Force Survey (1979-2007)

The UK's Immigrants

Where do the United Kingdom's immigrants come from?

The UK receives immigrants primarily from the EU and from former Commonwealth countries (see below left). Of all the immigrant inflows in 2007 (including returning British citizens), just over half were from outside of the European Union – and hence require a visa to work in the UK.¹

The chart on the top right shows the top ten source countries for immigrants receiving National Insurance numbers in 2007-8 – a rough indication of the number of immigrants taking work for the first time in the UK. The chart on the bottom right gives the top source countries for 2002, revealing the extent to which immigration patterns have changed in recent years.

While India, Australia and Western European countries are long-standing source countries for labour migrants, the Eastern European source countries shown (Poland, Lithuania, Slovakia and Romania) are newcomers to the top ten. Polish immigrants

are now the largest foreign group in the UK, representing 12 per cent of all foreign-nationals, and the ten new Eastern European accession states (the A8 and A2) make up 18 per cent of all foreigners.² This represents a massive increase since the 2001 Census registered 61,000 Polish-born residents.

Gross inflow by country of citizenship, 2007 (Thousands)

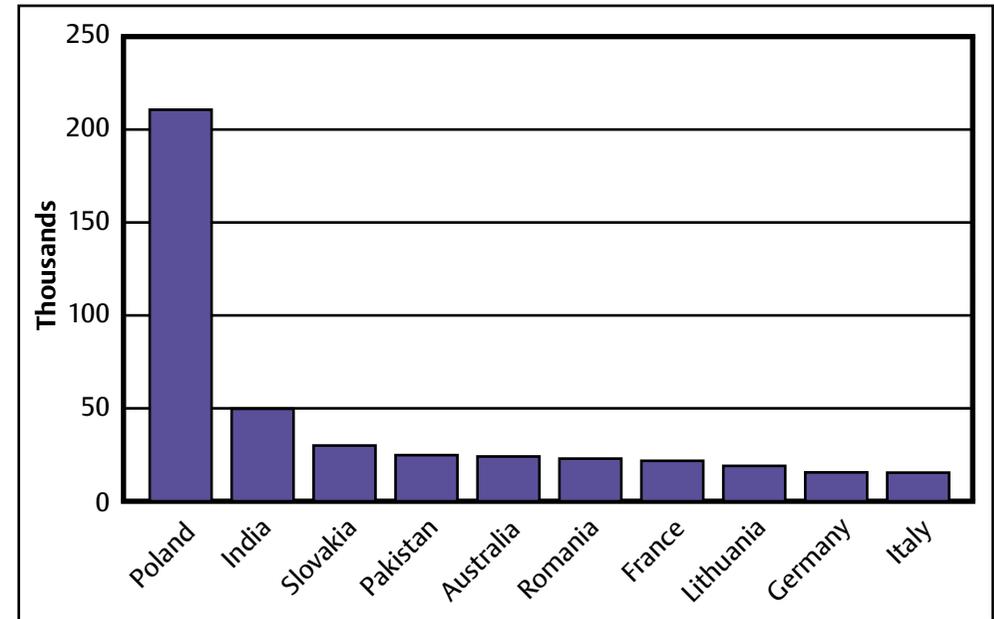
British	75	(13%)
European Union	197	(34%)
Commonwealth	175	(30%)
Other foreign	131	(23%)
Total	577	(100%)

Source: Salt (2008)

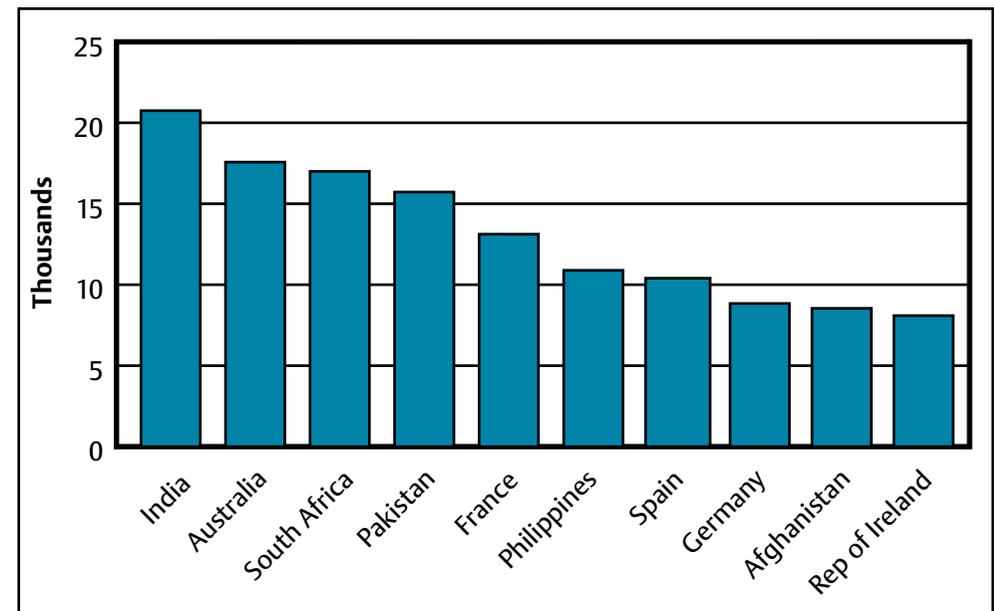
1 A minority of foreign-born individuals (particularly from the Commonwealth) have British citizenship and do not require a visa

2 Salt (2008)

Top national insurance number recipients, 2007-8



Top national insurance number recipients, 2002



Source: Department for Work and Pensions (2008) and Office for National Statistics

The UK's Immigrants

Why do migrants come to the UK?

About 40 per cent of immigrants come to the UK for work, according to the International Passenger Survey from 2007. About three in four of these workers already have a defined job to take up when they arrive (see chart below). A substantial proportion of these workers who come to the UK with a definite job are corporate transferees.¹

Labour migrants, therefore, form the largest single category. However, a breakdown by nationality reveals important detail: two-thirds of OECD country citizens come for work, compared to just under one-fifth of non-OECD migrants. For non-OECD immigrants, study and family reunification are more important motivations.²

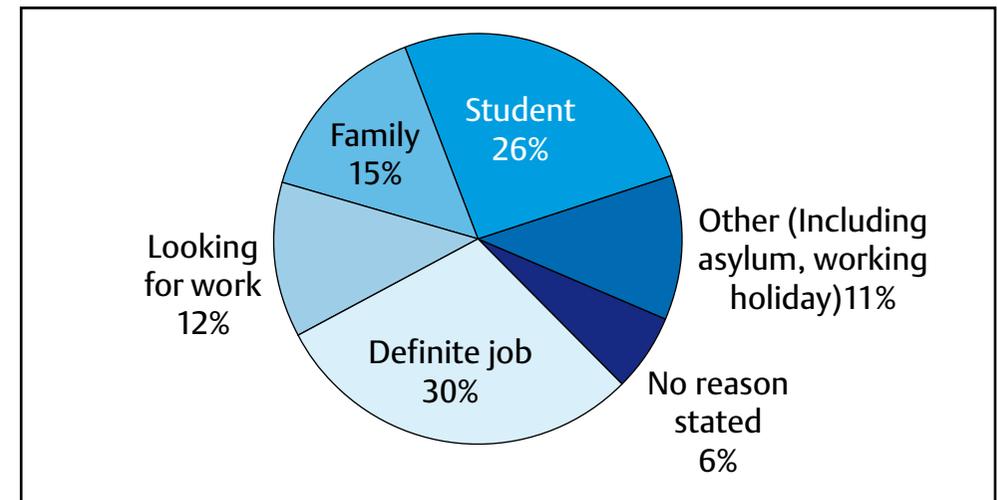
Students make up over a quarter of total inflows, followed by immigrants who come to accompany or join a family member. Of course, many immigrants have more than one reason for migrating – for example work and the opportunity to learn English or to experience life in another country.

How long do they stay?

Many immigrants now stay for only a limited period, in order to earn money before returning home, to learn English or to study. More than 40 per cent of immigrants move on within five years.³ Immigrants from Europe, the Americas and Australia are most likely to return home.

In particular, a pattern of circular migration from Eastern Europe seems to be establishing itself. For example, up to half of A8 arriving in the UK since 2004 are thought to have returned home, according to one estimate.⁴

Reasons for immigration, 2007



Source: International Passenger Survey 2007

1 Salt (2008) 2 ibid 3 Somerville and Sriskandarajah (2009) forthcoming, based on ONS 4 Pollard et al (2008)

The UK's Immigrants

Where do migrants live in the UK?

- Immigrants are unevenly distributed geographically. A large proportion is concentrated in London: 39 per cent of foreign nationals (not including naturalised citizens) live in Greater London, and a further 19 per cent live elsewhere in the South East.
- That said, recent immigration has been more dispersed, with only 26 per cent of A8 migrants living in London, and 16 per cent in the rest of the South East. This means that certain areas that are not used to migration have experienced sudden inflows of foreign workers.¹

What jobs do migrants do in the UK?

- Immigrants are concentrated at the two ends of the skill spectrum: they are over-represented in both low-skilled and high-skilled jobs. Large-scale immigration from Eastern Europe over the past five years, however, has reduced the average skill level of jobs that immigrants perform. In 2008, only 12 per cent of A8 immigrants worked in highly-skilled occupations, and more than half worked in 'routine' ones.²
- Different national groups show differing patterns of employment: workers from wealthy countries such as France, Germany, Australia, New Zealand and North America are strongly represented in finance and business; while those from Africa, the Caribbean and South East Asia worked primarily in less skilled transport, communications and services jobs.³ A8 workers are more heavily concentrated in manufacturing than other immigrant groups.
- Many immigrants have higher formal skills than their occupational status suggests, but 'downgrade' when they arrive in the UK, either because their skills are not recognised here, or because language or other barriers prevent them from practicing the occupation they had before immigrating. This phenomenon is particularly prevalent among A8 workers.⁴

1 Salt (2008) 2 ibid 3 ibid 4 Dustmann et al (2008)

Immigrant Integration

How do immigrants fare in the UK?

UK Immigrants come from diverse origins. Many immigrants must bridge enormous language, educational, and skills deficits, making them vulnerable to employment instability, particularly during times of economic turmoil.

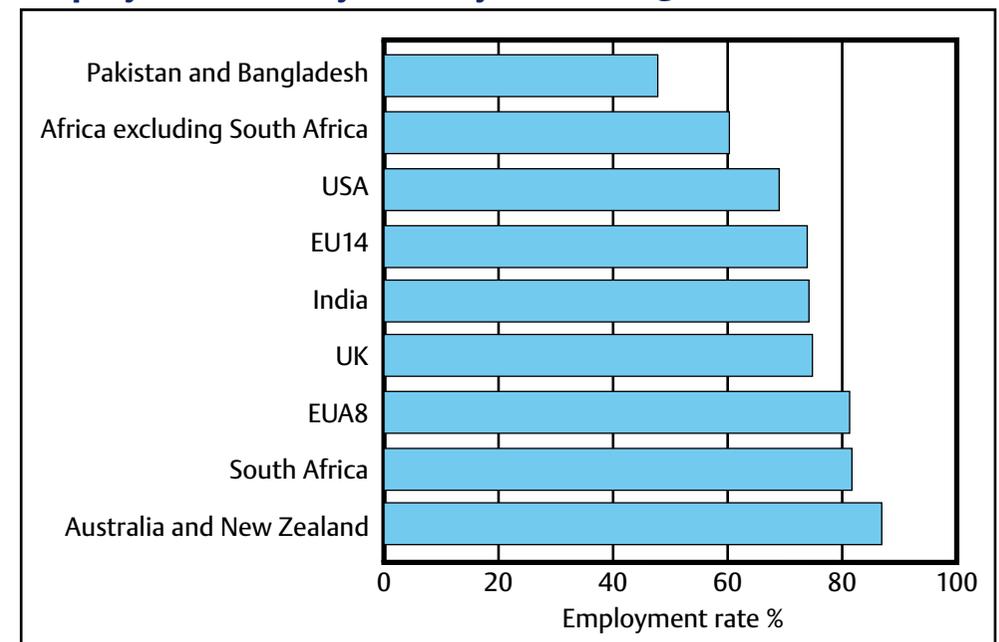
These differences can create barriers to immigrants' economic integration. The chart below shows that employment rates are low among immigrants from Pakistan, Bangladesh and African countries, while some groups (including the recent A8 immigrants) have higher employment rates than UK natives.

This data, however, masks important detail on the change in immigrants' labour market outcomes over time. When they arrive in the UK, immigrants typically experience higher unemployment rates than native workers, especially if they are from non-OECD countries.

Over time, however, their labour market outcomes improve and immigrants as a group 'catch up' with native workers, as they gain language ability, UK work experience and knowledge of the labour market, and in some cases gain recognition for their foreign educational credentials.

That said, the ability to catch up varies by group. Research shows that white immigrants (typically from wealthier source countries) have unemployment rates similar to those of white natives after ten to fifteen years in the UK. For non-white immigrants, however, unemployment rates remain significantly higher throughout their lifetimes.¹

Employment rate by country of birth, Q4 2008



Source: Office for National Statistics (2009)

1 Wheatley Price (2001)

Immigrants' Children

Why are immigrants' children important?

- Immigrants' children form a substantial and growing proportion of the population. Estimates from the General Household Survey suggest that 5.6 million UK residents have at least one foreign-born parent (approximately 11 per cent of the population).¹
- This proportion is growing: in 2007, 28 per cent of all children born in England and Wales had at least one foreign-born parent, rising to 54 per cent in London. Of all UK-born children with a foreign-born mother (the second generation), about a quarter had a mother from India, Pakistan or Bangladesh, and just over a quarter had a mother from elsewhere in Europe.² The proportion from Europe has jumped in recent years, following increased immigration from new EU member states.
- As a result of the rising population of children of immigrants (both foreign-born and UK-born), a substantial number of children now grow up in the UK with a first language other than English: 14.4 per cent in primary schools and 10.8 per cent in secondary schools, according to preliminary data from 2008. There is substantial variation by local area: Tower Hamlets and Newham have over 70 per cent of primary school pupils with English as a second language, while many local areas have only a few per cent of English-language learners.³

How do immigrants' children fare in the UK?

- The children of immigrants typically fare better than their parents in the labour market. In terms of educational achievement, research on British-born ethnic minorities suggests that immigrants' children also perform better, on average, than their non-immigrant peers (those with two native-born parents), although this additional education does not translate fully into better employment prospects.⁴
- Further, some groups, including children with Pakistani or Black Caribbean parents, seem to experience limited upward mobility in the UK.⁵
- A substantial correlation between the labour market performance of immigrants' children and that of their parents means that the economic fate of first generation immigrants has long-lasting consequences.

1 Wright (2005) 2 Papademetriou et al (2009), data from ONS Birth Statistics 3 School Census 2008 preliminary data

4 Dustmann and Theodoropoulos (2006) 5 Papademetriou et al (2009)

The impact of the recession

The Current Downturn

The current downturn: GDP

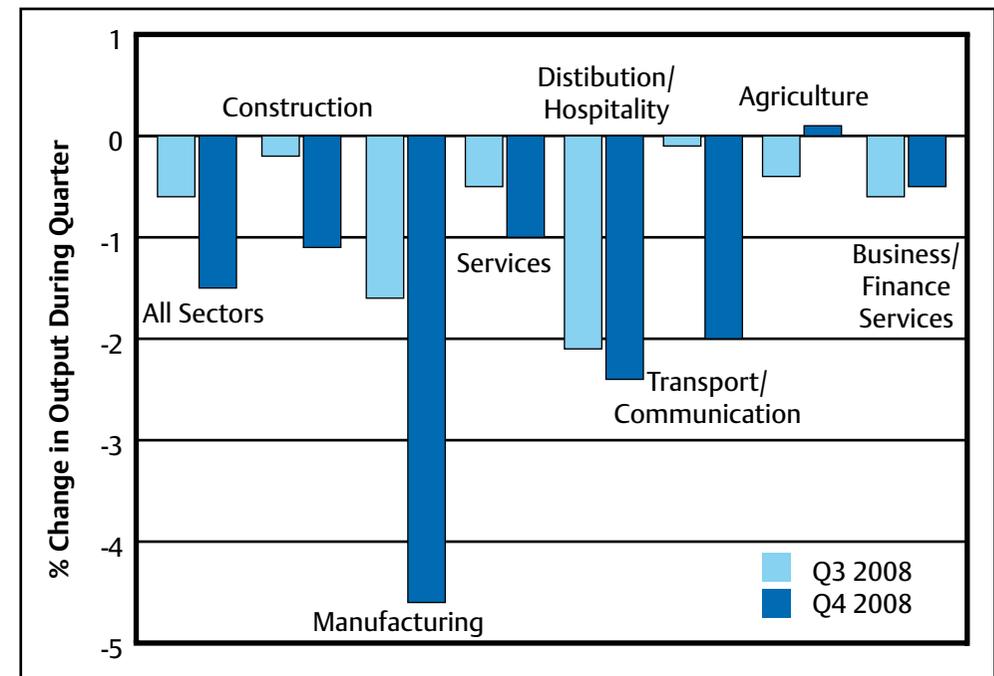
The United Kingdom is in recession. Gross Domestic Product contracted by 1.5 per cent in the fourth quarter of 2008, following a decline of 0.6 per cent in the third quarter – a decline of more than two per cent over six months. This decline has been unusually rapid. By comparison, the last recession in the early 1990s saw the economy contract by 2.5 per cent over five consecutive quarters. Over the whole of 2008, growth was 0.7 per cent – the lowest level since 1992.¹

Official projections are still changing and becoming increasingly downbeat, with last year's 'worst-case scenarios' rapidly turning into this year's baseline projections. The IMF, for example, has predicted that Britain's economy will contract by 2.8 per cent in 2009, and grow by only 0.2 per cent in 2010.² This is down from a previous 2009 projection of 1.5 per cent negative growth. The Bank of England has made even gloomier prognoses.³

The current downturn is unusual in that all sectors have been hit. The chart shows the change in output across the economy during the third and fourth quarters of 2008. The largest shocks have been to manufacturing and to the distribution and hospitality sector – two sectors that together accounted for over 30 per cent of UK employment in 2008.⁴

The regional outlook for the recovery is mixed. Although London and the East are expected to experience the largest proportional falls in employment during the downturn, they are also projected to experience a stronger recovery.

Decline in output by sector Q3 and Q4, 2008



Source: Office for National Statistics

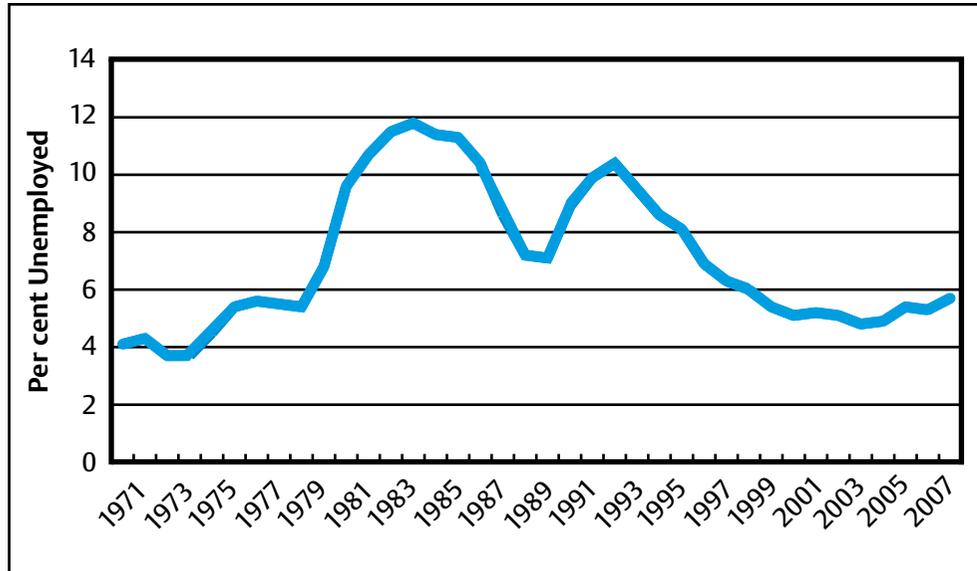
1 Office for National Statistics, Gross Domestic Product Data A2:IHYP 2 IMF (2009) 3 Bank of England (2009) 4 Labour Force Survey

The Current Downturn

The current downturn: unemployment

Unemployment rose to 6.3 per cent in the fourth quarter of 2008, according to the February job statistics. This is the highest rate since the late 1990s. Unemployment has been rising particularly quickly among the under 25 population.¹ As the chart (below right) shows, unemployment is highest for the least skilled ('elementary') occupations, and has been growing rapidly for other blue collar workers and skilled tradesmen.

Unemployment in the UK, age 16 and over, 1971–2008

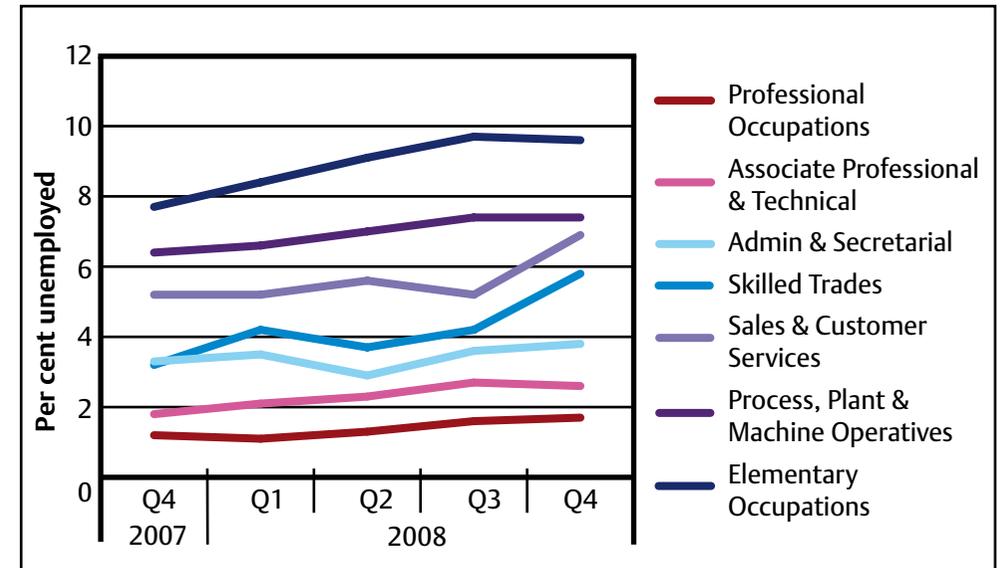


Source: Office for National Statistics

¹ Bank of England (2009)

Unemployment of between six and seven per cent is high by the standards of the previous decade, although previous recessions have seen significantly higher rates (see chart, right). As yet, therefore, we are not at peak levels of unemployment, by recent historical standards. Typically employment picks up at the same time as GDP growth after a recession, although in recent recessions jobs have taken longer to recover. This means that the UK could experience a prolonged period of joblessness.

Unemployment by worker's previous occupation, 2007/8



Source: Office for National Statistics.

Note: since data lists unemployment rate by previous occupation, the graph does not necessarily indicate the occupation in which individuals are seeking employment.

Recession and Migration

Why does the recession have implications for immigrants and immigration?

- The downturn is likely to affect the kind of immigrants in the country – who arrives and who leaves – with implications for labour supply in several sectors.
- Immigrants are likely to be hit hardest by the recession for several reasons – in particular, they are over-represented in low-skilled occupations where job losses will be substantial and many are ineligible for welfare benefits. This could damage immigrants' ability to integrate socially and economically.
- Public expectations about immigration's impact are likely to become most acute in times of economic turmoil – particularly the concern that immigrants take jobs from native workers.

The implications for immigrants and for immigration will depend in part on the nature of the recession, with a longer and deeper downturn likely to lead to more substantial and longer lasting impacts.

The effects of the downturn can be divided into four major categories:

- Impact on flows of immigrants (in and out of the country)
- Impact on immigrants themselves (welfare and integration)
- Impact on host communities and labour markets
- Impact on sending countries (remittances and return migration).

Recession and Migrant Flows

Will the downturn affect migration flows?

- Migration decisions are strongly linked to economic opportunity. Economic migrants move to the host country because they want to improve their own opportunities for upward mobility and those of their families. Logically, therefore, the host country's labour market conditions ought to affect immigration flows.
- Since fewer employment opportunities are available during a downturn, one might expect the current economic climate to reduce labour migrants' incentives to come to Britain (as well as employers' incentives to bring them here) and increase the likelihood that those already here will move away. In particular, migrants and would-be migrants may change the timing of their decisions, by delaying a move abroad or cutting short a trip that they intended to be temporary.
- However, several factors complicate this picture. In particular, inflows and outflows depend not just on the economy but also on family circumstances, social networks, safety nets and visa regulations, which can mitigate the responsiveness of immigrant flows to economic conditions. While economic incentives are central to the migration decision, some types of migrant will be more affected than others. Further, inflows and outflows will change in different ways. For reasons explained in the following pages, inflows are likely to be more sensitive to economic circumstances in the UK than outflows.

We now analyse the motivations for migrating, to show how the recession might affect immigration to and from the UK. Different immigrants will have different reasons for migrating, and will face different barriers in doing so, creating heterogeneity in any changes to flows.

What factors affect immigrant inflows during a downturn?

We outline five major determinants of inflows:

- Employment motivation
 - The opportunity differential
 - Job offer requirement
 - Administrative delay
 - Visa over-subscription.
- } Policy-sensitive

Factors Affecting Inflows: Employment and Opportunity

1) Employment motivation

Is migration labour-related? For some immigrants the decision to migrate is purely an economic one, while for others personal, social or political factors are more important, and hence labour market conditions will be less relevant. As noted earlier, about 40 per cent of inflows to the UK are primarily labour-related, with much higher levels of labour migration among OECD country citizens.

Even workers who fit the description of a labour migrant may have reasons for migrating that are not directly related to wages: for example, many come to the UK to learn English or to experience life in another country. These migrants may be less influenced by economic factors than those who come purely to earn more money than they could at home.

2) The opportunity differential

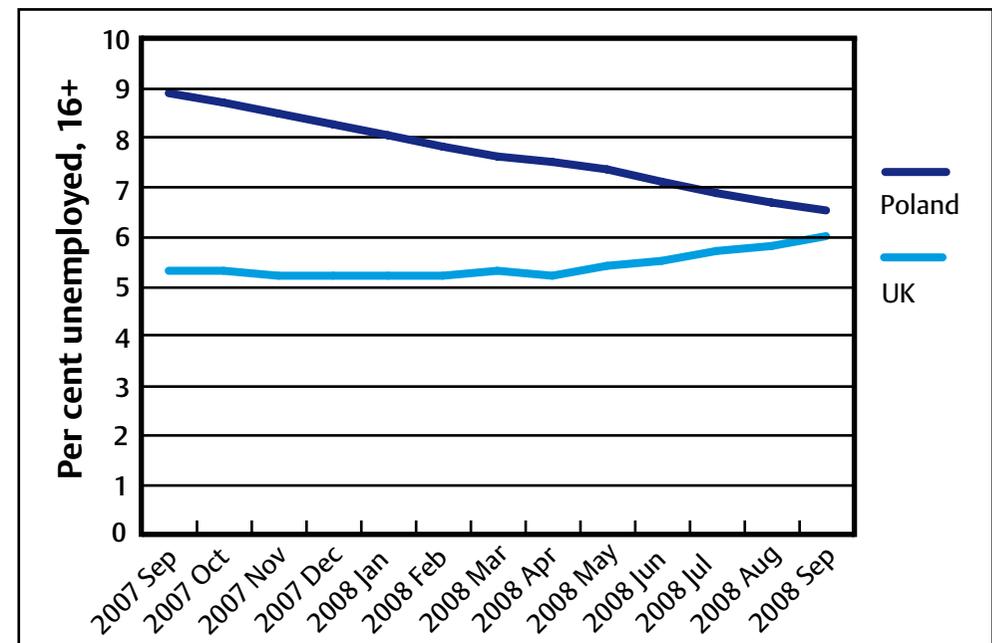
Migration is more attractive when employment conditions are better in the host country than the source country. If source countries are equally affected, recession may not change the motivation to migrate.

A crucial factor, therefore, is the extent to which sending and receiving country economies are aligned – a question subject to debate. The current downturn does appear to have spread quickly to countries such as Brazil, Russia, India and China, suggesting that early optimism about their ability to remain isolated from global downturns was misplaced.¹

¹ Atkins (2009) ² Economist Intelligence Unit (2009)

The graph shows that over the past year (up to Q3 2008), unemployment has risen in the UK even while it was falling in Poland, the UK's largest sending country, in part due to structural funds for economic development. However, these data do not yet register recent changes since the beginning of what is now widely described as a global downturn, in which Poland's growth record is expected to suffer. Indeed, the IMF forecasts an economic contraction of 0.4 per cent in Central and Eastern Europe in 2009, while the Economist Intelligence Unit forecasts a drop in Poland's growth from 4.8 to per cent in 2008 to 1.5 per cent in 2009.²

Unemployment in Poland and in the UK



Source: Office for National Statistics and Eurostat

Note: Unemployment refers to 16+ age group for UK and all ages for Poland

Factors Affecting Inflows: Policy

The remaining factors are directly related to policy

3) Job offer requirement

Does the visa require a job offer? A natural decrease in flows should be expected for visas that require job offers, because such offers will be harder to obtain during a downturn. The graph shows the precipitous declines in the number of vacancies in finance and real estate, manufacturing and in wholesale, retail and hospitality – sectors employing immigrants at both ends of the skill spectrum. As noted earlier, about three in four labour immigrants arriving in the UK come in order to take up a definite job.

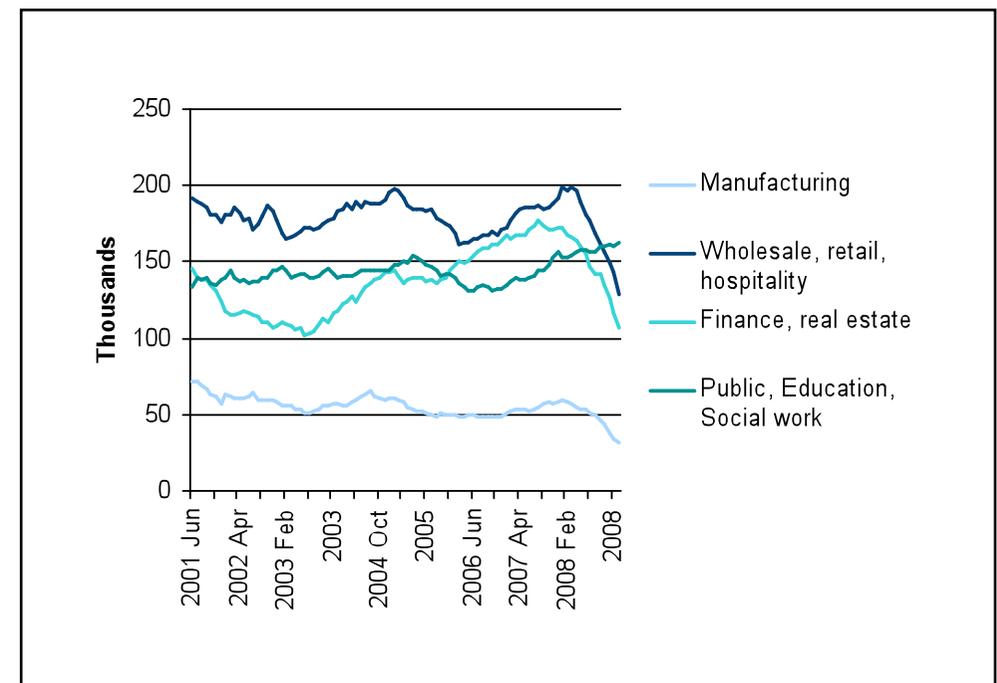
4) Administrative delay

How much administrative delay is there to visa processing? Long visa processing times should reduce the extent to which application numbers reflect current economic conditions. Processing for work visas in the UK is quite short: about four to six weeks, although strong demand has been known to cause delays in the past.¹

5) Visa over-subscription

Is the relevant visa category over-subscribed? If the host country has very limited quotas for a given type of immigrant, a reduction in applications will not lead to a reduction in visas issued. For immigrants who have waited a long time to receive a visa, immigration is a long-term decision that is unlikely to be affected by a recession of limited duration.

Vacancies in selected UK sectors, June 2001 to January 2009



Source: Office for National Statistics, Time Series Data

¹ Workpermit.com (2009)

Factors Affecting Outflows

Immigrant outflows are governed by largely similar motivational and institutional considerations. We outline seven major factors affecting outflows during the economic cycle:

- Conditions in the source country
- Permanence of migration intention
- Social and family ties
- Duration of residence
- Cost of returning to source country
- Ease of returning to host country
- Eligibility for benefits.

1) Conditions in the source country

Conditions in the source country are a primary determinant of return migration.¹ Immigrants will be much more likely to return home if their employment prospects are better there. Immigrants from countries which are also experiencing recession, or which have significantly lower employment prospects at any point during the business cycle, may not see large return flows.

2) Permanence of migration intention

While the lines between temporary and permanent migration are blurred, the migrant's intentions are clearly important to any decision to return home during a downturn. Immigrants who intended to immigrate permanently are much less likely to return home in a downturn. Those who planned for a temporary stay, on the other hand, may decide to cut their trip short.

3) Social and family ties

Strong family ties in the host country will discourage return migration – for both personal and economic reasons.

¹ Papademetriou and Terrazas (2009)

Factors Affecting Outflows

4) *Duration of residence*

The longer an immigrant has been in the host country, the less likely he or she should be to return to the source country during the downturn, for several reasons: the greater likelihood that migration was intended to be permanent; more time to build up family or social ties; and increased labour market opportunities in the host country (due to accumulated local experience and/or qualifications). Many of the UK's immigrants have been here for substantial periods of time and consider the country their home – these individuals will be unlikely to return to their country of origin.

5) *Cost of return to source country*

Circular or 'shuttle' migration is more common for immigrants in geographically proximate countries, since the cost of returning home is smaller.¹

6) *Ease of returning to host country*

An immigrant who will not be able to return to the host country once the recession is over may well think twice about leaving. The ease of returning will depend on the immigrant's status and the host country's immigration rules. This effect may be, in part, responsible for the contrast between reports of return migration from the UK to Eastern Europe, and the very minimal return migration of unemployed immigrants in Spain, despite a Spanish government programme that effectively pays immigrants to go home. In the former case, immigrants knew for certain that they could come back; in the latter, they did not. Of about 100,000 immigrants estimated to be eligible, only about 2,200 have opted to return voluntarily under the Spanish government scheme.²

7) *Eligibility for benefits*

Workers who cannot find employment and do not have family or friends to support them may decide to go home. Many recent immigrants to the UK from Eastern Europe are not eligible for benefits (at least within the first year).

¹ Massey et al (2003) ² LaVanguardia (2009)

Return Migration, Inflows and Outflows

Return migration trends

Note that immigrants do not only return home because of economic downturns. Return migration is a common phenomenon during periods of economic expansion. However, we observe significant differences in the prevalence of return migration among various immigrant groups. Evidence on these trends can help us to analyse likely return migration behaviour during the current downturn.

- Research has found that about 40 per cent of male immigrants and 55 per cent of female immigrants who arrived in the UK in the early 1990s and stayed in the UK for at least a year return home within five years. This percentage is likely to have increased since the beginning of large-scale immigration from Eastern Europe. This estimate does not account for very short-term stays, for example among foreign workers who come as intra-company transferees to work on specific projects for short periods.
- Some groups of immigrants are more likely to return home than others: among immigrants who arrived in the UK in 1992-4, those from the EU, the Americas and Australasia returned at higher rates than the average, while immigrants from Africa and the Indian Sub-continent did not, on the whole, tend to return home at all. Similarly, non-white immigrants (who are from less wealthy source countries, on average) had much lower return migration rates (85 per cent of immigrants who stayed in the UK for at least one year were still present after five years).¹
- The recession is likely to interact with this basic trend, all else being equal. In other words, return migration may increase among white immigrants from the EU, US and Australia; but we are unlikely to see large movements in Indian, Pakistani and African immigrant groups, who appear to have more permanent migration behaviour.²

Inflows and outflows: the role of information and risk aversion

- The pressure that the economic crisis is likely to create for reduced immigrant inflows and increased outflows, may be reinforced by information dynamics and risk aversion. Economic uncertainty is likely to increase migrants' and would-be migrants' risk aversion, discouraging them from making important decisions (such as migration).
- However, this risk aversion is likely to apply significantly more in the case of immigration from an individual's country of origin, than it would apply to return migration, since migrants will have much more information about their home country than about any destination location. This means that while risk aversion could dampen flows in both directions, inflows are likely to be reduced by this factor more than outflows.

¹ Dustmann and Weiss (2007) ² When abstracting from the very short stays of some intra-company transferees, noted above. In fact, many intra-company transferees are Indian IT workers. It is not clear to what extent such workers are properly considered 'immigrants' in the usual sense of the word, if they stay only for a short period and do not intend to spend any substantial period in the UK.

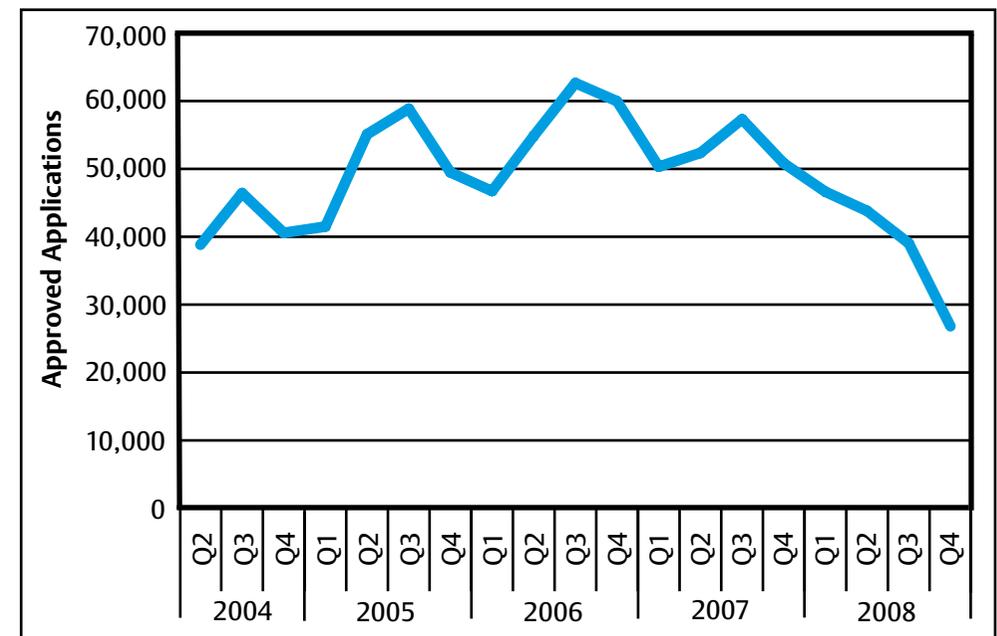
Is Immigration Declining?

Has the current economic downturn reduced immigration flows to the UK?

The full effect of the current downturn will not be clear for some time. However, some preliminary trends can be established.

- Data from the Worker Registration Scheme (that gives an indication of the number of arrivals from Eastern European EU member states) shows a substantial drop-off in applications. The number of approved applications in the fourth quarter of 2008 was the lowest since EU enlargement in 2004 (see right), and represented a drop of almost 50 per cent from one year earlier.¹
- This decline is probably not wholly due to the recession: A8 immigration was always likely to decline after a short-term peak arising from factors such as pent-up demand for work and travel in Western Europe before 2004. However, the speed at which the decline has taken place is dramatic, and suggests that the recession has played a very strong role.
- Applications from Romanian and Bulgarian workers seeking accession worker cards and registration certificates also declined in the fourth quarter of 2008, by 22 per cent and 38 per cent respectively since the same quarter of 2007.²
- Full statistics on immigrant admissions from outside of the EU in 2008 have not yet been released. Since the recession has followed shortly on the heels of major changes to the immigration system, however, it may be difficult to determine the extent to which flows have been reduced by economic circumstances alone, even when the data becomes available.
- Preliminary data do suggest that fewer work permits were allocated in 2008 than in 2007, with steeper declines in telecommunications, health, hospitality and catering, and construction.

A8 initial applications to work in the UK, 2004-8



Source: Home Office Accession Monitoring Reports

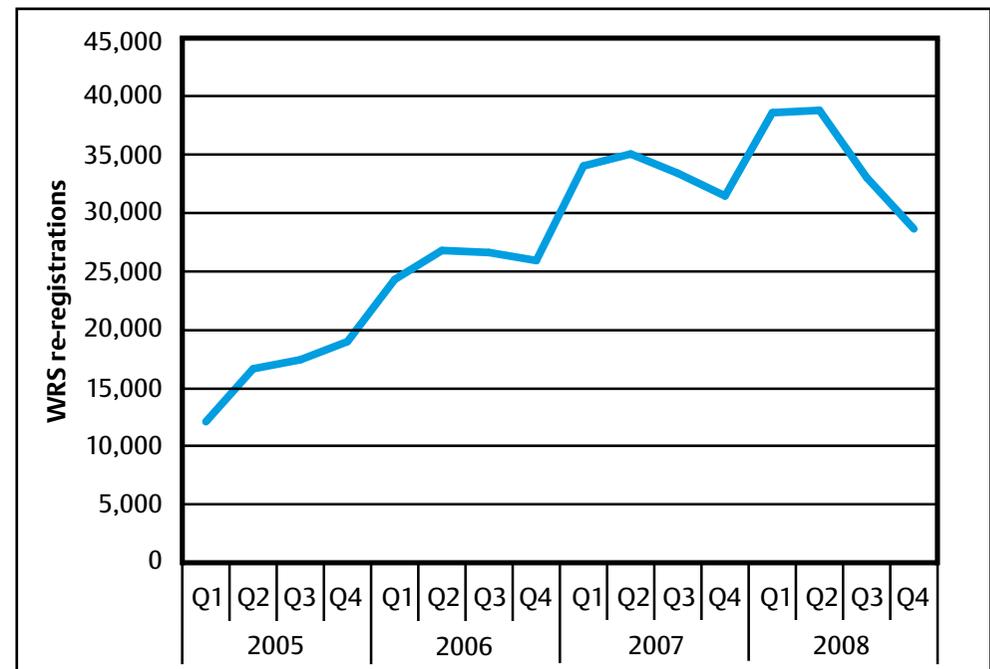
¹ Home Office (2009a) ² Home Office (2009b)

Is Immigration Declining?

Has the current economic downturn increased return migration flows from the UK?

- In short, it is too early to tell with the available data. If the effects of the recession are large, reductions will be identifiable when data becomes available for 2009 from the International Passenger Survey and the Labour Force Survey.
- Information on the numbers of migrants returning home is largely anecdotal, since only limited data exists on outflows from the UK. Qualitative evidence from local areas does not support the hypothesis that Eastern Europeans are leaving in large numbers. According to research by the Centre for Cities, immigrant interviewees did not indicate they were planning to return home.
- Widely reported data from early 2008 suggested that growth in the population of A8 immigrants was slowing and that many had gone home. However, this study was conducted before the recession, and a slowing economy was not found to be the primary driver of the return migration trend. Instead, it seems likely that these returns took place because the immigrants in question only intend to spend a limited period in the UK, or returned home for personal, not economic reasons.¹
- Very tentative conclusions on return migration among the A8 can be drawn from data on re-registrations under the Worker Registration Scheme. When A8 workers change employer, they are required to re-register (although many, of course, do not – on either the first or subsequent occasions). The graph (right) shows that re-registrations have decreased more sharply than expected given normal seasonal variation, consistent with the interpretation that A8 immigrants are going home. However, this data must be interpreted with caution: any decline in re-registrations could also be due to a decline in the proportion of employees co-operating with the scheme; or a change in the composition of A8 workers such that a greater proportion have now been working in the UK for more than 12 months and so do not have to register, under the rules of the scheme.

A8 workers re-registering to work in the UK, 2005-7



¹ Pollard et al (2008)

Source: Home Office Accession Monitoring Reports

The Effect of Past Recessions: UK Evidence

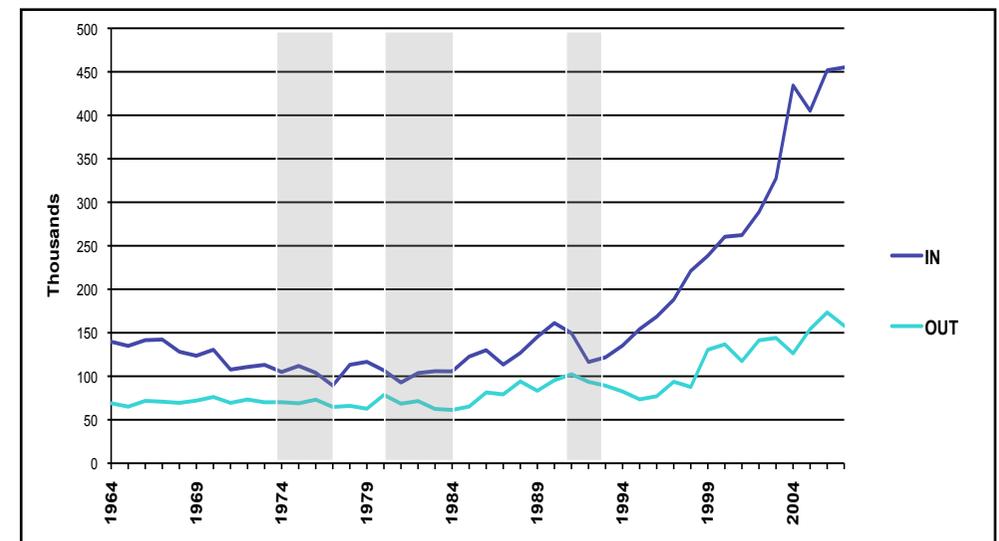
How have past economic downturns affected immigration flows in the UK?

Drawing on the analysis conducted for this paper by Janet Dobson, Alan Latham and John Salt (at the Migration Research Unit), we discuss the effects of previous downturns on migration flows to and from the UK. Over the past four decades, the UK has experienced three major periods of rising unemployment: in 1974 to 1977; 1980 to 1984; and in 1991 to 1993. The chart below marks these years in grey, and shows the trends in inflows and outflows of foreign-born individuals over the whole period.

Historically, recessions have varied in their character and causes, and have had very different shapes or degrees of severity. This makes predictions based on past recessions unpredictable. However, some basic trends can be established.

- In each period, the overall finding is that inflows have reacted more strongly than outflows; but that impacts on migration flows have not been large.
- The period of rising unemployment from **1974 to 1977** saw a small reduction in inflows, while outflows remained largely constant.
- The period from **1980 to 1984** saw an initial drop in immigrant inflows, although this decline was short-lived, and inflows picked up again before unemployment stopped rising. Over the same period, outflows initially spiked slightly during the first year, but then fell substantially.
- The **1991 to 1993** period was similar, with slightly larger effects. Inflows fell substantially, with a decline of 28 per cent in 1992, relative to two years earlier. Outflows rose initially then fell. Again, the effects were relatively short-lived.

Foreign-born inflows and outflows 1964-2007



Source: MRU. Data from International Passenger Surveys.

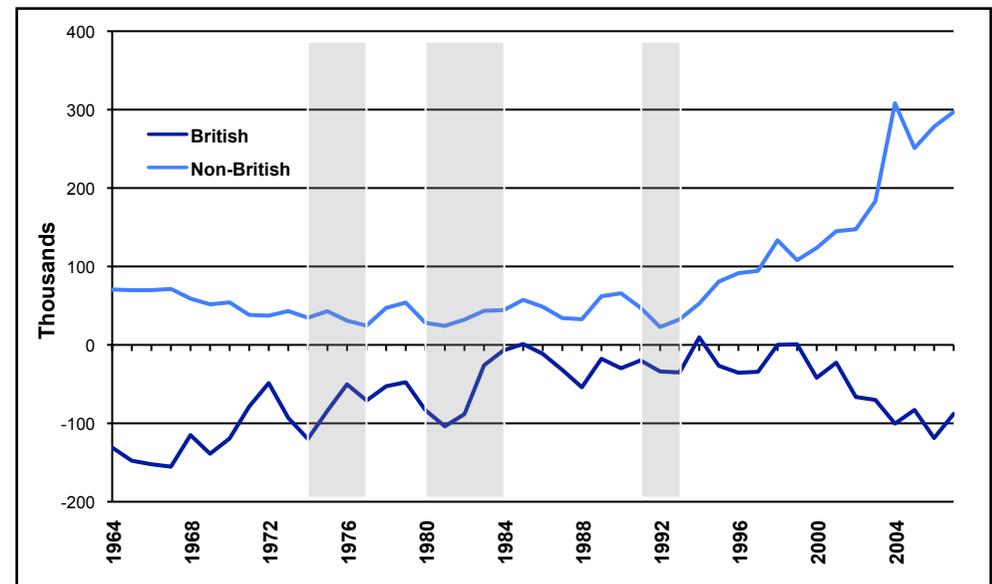
Note: this does not include UK nationals, and so is not an estimate of total net migration

The Effect of Past Recessions: UK Evidence

How have past economic downturns affected the flows of British nationals to and from the UK?

- British nationals are net emigrants from the UK, as noted earlier. Although this paper focuses on migration patterns among the foreign born, it worth noting that changes in migration flows among British individuals have actually been greater in past recessions than any changes in the flows of foreign nationals.
- As the graph below shows, net immigration by British nationals actually rose during the periods of rising unemployment in the 1970s and early 1980s. The increase was substantially larger than any decrease in non-British net migration. In the most recent recession of the early 1990s, however, British net migration fluctuated but did not change significantly.
- The rise in British net migration in the first two periods is primarily due to an increase in return migration of British emigrants. There is a particularly strong relationship between return migration to the UK and rising unemployment for those individuals who were economically inactive immediately prior to migrating. This is probably due to simultaneous rises in unemployment in the countries in which British expatriates had previously been working.
- The current recession may see slower emigration among British nationals due to the lock-in effects of a depressed housing market, the depreciating sterling and the devaluation of pension funds of people nearing retirement age.

Total net immigration by nationality, 1964-2007



Source: MRU team; data from International Passenger Surveys

The Effect of Past Recessions: International Evidence

The effect of past recession in the UK

In sum, past recessions have seen lower inflows of the foreign-born to the UK, albeit for a limited period. By contrast, outflows changed less, and in fact seem to have decreased during periods of high unemployment. Further, British nationals have tended, at least in the 1970s and 1980s, to return home in periods of rising unemployment.

How have past economic downturns affected migration flows in other countries?

European economies experienced economic downturns in 1973 following the oil crisis. Like the current downturn, the 1973 recession followed a period of increased migration, including from new migration countries. How did this recession affect immigrant flows? The picture is quite similar to that of the UK in previous downturns.

Inflows

- Immediately following the crisis, labour inflows fell sharply but remained substantial.
 - The number of Turks going to Germany fell from 118,000 in 1973 to just 6,000 in 1974. Total annual immigration to West Germany fell from 869,000 to 423,000 between 1973 and 1977.
 - Annual inflows fell from 90,000 to 61,000 in Switzerland over the same period.
- Flows from more developed sending countries (such as Italy, Greece and Spain) slowed down more than those from less wealthy countries (such as Turkey, Yugoslavia and North Africa).
- In some cases, such as the Netherlands, family reunification flows replaced lower labour flows: immigrants became less likely to be economically active, but the overall annual flow did not change dramatically.

The Effect of Past Recessions: International Evidence

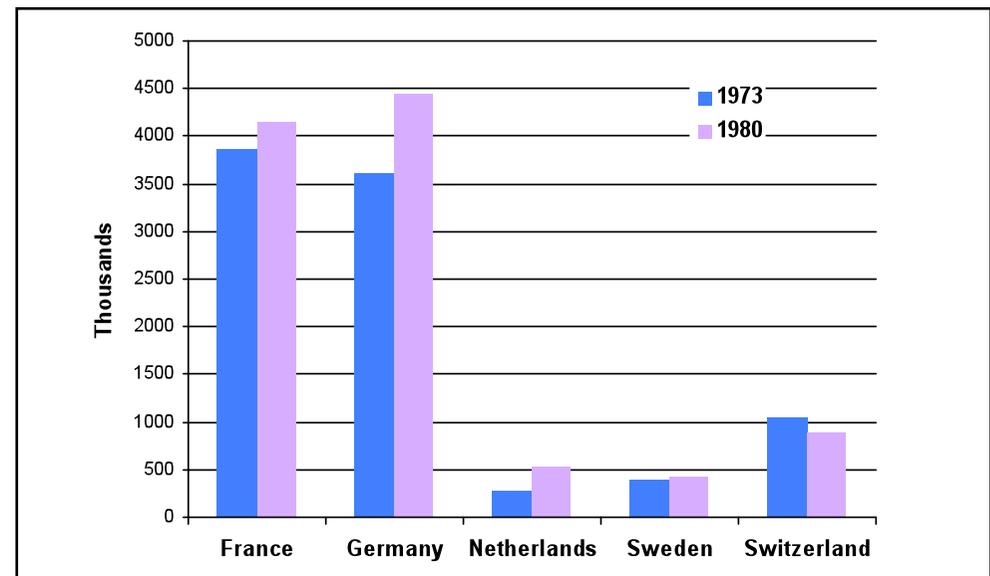
Outflows

- The recession following the 1973 oil shock does seem to have encouraged some return migration, but it is not clear how many of these migrants would have returned home anyway, especially since returns from Western Europe were high even before 1973.
- Outflows rose at the beginning of the recession, but then fell again. In Germany, for example, 10 to 15 per cent of all previously employed foreigners returned home in 1973/4. Outflows continued for a couple of years, but had fallen again by 1977.
- Return migration from Western European countries was strongly dependent on the country's composition of migrants. Again, immigrants from wealthier countries were, on average, more likely to return home (suggesting that economic conditions in the source country may have played an important role).
- As a result, outflows from Germany, for example, were smaller after 1973, when Yugoslavs and Turks formed a large proportion of the population, than in the previous downturn of 1967, when Italians were more numerous.

Overall change in the foreign-born population

- In sum, the mid-1970s downturn did not result in any major reductions in the size of foreign-born populations. Small reductions were seen, but only in the very short run.
- In most countries, migrant populations were higher in 1980 than in 1973, despite the recession (see chart).

Stocks of foreign population in European countries, 1973 and 1980



Source: MRU team. Data from Overseas Labour Service, WorkPermits UK, UK Border Agency; and Department of Employment (1977)

The Effect of Past Recessions: United States

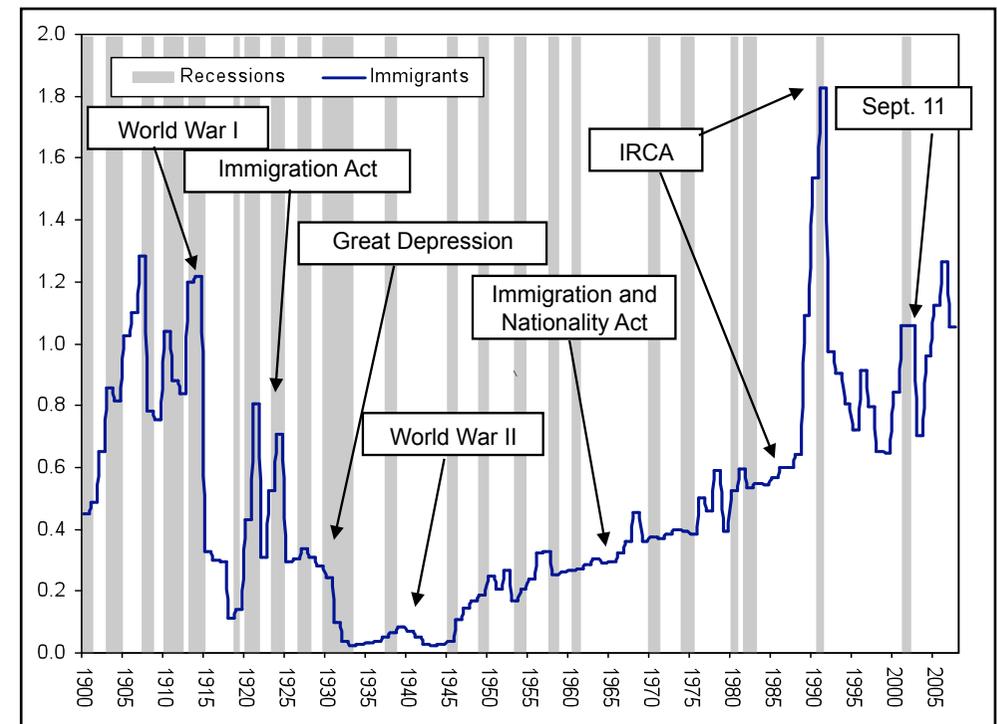
Over the past century, immigration to the US has moved in tandem with the business cycle, but it is difficult to establish a causal connection or separate economic effects from those of policy changes or external events.

Legal immigration contracted shortly after the 2001 recession, but this could also be due to the heightened US security climate. The contraction after the 1991 recession was partly due to the end of a series of legalisations that took place as part of the Immigration Reform and Control Act (IRCA). Similarly, a decline during the Great Depression of the 1930s may be explained by the Immigration Act of 1924 which limited inflows from 1928 onwards.

Data on return migration from the US is not of sufficient quality to determine the relationship between outflows and the economic cycle. However, one suggestive piece of evidence is that during the downturn of the early 2000s, applications for skilled (H1-B) visas declined significantly, but no substantial change occurred in the numbers applying for the same visa type from within the country (for example, transferring from student status).¹ This suggests, again, that outflows are less sensitive to the host-country economy than inflows.

As for the current downturn, evidence suggests that growth in the US foreign-born population has slowed since 2007. Much of this is attributable to the absence of significant growth in the unauthorised population since 2006. Only anecdotal evidence supports the view that return migration, for example to Mexico, has increased.²

Annual legal permanent immigration to the United States (in millions) and the business cycle (quarterly), fiscal years 1900 to 2007



Source: Papademetriou and Terrazas (2009)

¹ Kirkegaard (2005) ² Papademetriou and Terrazas (2009)

Are Immigrant Flows Sensitive to the Economy?

What does this analysis tell us about the likely impact of the current recession on migration flows?

- Several factors are expected to dampen or perhaps delay the impact of recession on flows. Because these factors apply more to some immigrants than to others, reactions will not be uniform – some groups will see greater declines than others.
- Inflows and outflows of foreign-born workers are likely to respond differently. Historically, inflows have declined more than outflows have increased during periods of high unemployment. This is likely to be because many foreign-born workers migrate with the intention of remaining in the host country permanently, developing strong family and social ties that keep them there. Indeed, many migrants who do not intend to migrate permanently later change their plans as they become settled in their new environment or change their goals for the amount of money they want to earn before returning home.
- Evidence from past recessions suggests some changes in certain categories of immigration during a downturn, but flows do not seem to be **highly** responsive to the economic cycle or to changes in unemployment. (Of course, this does not mean that they cannot be altered by government policy.)
- The muted responsiveness of immigration to economic conditions is confirmed by econometric analyses examining the determinants of migration to the UK.
 - Timothy Hatton’s analysis concludes that trends in unemployment and relative income (of source and host countries) have had only a modest impact on net immigration to the UK; and that other factors such as the changing level of inequality relative to source countries, immigration policies and the size of the migrant community from a given source country had significantly greater influence over the volume of net migration.¹
 - An analysis from the National Institute of Economic and Social Research confirms the importance of existing migrant networks in determining gross inflows. It also finds that the relative per-capita incomes of the UK and a given source country are highly important in determining long-term flows, but that changes in the unemployment rate over the 1990s did not have a significant effect on gross inflows.²

In the following pages we use the analysis and evidence outlined so far, to discuss the extent to which each immigrant entry category in the UK should be expected to respond to the current downturn. The order of the flows described in the following analysis reflects the approximate extent to which we believe that, holding immigration policy constant, migrant volumes are likely to be affected.

¹ Hatton (2005) ² Mitchell and Pain (2003)

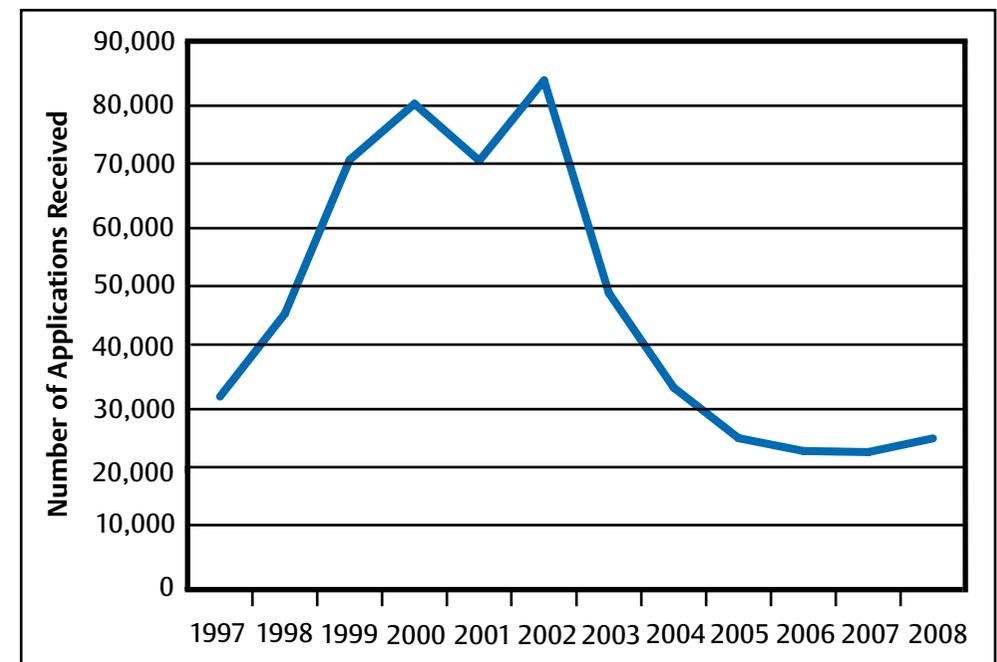
The Effect of the Recession: Humanitarian Migrants

Humanitarian migrants

- Inflows of humanitarian migrants are highly variable and depend significantly on political events and natural disasters outside the UK. In recent years, asylum applications have declined to a level of approximately 26,000 per year in 2008, the vast majority applying from within the country. The majority of applications are refused.¹
- **Inflows.** Humanitarian migrants do not come to the UK for work purposes (although to the extent that they have a choice of destination, labour market conditions might play some role in their decision). Increasing stringency in applying rules has been partly responsible for a decrease in total applications to the UK in recent years (see graph), which makes it difficult for those who are in fact labour migrants to seek refugee status. On the other hand, there is some risk that the global economic crisis will increase conflicts around the world.²
- As the graph shows, asylum applications have been falling in recent years, although a slight upturn was seen in 2007/8. The fourth quarter of 2008 saw a very small year-on-year decline, although the total number of applications was still larger than in the third quarter of 2008.³
- **Outflows.** Since refugees have strong non-economic reasons to remain in the UK, it seems unlikely that the recession would push them to go home.

Overall, therefore, we do not expect significant changes in humanitarian migration inflows or outflows due to the recession (although there is some risk of increased conflict and violence which could potentially increase flows).

Total asylum applications, 1997 to 2008



1 Home Office (2008b) 2 Zetter (2009) 3 Home Office (2008c) and (2008d)

Source: Home Office (2008b) and Home Office (2008c)

The Effect of the Recession: Family Migrants

Family migrants

- Family migrants form about 15 per cent of flows to the UK (according to the International Passenger Survey), a much lower proportion than in many immigrant-receiving countries such as the US or France.
- **Inflows.** Family migration has a substantial non-economic motivation, although it is important to remember that family migrants often work, and labour market conditions could well affect the timing of immigration, with potential family immigrants waiting until economic uncertainty has decreased before they move.
- **Outflows.** Family migration is typically permanent by intention, and overall return migration in this category is low. Family migrants are by definition affected by family ties in the host country – making return migration due to the downturn unlikely.

Overall, therefore, we do not expect significant change in family migration due to the recession. Inflows may be delayed, if there is any effect at all; outflows are very unlikely to be significantly changed.

The Effect of the Recession: Highly-Skilled Migrants

Highly-skilled (Tier 1) migrants

- Immigrants arriving under the Highly Skilled Migrant Programme (HSMP) formed less than 5 per cent of total **labour immigration** in 2005. At the time of writing, data has not yet been released on the size of immigrant flows through the new points-based system that replaced the HSMP.
- **Inflows.** Relatively short visa processing times and the lack of an overall quota on immigrant numbers should be expected to make immigration responsive to economic conditions. On the other hand, the spread of the recession to countries such as India could increase the pressure for certain individuals to migrate.
- **Outflows.** Since many highly-skilled immigrants are young and single and hence unlikely to have strong family ties in the host country, they may be more willing to return home if they lose their job.
- On the other hand, these immigrants' skill level affords them a certain amount of flexibility. Compared to less skilled workers, they are better positioned to change sectors, to become self-employed, or to downgrade temporarily to a less-skilled job while they wait for the economy to recover (particularly in the case of immigrants who always intended to migrate permanently).
- This expectation is confirmed by evidence from the 1990-1 recession in Australia, which shows that highly-skilled engineers were unwilling to relocate or leave Australia. Many switched sectors (for example to IT) in order to find work more easily. Note, however, that a very long recession could start to trigger return migration if conditions in source countries are relatively better.

Overall, therefore, the highly-skilled migrant population is also unlikely to change dramatically. While we expect that inflows may decline temporarily (perhaps as would-be migrants delay their move), outflows are only likely to become noticeable in the case of a very long and deep recession.

The Effect of the Recession: Work Permit Migrants

Work permit (Tier 2) migrants

- Work Permit migrants (replaced by Tier 2 under the points-based system) formed just over one-fifth of all labour migrants in 2007 – the second largest single labour migration entry route after the Worker Registration Scheme for new European Union member nationals. These migrants are also skilled: in 2007, roughly half of new work permits were allocated to workers in computer services, administration and management services, and financial services.¹
- **Inflows.** Since work permit entrants require a job offer, would-be migrants are likely to find it more difficult to gain entry to the UK during times of high unemployment. Employers will be less likely to bring labour from abroad when more domestic workers are available. It is therefore likely that entries through this category will decline.
- Priority access is given to workers in ‘shortage occupations’ as defined by the Migration Advisory Committee (MAC). An updated list is expected in March 2009 – any substantial changes to the list will have an effect on work permit migration in that area.
- **Outflows.** Work permits are tied to specific employers. This means that immigrants in this category who lose their jobs will need to find not only a new job, but also an employer willing to apply for their new permit. This will make it harder for work permit immigrants to remain in the UK.
- Compared to Tier 1, Tier 2 migrants may have lower skill levels on average, and may therefore be hit harder by a recession. However, many will be cushioned by working in sectors that are less vulnerable: in 2007, 8.6 per cent of immigrants on new work permits worked in health and medical services (although this proportion has declined significantly since its peak of 30 per cent in 2004) and 4.8 per cent worked in teaching.² Further, many of the Indian work permit holders are intra-company transferees coming to the UK for short periods to work with clients – workers who would return anyway, regardless of economic conditions.
- Again, conditions in the source country will be crucial in determining the likelihood of return migration. 41 per cent of new work permit holders were from India in 2007. The next largest group (13 per cent) was from the US.³ No data exists on how long work permit holders stay in the UK, so this does not necessarily reflect the stock of migrants by nationality.

In sum, for work permit/Tier 2 migrants we are likely to see declining inflows. Again, however, overall outflows may be limited, leading to little overall change in the size of this group.

1 Migration Advisory Committee (2008) 2 Salt (2008) 3 ibid

The Effect of the Recession: Unauthorised Migrants

Illegal immigration

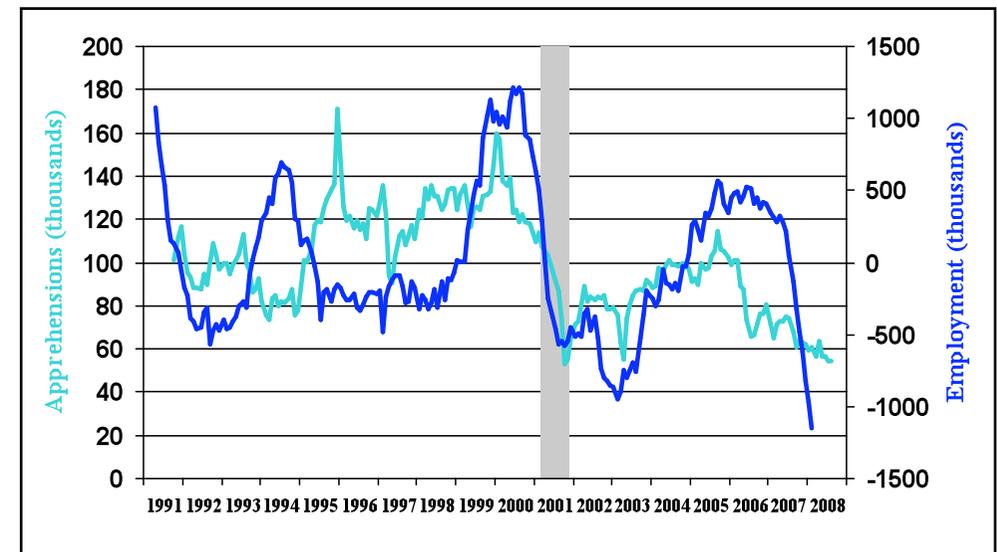
One estimate suggests there are about 500,000 unauthorised immigrants resident in the UK¹ – approximately 10 per cent of the total number of immigrants (by comparison, about one-third of all immigrants in the United States are unauthorised). Unauthorised immigrants include those who entered illegally as well as those who overstayed their visas or remained in the country after an unsuccessful asylum application. Most illegally resident immigrants in the UK are thought to be young and male, working in the hotel, catering and construction sectors. Many work alongside authorised immigrants in the formal sector.²

Illegal immigration is thought to be quite responsive to changes in host-country economic conditions: immigration becomes less attractive when low-skilled employers are not hiring.

For example, US–Mexico illegal immigration has been found to respond to changes in the wage gap between the two countries within a month.³ Illegal immigration inflows to the US have been found to track employment conditions quite closely, as shown in the graph.

On the other hand, border enforcement represents a disincentive to return. Unauthorised immigrants will be discouraged from returning home by the fear that they will not be able to re-enter the UK in the future.

Illegal immigration's response to labour demand: border arrests in the US



Source: Pia Orrenius, Federal Reserve Bank of Dallas; data from US Bureau of Labor Statistics and Department of Homeland Security. Note: De-trended employment data lagged by six months. Apprehensions data correspond to the month indicated; employment data to six months afterwards.

1 Papademetriou and Somerville (2008) 2 ibid 3 Hanson and Spilimbergo (1999)

The Effect of the Recession: International students

International students

Students form about a quarter of total immigrant inflows to the UK. The UK is the second most important destination country for international students worldwide, accounting for about 12 per cent of the world market share. International student enrolments have been growing: between 1999 and 2005 they increased by 29 per cent. The international student industry generates over £1bn in revenues, and 26 UK institutions derive at least 10 per cent of their income from foreign students' fees.¹

Economic conditions affect students' decision-making calculus because they affect the value of the savings that they need in order to study abroad. Research shows, for example, that student flows are sensitive to currency fluctuations between source and host countries.²

Recent stock market turmoil across the world has reduced the value of individuals' savings in sending countries. For example, the China Shanghai Composite Index fell 66 per cent in the year to October 2008, while India's Sensex fell 43 per cent. These are the top two source countries for international students in the UK. The declines could lead to precipitate reductions in the number of students who can afford to study abroad.³

On the other hand, young people from within the European Union, who pay much lower fees at UK universities, may decide to study now in order to avoid entering the labour market during the downturn. Thirty-three per cent of students from the top 10 international student source countries in 2006/7 were from within the EU.⁴ In sum, therefore, we may see the composition of international students shift towards EU nationals.

1 Verbik and Lasanowski (2007) 2 Massey et al (2003) 3 Hawthorne (2008)

4 Higher Education Statistics Agency (2008)

Recent stock market turmoil

Selected International Stock Markets	Decline October 2007 - 2008
China Shanghai Composite	-66%
Russia RTS	-61%
Japan Nikkei 225	-52%
Italy MIBTEL	-52%
Turkey ISE Nat 100	-50%
France CAC 40	-46%
Argentina Merval	-46%
Indonesia JCI	-45%
India BSE Sensex	-43%
Brazil Bovespa	-43%
German DAX	-43%
British FTSE 100	-42%
Australian All Ordinaries	-42%

Source: Hawthorne (2008)

The Effect of the Recession: International students

International students

- Past experience supports the argument that student inflows will diminish. During the 1997 Asian financial crisis, key Association of Southeast Asian (ASEAN) currencies fell 25 to 30 per cent in value in the second half of the year. The crisis decimated flows of Malaysian students to the UK (and led to significant impacts on student flows to other countries, including Australia).¹
- In addition to the effect on savings, the recession may reduce student inflows because many students work during their studies in order to support themselves.
- This makes it highly likely that flows of (self-financed) international students will fall in the short run, with potential students becoming more likely to choose educational institutions closer to home.

What is the likely impact of reductions in student inflows?

In addition to the likely loss of revenue for UK higher education institutions, the trend is potentially damaging because of students' growing importance in the highly-skilled migration system. Once they complete their studies, many international students join the UK labour force (in fact, under current student visa conditions, international postgraduates have permission to stay for 12 months after graduation to look for work).

Students are a highly attractive source of skilled migrants, since they are presumed to have good English language skills, qualifications that are relevant to local employers, and the ability to integrate socially and culturally.

¹ Hawthorne (2008)

Top ten UK student source countries, 2005-6

Source Country	Number of Students
China	50,755
India	19,205
Greece	17,675
Ireland	16,790
United States	14,755
Germany	13,265
France	12,455
Malaysia	11,450
Nigeria	9,605
Hong Kong	9,455

Source: Verbik and Lasanowski (2007)

The Effect of the Recession: A8 Migrants

Immigration from Eastern Europe (A8 migrants)

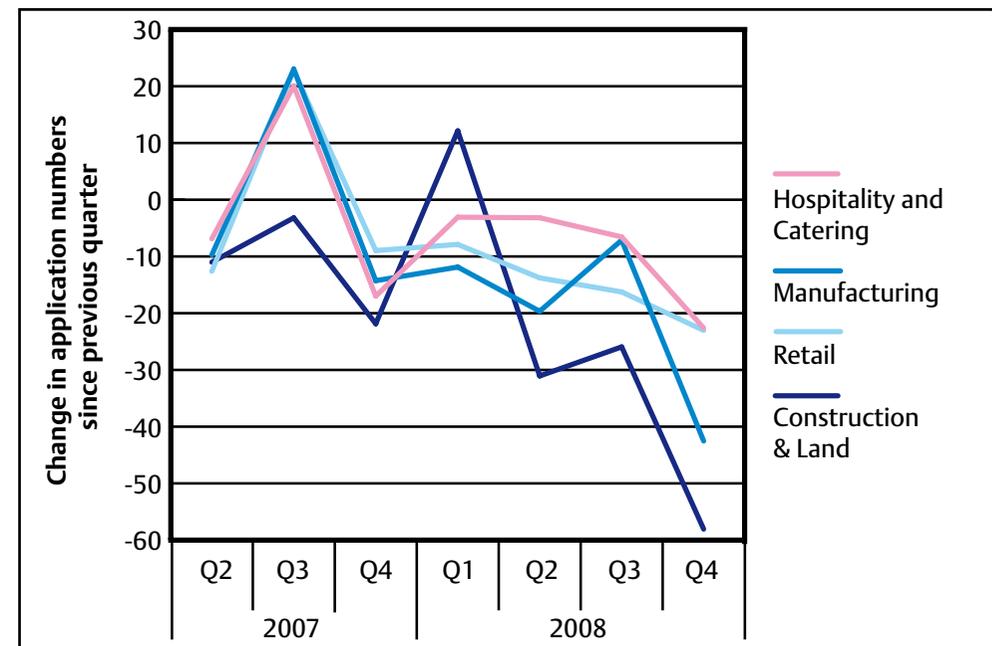
Employed migrants from the new European Union accession countries (the A8), who registered with the Worker Registration Scheme (WRS) designed to monitor their labour market impact, made up almost half of labour migrants to the UK in 2007. (Other EU and EFTA migrants made up a further 9.5 per cent.)¹

Inflows

As noted earlier, inflows from Eastern Europe have slowed substantially, according to WRS data, with fewer A8 migrants registering to work than in any previous period since EU enlargement. This is consistent with several factors that make them the most likely group to be affected by economic conditions in the UK:

- The A8 migration stream is strongly labour-motivated, with 83 per cent citing their main reason for coming to the UK as 'to work and earn money'.²
- Since there is no visa process, workers can come and go as they choose, potentially timing their arrival to maximise the probability of finding employment. This suggests many potential migrants may delay migrating to the UK until the recovery.
- On average, the sectors in which A8 migrants are most strongly represented are being hit particularly hard in the current downturn, particularly manufacturing. This suggests that the labour market 'pull' factor is weakening significantly for A8 nationals. The graph shows the declines in applications for the Worker Registration Scheme, by sector. Despite a lack of precision in the data, which categorises the majority of entrants in the 'administration, business and management' group (including those working through employment agencies), we can tentatively point to a connection between inflows and the economic circumstances of the sector: manufacturing, the sector hardest hit by the recession, has had much larger declines, for example, than retail, where sales have held up better than expected.

Declines in A8 WRS applications by sector



1 Migration Advisory Committee (2008) 2 Green (2008)

Source: Home Office Accession Monitoring Reports

The Effect of the Recession: A8 Migrants

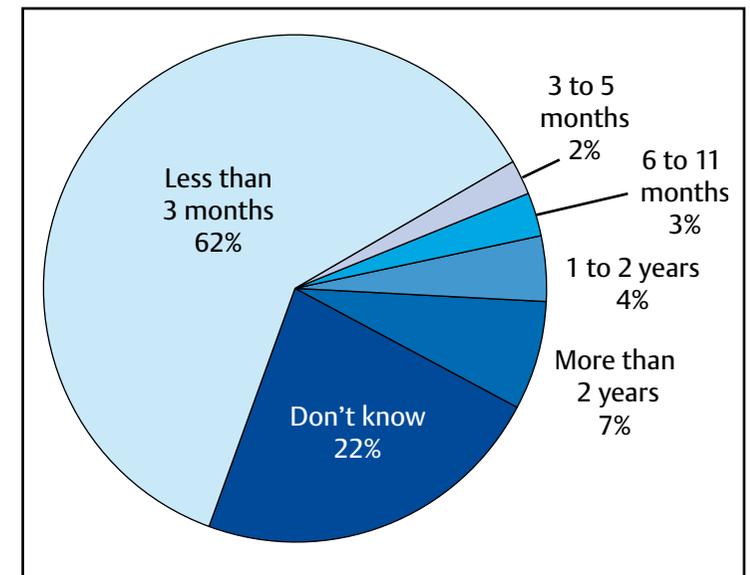
Inflows: factors that may dampen declines

- On the other hand, several factors suggest that a certain level of immigration from A8 countries will remain. First, unemployment among A8 migrants has been much lower than among natives or other immigrant groups in recent years. This makes it difficult to gauge what will happen during the recession: on the one hand, A8 migrants are over-represented in industries in which large job losses are forecast. On the other, they may be more flexible and more willing to take undesirable jobs or move to find employment – one of the underlying reasons behind their very low unemployment rates in recent years.
- Qualitative evidence from interviews with workers in Hull and Bristol suggests that migrants consider the standard of living to be higher in the UK than in Eastern Europe, even during a recession; and that many felt they were still in a good position to obtain work.¹
- Second, living in the UK has benefits even when work is scarce. For example, many A8 immigrants come for short periods in order to learn English. This is a human capital investment valuable in Poland as well as the UK. For this reason, we might see an increase in the proportion of short-term migrants during the downturn.

Outflows

- A8 workers face no barriers to returning to the UK in the future and the cost of travel in either direction is very small. This means that leaving the UK does not have long-term consequences in the way that it might for an immigrant coming from further-flung places such as India or the Caribbean.
- Many A8 migrants have been in the country for only a short period, reducing the extent to which family or social ties will hold them to the UK: in 2007, 62 per cent of A8 and A2 (migrants from Romania and Bulgaria) had arrived within the last two years.² The recent nature of this migration flow in conjunction with the other factors that make it relatively flexible, may make return migration high among A8 migrants.
- Further, many only intended to spend a limited period of time in the UK, and may decide to cut this stay short if employment is not forthcoming. As the chart shows, A8 nationals registering to work in England typically intend to stay for less than three months, although these intentions often change, with migrants deciding to stay for longer than originally planned.

Intended length of stay for WRS registrants, 2007/8



Source: Home Office (2008a)

¹ Glossop and Shaheen (2009) ² Pollard et al (2008)

The Effect of the Recession: A8 Migrants

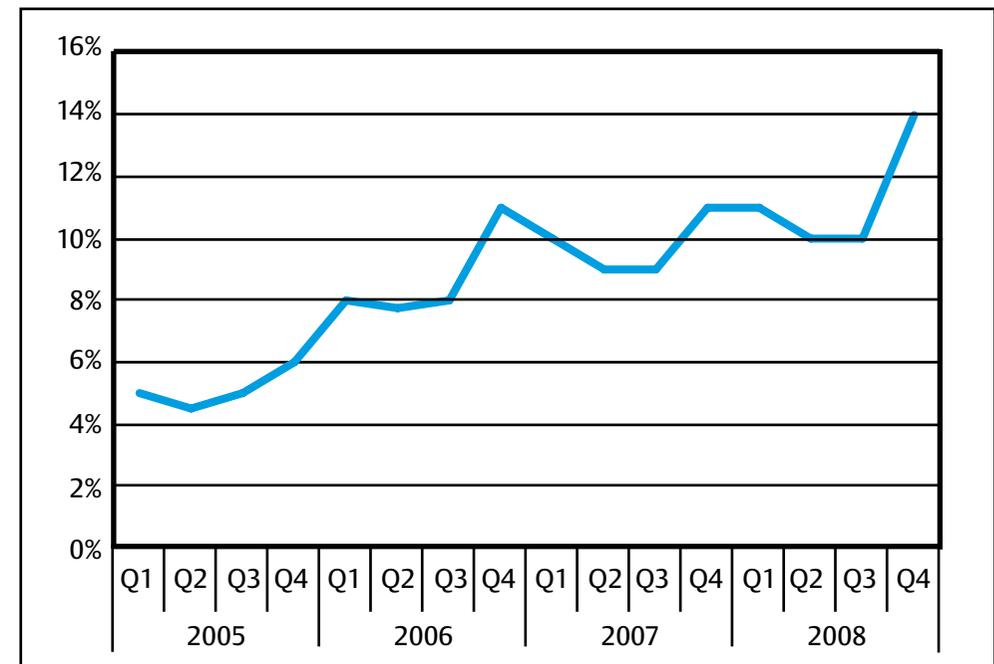
Outflows: several factors may dampen increases in outflows

- Not only do migrants often stay longer than they intended; there is preliminary evidence that at least some segments of the A8 population are becoming more permanent residents by intention.
- First, the limited evidence available from banks suggests that some have taken out mortgages. For those who arrived after 2004 and purchased a house, there is a strong risk that negative equity will keep them in the UK.
- The proportion of A8 workers with dependent children is increasing (see graph). This is entirely consistent with economic theories of migration, which posit that initial migrants are most likely to be purely labour-motivated, but that once national networks in the host country are established, family reunification becomes an affordable option.

How much could the overall A8 population change?

- A8 migration, as noted, appears to have a more temporary or circular nature than other immigrant flows to the UK, although it is still too early to determine how long this trend will last. In the short run, however, it seems likely that sharp falls in inflows could combine with natural 'turnover' or return migration (potentially accelerated by recession), to reduce the overall size of the A8 population.
- However, it is far from clear whether this reduction will be substantial, especially in the long run. By way of illustration, the number of WRS first-time registrants (one measure of gross A8 inflow) in the fourth quarter of 2008 was 27,000, a small percentage of the overall size of the A8 population. In other words, what is perceived as a very large decline in A8 inflows will not have a large effect on the overall size unless it is a sustained drop.

Percentage of incoming A8 registrants bringing dependants



Source: Home Office Accession Monitoring Reports

Overall Effects on Migration Flows

Conclusion: the impact on migration flows

While past recessions have seen only muted changes in immigration flows, as described early in this section, this finding masks substantial variation expected between groups.

Any predictions about the size of immigrant inflows and outflows are by their nature highly unpredictable. Not only is the current economic climate highly unusual (by comparison with previous recessions), but the nature of the immigrant flows and population has changed quite dramatically over recent years (in particular due to EU enlargement).

To the extent that we expect any movement in the immigrant population, we expect A8 and student flows to be most affected. Note that A8 immigrants have been estimated to form just under half of all labour migration to the UK (see chart). The next largest labour migrant category – work permit holders – is also one where significant inflow reductions are plausible.

That said, it is important to remember that even if declines in annual inflows are substantial and return migration increases somewhat, most immigrants will not go home. Since the annual net immigrant inflow is only a small percentage of the foreign-born or foreign-national population, even a dramatic decline in net inflows in 2009, for example of 50 per cent, would represent only a couple of per cent of the overall immigrant population.² Over the long term, the effect of this immigration pause on the size of the immigrant community would be small.

Labour migration in 2007

Entry route to the UK	Number	Percentage
Work Permits	87,968	19.4
Working Holiday Makers Scheme	37,845	8.3
Highly Skilled Migrant Programme	28,090	6.2
Seasonal Agricultural Workers Scheme (SAWS)	16,971	3.7
Domestic servants	10,600	2.3
UK ancestry	7,220	1.6
Sectors Based Scheme	1,472	0.3
Science and Engineering Graduates Scheme	2,243	0.5
Au pairs	765	0.2
Ministers of religion	860	0.2
Total non-EEA	194,034	42.7
Worker Registration Scheme	216,892	47.8
EU and EFTA	43,000	9.5
Total EEA	259,892	57.3
Total labour inflows for 2007	453,926	100

Source: Salt (2008)

1 MPI-EHRC Migration Summit discussion 2 Calculations based on data from Salt (2008)

Long-Term Effects?

Will there be long-term effects on migration flows?

The long term is marked by a great deal of uncertainty. However, it seems that only severe and protracted recession could have a substantial, long-term effect on migration flows.

- To the extent that the downturn is associated with inevitable economic restructuring (and the shift of jobs from declining to expanding industries), some types of immigrants might not return.
- In recent recessions jobs have lagged broader economic recovery; many immigrants are therefore likely to remain detached from the host country's labour market for some time.
- A severe recession involving large-scale immigrant unemployment could break the chain of labour market information that channels immigrants into new jobs, requiring a longer recovery period before immigrants are able to pass on labour market information again at significant scale.
- Recent experience may make policymakers more hesitant to admit as many immigrants as they have done in the past.

If the downturn remains moderate, on the other hand, many of the factors that sent immigrants home during the downturn should reverse some time after economic conditions improve. In all likelihood, the underlying drivers of migration in the long term will not change significantly after the downturn. These factors are reviewed later in this paper in 'Immigration patterns in the future'.

What are the consequences of reduced short-term migrant populations?

- The size of the UK immigrant population, as noted earlier, is great enough that reductions in immigrant inflows and potentially increased outflows among certain groups will slow the growth of the immigrant population but is unlikely actually to diminish its size significantly.
- In the past, increases or reductions in the size of the foreign-born population have not been found to have significant effects on employment or unemployment among the UK-born.¹
- That said, an 'immigration pause' may mean that local areas can focus instead on integration in existing communities. The impact will be felt first in the 'gateway' communities around international transport hubs, through which migrants settle when they first arrive.
- Further, smaller inflows of immigrants during a recession reduces the risk that large groups will be 'economically scarred' as a result of arriving during a period of high unemployment (see p52).

¹ MRU team analysis; Somerville and Sumption (2009)

How will Immigrants Fare?

The impact of the recession on immigrants, integration and local communities

Business cycles are thought to have a more serious impact on immigrants than on natives

Many immigrants, particularly the low-skilled, share demographic characteristics with the workers who are most vulnerable during recessions. They also have specific characteristics that make employers more likely to lay them off during downturns.

- Research consistently shows that low-skilled workers are most likely to lose jobs during a recession when employers shed their 'lowest-productivity' workers and those who are easiest to replace.¹ Immigrants are over-represented among the low-skilled, who are most likely to be laid off during downturns.
- Immigrants work in high-turnover jobs, and may be less likely to have permanent contracts (many work for gangmasters and other labour market intermediaries). These are also the jobs that are most likely to experience cyclical swings, as employers try to reduce their short-run operating capacity.²
- Language barriers may also make them less productive relative to natives, and hence more 'expendable'.
- Employers become more risk-averse if hiring during a downturn, further increasing employment barriers for immigrants with foreign qualifications, who may need extra training.
- Perhaps due to return migration, immigrants stay less long at a given job than natives. This means that hiring an immigrant may be less of a long-term decision than hiring a UK-born worker. During a downturn when labour is less productive, employers may be more likely only to hire workers whom they consider to have long-term productive potential (and who are not likely to leave the company after a short period).³ This works to immigrants' disadvantage.
- Employers may discriminate against immigrants, preferring to dismiss them over natives when economic conditions deteriorate.

¹ Orrenius and Solomon (2006) ² Dustmann et al (2006) ³ ibid

How will Immigrants Fare?

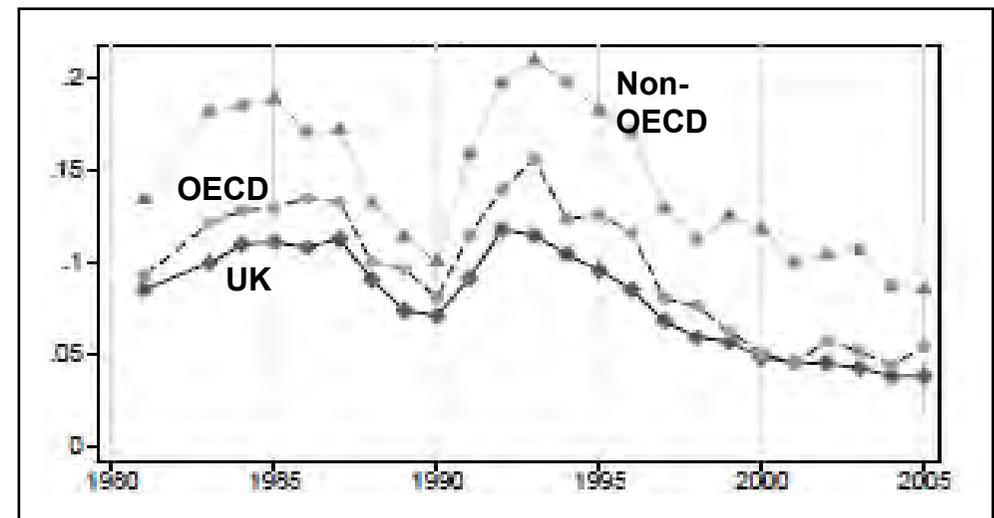
How have immigrants fared over recent economic cycles?

In the UK, unemployment is already higher among immigrants than the UK-born. In the third quarter of 2008, unemployment in the UK-born population was about six per cent. However, it was 20 per cent higher (about 7.2 per cent) for immigrants, 40 per cent higher for non-OECD immigrants, and almost 50 per cent higher for non-OECD immigrants who had been in the UK for five years or less.¹

Research by economists Dustmann, Glitz and Vogel, has shown that immigrants' unemployment rates in the UK are also significantly more cyclical than that of natives: they are laid off more quickly during recessions, but recover faster during subsequent upswings. The graph below, from their paper, shows unemployment between 1981 and 2005 for UK-born workers, OECD immigrants and non-OECD immigrants.

- OECD immigrants have had similar average unemployment rates to natives, but their unemployment is more cyclical.
- Immigrants from outside the OECD had significantly higher unemployment rates throughout the period. The cyclical swings in unemployment were also larger, particularly in the recession of the early 1990s, when their unemployment rates rose above 20 per cent.
- Non-OECD immigrants' greater vulnerability to the economic cycle may occur because they are less likely to have UK-relevant skills and qualifications than OECD immigrants.

Male unemployment rates for UK-born and immigrants



Source: Dustmann et al (2006). Rates are for working age individuals.

¹ Authors' calculations from the Labour Force Survey, using non-seasonally adjusted rates

Which Immigrants will be Most Affected?

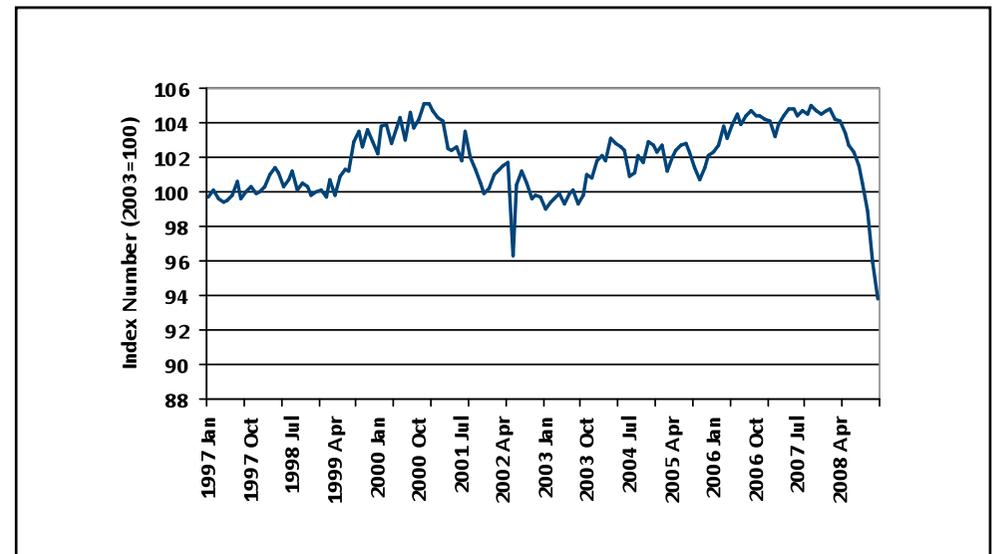
Effects by skill level: less-skilled immigrants

Many of these factors that make immigrants more sensitive to downturns than UK-born workers affect low-skilled immigrants more than the highly-skilled. Not only are low-skilled workers' chances of being laid off higher, but their earnings are already low: they are likely to have fewer assets to live on during temporary unemployment. 89 per cent of A8 and A2 workers, for example, earned less than £400 per week in 2007 (compared to 57 per cent of UK-born workers).¹

As noted, all sectors are suffering in the current downturn. However, the sectors that have been hit hardest are also the ones that employ substantial numbers of low-skilled immigrant workers.

- As noted, the current downturn has had a particularly strong impact on the manufacturing sector, where output has been falling at a precipitous rate (see graph).
- Immigrants as a group are slightly over-represented in manufacturing, while recent immigrants from new Eastern European member states (the A8 and A2) are strongly over-represented: 32 per cent work in manufacturing.²
- Similarly, the hospitality sector has contracted significantly, with the number of foreign visitors (and the amount they spend in the UK) falling: in the year to November 2008, air passengers to Heathrow and Gatwick fell by nine per cent, while chain hotels reported a 14 per cent drop in profits in November. The impact has so far been most serious outside of London.³
- Hospitality employs a further 10 per cent of immigrants, more than twice the proportion of native workers employed in the sector.

Index of Manufacturing in the UK
January 1997 to December 2008



¹ Pollard, Latorre and Sriskandarajah (2008) ² Authors' calculations from the Labour Force Survey, Q4, 2007 ³ TRI Hospitality Consulting (2008)

Source: Office for National Statistics, December 2008

Effects on Skilled Immigrants

Effects by skill level: skilled immigrants

Over the past decades, the skill profile of immigrants (their educational credentials) has been rising. Twenty per cent of immigrants had tertiary education in 1981, rising to 29 per cent in 2001. Over the same period, the proportion of immigrants with no post-secondary education fell dramatically from 49 to 18 per cent.¹ The recent immigration from A8 countries is more complex, however, since workers typically have higher education levels than the average native, but work in less skilled occupations.

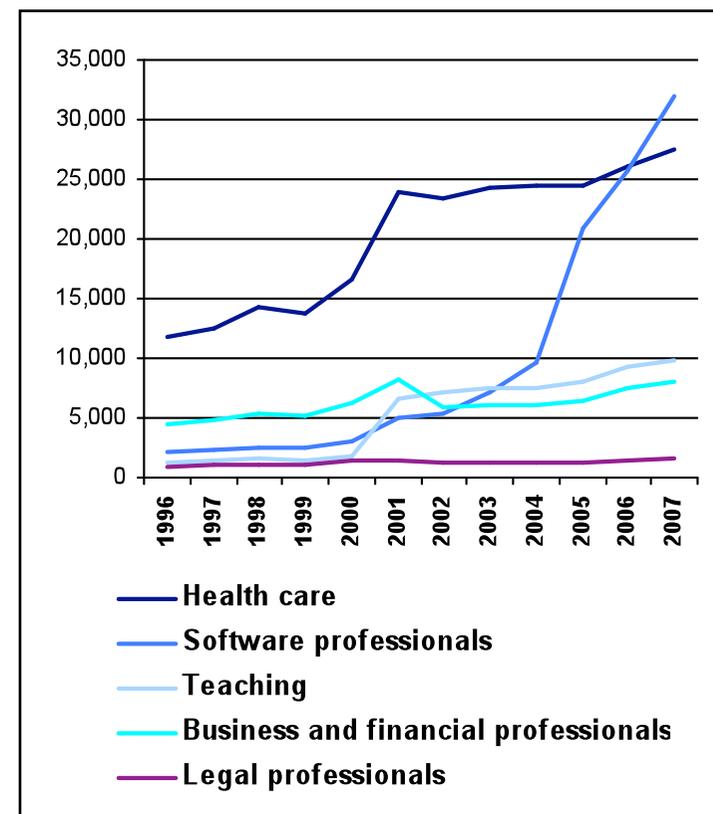
Will Britain's skilled immigrants be protected from the downturn? How severe are the job losses expected in sectors that employ skilled immigrants?

As the graph shows, demand for immigrant workers in health care has been growing steadily; this is primarily due to increased government investment in the National Health Service. Over 30 per cent of highly-skilled immigrants work in the education, health and government services sectors, which are not strongly cyclical.

By contrast, job losses are expected across all of the private sector in 2009. The large numbers employed in IT are likely to be more vulnerable as businesses scale back. (Although we should bear in mind that many of the IT professionals in the UK on work permits are intra-company transferees who only stay for short periods while working with a client. Many of these would not remain in the UK whether or not they lost their jobs.)

¹ Dustmann et al (2006)

Working highly-skilled migrant population, 1995-2007



Source: Centre for Economics and Business Research (2007)

Effects on Skilled Immigrants

How will skilled immigrants respond to the downturn?

- Highly skilled migrants may escape the strong impacts that are expected for less skilled immigrants, since there are more options open to them – they can change sector or temporarily downgrade to another occupation if they cannot find work at their skill level. This could involve significant wage reductions, however.
- Research on Indian engineers in Australia shows that this immigrant group was indeed very flexible in the face of the 1990 to 1991 recession. Fifty per cent of the research sample ‘switched’ sectors (many to IT).¹ Those who fared best were, on average, younger migrants with good language skills and previous OECD experience.
- In the same research, older workers with poorer language skills, and particularly those from a Middle Eastern background, were more likely to become detached from the labour market.
- In thinking through policy, the bifurcated results of the study were telling. Those that remained in work succeeded in the long-term (often increasing wages) while those who did not faced long-term labour market exclusion.

Summary: low- and high-skilled immigrants

In summary, immigrants at all skill levels are likely to find it more difficult to gain employment, with particularly strong impacts on the least skilled. A8 migrants, in particular, work in low-skilled sectors that are likely to lose jobs over the coming year; although their ability to return home may mitigate some of the welfare consequences.

¹ Hawthorne (1994). Note that this process was made relatively easier than it might be in the UK, since immigration through the Australian points-based system is permanent, while skilled migration in the UK (at least under the work permit/Tier 2 stream) is temporary and tied to specific employers.

Immigrants and Welfare

Many immigrants are not eligible for benefits

- The fact that many immigrants are not eligible for public benefits is likely to exacerbate the welfare consequences of the recession for low-skilled, permanent migrants.
- Immigrants who lose their job and are not eligible for benefits may have other options. For example they might:
 - rely on family members and other social contacts for financial support
 - rely on accumulated savings
 - take ‘any’ job even at very low wages
 - move into self-employment
 - return home.
- However, those who do not have sufficient family resources or who are unwilling or unable to return home are at particular risk of hardship. In particular, the growing group of immigrants’ children may fall into poverty as a result of the downturn.
- The knowledge that many immigrants simply cannot afford to go without employment for more than a limited period of time could make them vulnerable to exploitation by employers.

Exploitation

What is the likely scale of exploitation?

- Evidence suggests exploitation is widespread in certain sectors and takes the form of extremely long hours, low gross rates of pay, substandard accommodation, excessive deductions from pay for utilities, transport and accommodation, failure to provide a contract of employment, failure to pay the National Minimum Wage, summary dismissal and denial of basic employment rights such as paid holidays and maternity leave.¹
- There is also more limited reporting of egregious exploitation, including bonded labour. In the UK, exploitation has been brought to national attention by two shocking incidents: the first took place in June 2000, when 58 Chinese immigrants were found dead in the back of a lorry crossing the Channel Tunnel and the second in February 2004, where 23 Chinese cockle pickers were drowned at Morecambe Bay.²
- Experience indicates that exploitation is likely to rise during a recession, as competition for jobs increases and immigrants who lose their jobs may be willing to downgrade to more precarious work than leave the UK.
- There is likely to be more exploitation in certain low-skill, low-wage casualised sectors such as agriculture (91 per cent of UK gangmasters use migrant workers for instance).³ However, serious exploitation is also likely to take place in sectors that lack close labour market regulation, such as cleaning and hospitality/catering.

1 Anderson et al, 2006; Anderson and Rogaly, 2004; CAB, 2004; Lawrence, 2006

3 Gangmasters Licensing Authority, 2007, p 14.

2 The exact number of deaths in Morecambe Bay remains unclear.

Long-Term Effects of Entry During a Recession

What are the potential long-term effects on immigrants? Is there economic 'scarring'?

- Immigrants have higher average unemployment rates when they arrive in the UK, even during times of economic expansion. Over time, the gap between natives' and immigrants' wages decreases. However, there is some evidence that immigrants who enter the country during a downturn are 'scarred' – their employment rates or wages catch up at a slower pace than those of immigrants who entered during economic expansion.
- This could occur because workers lose skills during periods of inactivity; because employers assume that previously unemployed immigrants will be less productive; or because over time, employers often raise wages by a percentage of the previous wage, putting those who start from a low base at a disadvantage. Research in the US also suggests that rising unemployment prevents immigrants from acquiring host-country specific human capital, such that immigrants' wages catch up with those of native workers more quickly during an upswing and more slowly during a downturn.¹

What is the evidence for economic scarring due to recession?

- Evidence from Canada suggests that immigrants arriving during an economic downturn suffer long-term setbacks in the labour market – although immigrants' losses as a result of macroeconomic conditions on arrival were dwarfed by other factors affecting their earning potential (such as the length of residence in the country).²
- A similar US study finds that immigrants entering during recession experience lower employment rates and earnings than they would have done if they had entered while unemployment was low, and that this effect lasts for 18 years. Again, however, the effect is relatively small compared with the gains that immigrants make every year by accumulating US labour market experience.³
- Data on refugees randomly assigned to different locations in Sweden shows that those placed in less robust local labour markets suffered wage setbacks that lasted for at least 10 years (the whole period of study), and that were larger for non-OECD immigrants.⁴

1 Bratsberg et al (2006) 2 Aydemir (2003) 3 Chiswick and Miller (2002) 4 Aslund and Rooth (2007)

Long-Term Effects of Entry During a Recession

What is the evidence for economic scarring due to recession? (continued)

- Other studies find no such ‘scarring’ effect, however.¹ Some of the studies that do (with the exception of the Swedish refugee study based on random placement) are problematic in that the results may be affected by the fact that less successful immigrants **choose** to migrate during a recession.
- No study has addressed the existence of long-term scarring effects in the UK, to the best of our knowledge. However, effects of this kind would be consistent with UK research showing that white immigrants who arrived between 1980 and 1984 (a period of high unemployment) had persistently high unemployment rates a decade later.²
- The balance of the evidence, therefore, suggests scarring effects do exist, but they may be small relative to other factors that affect wages. That said, the studies cited consider primarily recent recessions, that have been relatively shallow by historical standards. If the current downturn proves more severe, it seems likely that larger scarring effects could occur.

¹ Chiswick, Cohen and Zach (1997) and Bratsberg et al (2006) ² Wheatley Price (2001)

How will Local Communities be Affected?

Impacts on the labour market

- No convincing evidence exists that immigrants substantially reduce wages or ‘take British jobs’, despite popular perceptions.
- Research on the UK labour market suggests that most workers gain from migration. Slight reductions in wages have been found among the bottom 20 per cent of earners, although the effects are dwarfed by that of other factors affecting wages.¹
- On the whole, little is known about the relationship between immigrants’ impact on local labour markets and the economic cycle. Since much of the research has been conducted during times of economic expansion, the effect of immigration during a downturn has not been explored in any detail.
- However, policymakers typically become more concerned about the impact of immigration on natives during times of high unemployment.
 - Recent strikes originating at the Lindsey oil refinery in Lincolnshire, with workers protesting over the presence of Italian workers, show how recession can create severe tensions. When workers are unemployed or worried about losing their jobs, blaming immigrants has intuitive appeal.

Impacts on community cohesion

- The most likely effect on local communities is not that immigrants will aggravate the impact of the recession for British-born workers, but that the economic downturn will fuel tensions, as workers feel less secure economically.
- Immigrants themselves may undergo substantial hardship. Higher unemployment among immigrants is likely to hinder their successful integration.
- The longer and more protracted the current recession, the greater the danger that adverse impacts will have profound effects for immigrants’ integration into society, their welfare and that of their families.
- This makes strengthened integration policies essential both for immigrants themselves and for the communities in which they live.

¹ Dustmann et al (2008)

How will Sending Countries be Affected?

How will immigrant-sending countries feel the impact of the global downturn?

Immigrant-sending countries are likely to be affected by the downturn through remittances and return migration.

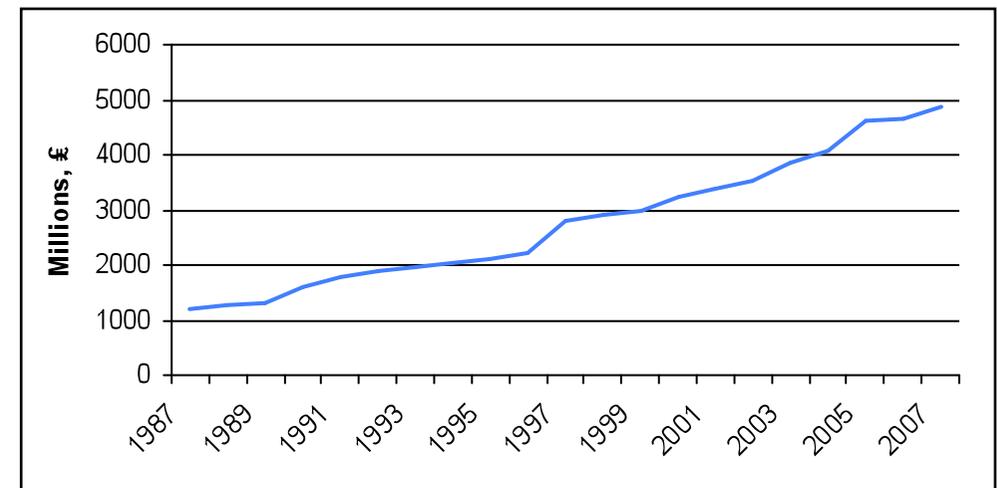
Remittances

- The flows of people to immigrant-receiving countries is mirrored by a flow of remittances in the opposite direction, as migrants send cash home either to support their families or to save for the future, particularly if they eventually intend to return home.¹
- Global remittances to developing countries have grown rapidly in recent years, more than doubling over the period 2000 to 2005, and growing much faster than real global GDP or the stock of migrants, which grew by 14 and eight per cent respectively.² Remittances from the UK have also grown, but less rapidly. The chart below shows the UK estimate for workers' remittances and payments from non-profit institutions serving households.
- Global remittances flows are more substantial than official development aid and close to the level of foreign direct investment (FDI). Many sending countries receive substantial sums in remittances from labour migrants in developed

countries. India, China, Mexico and the Philippines were the top remittance-receiving countries in 2007. In Tajikistan and Moldova, remittances make up 46 per cent and 38 per cent of GDP respectively.³ These remittances are thought to be crucial to economic growth and welfare in developing economies.

- The UK is not one of the top remittance-sending countries, ranking 11th on the global scale. It is responsible for US\$4.5bn of remittances, compared to \$42.2bn from the US.
- The UK is also a remittance receiving country. In fact, it receives more remittances (\$7.0bn) than it sends (\$4.5bn), according to World Bank data.²

Payments abroad by households in the UK



Source: Bunday (2008)

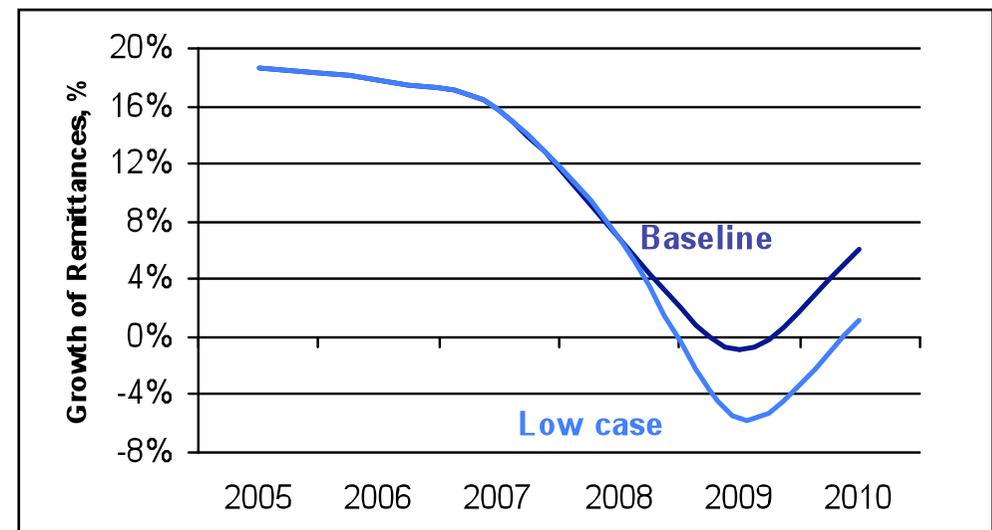
1 Dustmann and Mestres (2009) 2 Martin (2009) 3 World Bank (2008)

How will Sending Countries be Affected?

How will recession affect remittance flows?

- As described in this paper, migrant workers are likely to be hit hard by the recession in many receiving countries. Migrants will earn less and the growth in the migrant stock may decline (or at least grow very little). This is expected to impact directly on remittance flows.
- World Bank economists have projected that the growth in remittances will decline substantially in 2009, as shown in the graph below. Under a baseline scenario, remittances would fall by 0.9 per cent. Under the worst case scenarios, they would fall by no more than six per cent.¹
- Changes in remittance flows will vary by area, however. The World Bank estimates that the largest declines will occur in the Gulf Cooperation Council (GCC) countries, and that remittances from the EU-15 (including the UK) will decline by 7.6 per cent in 2009, in part due to changes in the euro-dollar exchange rate.
- That said, remittance flows have historically been much more resilient to downturns in immigrant-receiving countries than private investment flows to developing countries.²
- One of the uncertainties in predicting remittances is the size of the migrant population. If developed countries restrict immigrant inflows, this could exacerbate the crisis in developing countries that rely on remittances.

World Bank Remittance Growth Projections



Source: Ratha et al (2008)

1 Ratha et al (2008) 2 ibid

Return Migration of the Diaspora: Sending Countries

Return migration of the diaspora

- Although developed countries should not expect to see large outflows of migrants during the recession, the downturn may encourage certain migrant workers to return home, depending on the many factors outlined in the previous section (and particularly conditions in the home country).
- Many of the returnees will have useful skills and English language ability, which could help to boost productivity in source countries. On average, returning migrants are more educated than non-migrants in the country of origin. Return migration of skilled workers, often known as the ‘brain gain’, is likely to occur when skills acquired abroad earn a high return in the home country.¹
- No macroeconomic evaluation of the impact of return migration exists (in part due to data restrictions). The effect is expected to be positive but small, given that flows of returning migrants are not substantial.² While immigrant-sending countries often design policies in order to win back their expatriate workers, return migration during a time of global turmoil may have less positive effects.
- Indeed, some source countries are concerned about their ability to absorb returnees into the labour market during times of high unemployment. For example, returning migrant workers from Russia are creating tensions in Central Asia.³ 250,000 Indonesian migrant workers are estimated to have returned home due to the global financial crisis and, according to the Indonesian government, have led to increasing unemployment.⁴

Immigration patterns in the future

Mid- to Long-Term Immigration Drivers

What level of immigration is expected in the mid to long term?

Migration has been increasing in recent years in large part because policymakers wanted to harness immigration's potential to boost economic growth. In this section, we examine the underlying drivers of this trend – the factors that created an economic demand for migration – and discuss how these drivers will develop in coming decades.

The Office of National Statistics and Government Actuarial Department (GAD) produced population projections in 2007 that build in an assumption of net migration of 190,000 people per year in the long run, based on recent trends and some basic assumptions about how these trends will change (for example, the GAD assumes that A8 migration will moderate after the current surge following EU enlargement). However, migration flows are notoriously difficult to predict: as this paper describes, the determinants of migration are highly complex.

Several factors have increased demand for migrant labour among both employers and governments over the past decade, as well as the 'push factors' that encourage migrants to move away from their countries of origin. Some of these factors may moderate in the short term due to recession, but are expected to remain powerful in the longer term.

- Growth in labour demand at both the high and low ends of the skills spectrum
- Economic restructuring and the rapid growth of specific industries where insufficient numbers of locally-trained workers exist (skills mismatch)
- Demographic decline reducing the overall size of the workforce
- Global economic integration which increases employers' demand for skilled workers with country-specific knowledge from different countries
- Established migrant communities that can provide information and assistance to new immigrants, reducing the cost of migrating abroad
- Large and growing populations of young people in source countries.

Long-Term Labour Demand

Will UK labour demand continue to drive the recruitment of migrant workers?

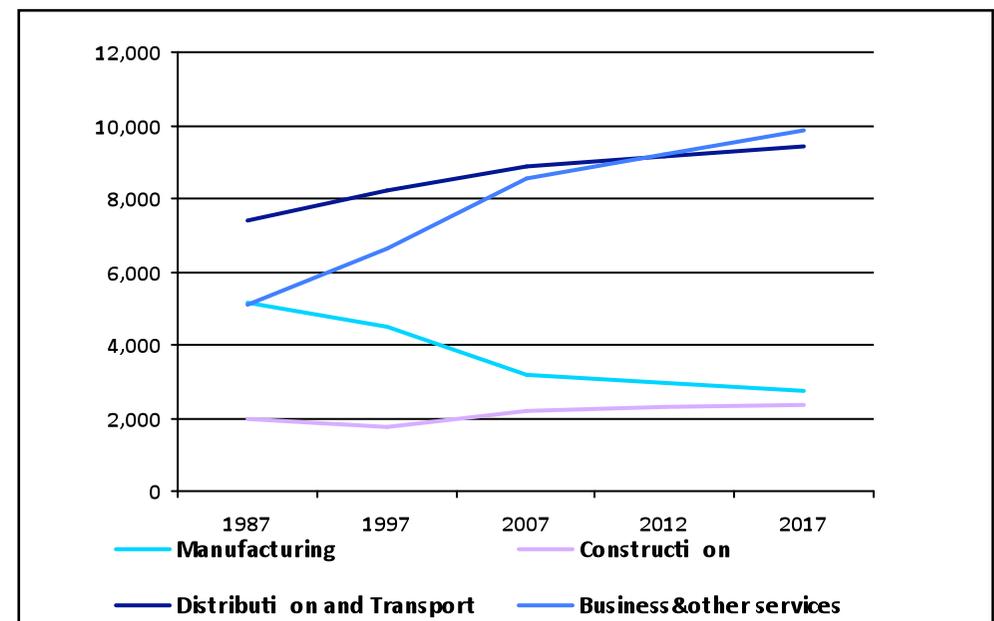
Labour market projections suggest that, over the next decade, the UK economy will continue to move away from employment in primary and manufacturing industries towards services. The graph below shows the results of labour demand projections until 2017: net declines in manufacturing are expected to occur alongside net gains in distribution and transport; and in business and other services.¹

The strongest growth is expected in higher level occupations such as managers, senior officials, professionals and technical occupations. However, increases in personal services, and customer services are expected to make up for declines in manufacturing employment, creating continued demand for workers at the bottom end of the skills spectrum.

This pattern of projected labour demand mirrors the representation of migrant workers in the UK, suggesting that immigrants will continue to play a role in meeting UK labour demand.

In the following pages, we outline in more detail how labour demand in certain sectors is likely to create economic pressure for continued immigration.

Past and projected UK labour demand by sector



¹ UK Commission for Employment and Skills (2008)

Source: UK Commission for Employment and Skills (2008)

Demand for Less-Skilled Migrant Labour

How will demand for less-skilled migrant labour develop in the future?

- The projections discussed suggest that in the long term, labour demand will remain strong in many of the areas that hire large numbers of immigrants.
- In addition, certain sectors are dependent on migrant labour due to difficulties hiring sufficient numbers of local workers at prevailing wages and conditions. Unless the recession is of unprecedented depth and length, British-born workers are unlikely to be attracted back to agriculture and food processing, for example – industries that they have abandoned in large numbers over the past three decades.
 - 84 per cent of harvest-based agricultural workers during times of peak production were found to be foreign born, in a recent study produced for the Migration Advisory Committee; and it is thought that the increases in wages needed to attract native workers would be unsustainably large.¹
 - The London Olympics will increase demand in construction somewhat. The tight deadline and temporary nature of the project will mean that migrant workers will be called upon to boost the labour supply.²
 - The social care industry already employs an estimated four to six per cent of the UK labour force in positions such as home carers, nursing assistants and social workers. It is set to expand steadily to keep pace with the ageing population. For example, it has been estimated that the size of the social care workforce should almost double by 2025 (from 1.4 million to 2-2.5 million) in order to maintain care standards. Twelve per cent of the sector is estimated to be foreign-born, with higher proportions in specific fields such as home care for the elderly. The vast majority of these positions are not highly skilled, and are paid at around the level of the minimum wage.³ While a very severe downturn could potentially inflict lasting damage on demand for labour in low-skilled private sector jobs such as agriculture, demand in social care comes primarily from the public sector and is considered by many as a ‘basic right’, suggesting that growth in this sector is likely to continue.

1 Scott (2008) 2 Chappell et al (2008) 3 Moriaty et al (2008)

Demand for Highly-Skilled Migrant Labour

How will demand for highly-skilled migrant labour develop in the future?

- Economic change and the growth of knowledge-based industries require greater skill levels than in the past. This has been reflected in employment patterns: for example, the number of researchers employed in Europe rose by 50 per cent in the 1990s.¹
- In some fast-growing sectors, local supply of trained workers simply cannot keep up with demand, leading to short- to mid-term skill mismatches. These mismatches mean that hiring difficulties are likely to remain in some sectors even despite rising unemployment in the economy as a whole in the short run.
- Certain professional occupations (such as financial services) now have a truly global labour market, and their workers are highly mobile. In these professions, migration is likely to remain central to global competitiveness: for example, a financial sector such as London cannot be expected to source all of its skilled professionals locally.²
- The UK will continue to require many of these high-productivity workers after, and even during, the current downturn.

How does globalisation affect highly-skilled migration flows?

- Immigration cannot be seen as an isolated phenomenon distinct from other aspects of globalisation. Flows of people interact with flows of goods, investment and knowledge to create greater global openness.
- A correlation exists between trade links and migration flows between pairs of countries. In the past, migration has risen at the same time as trade flows (although there is substantial variation and this pattern is not found in all cases). One analysis suggests that rising bilateral trade accounted for one-eighth of the increase in migration from the top source countries to the UK in the 1990s.³
- In particular, globalisation increases the need for global workers. For instance, businesses establishing operations abroad (for example after a merger or acquisition) often bring existing staff members to the new investment location. During the initial stages of a new foreign investment operation, staff imported in this way can transfer knowledge about the company's practices and culture. With time, the workforce typically becomes more 'local'.⁴
- Employers value highly-skilled foreign workers because they have knowledge and contacts from their home countries that facilitate trade abroad. A number of studies over the past decade has shown that immigration increases trade links with source countries, because immigrants are in a better position than natives to export to their home markets.⁵
- Unless recession is severe enough to encourage radically protectionist sentiment, these factors encouraging migration are unlikely to disappear.

1 OECD (2006) 2 Jones (2008) 3 Mitchell and Pain (2003) 4 Mahroum (2000) 5 Wagner et al (2002)

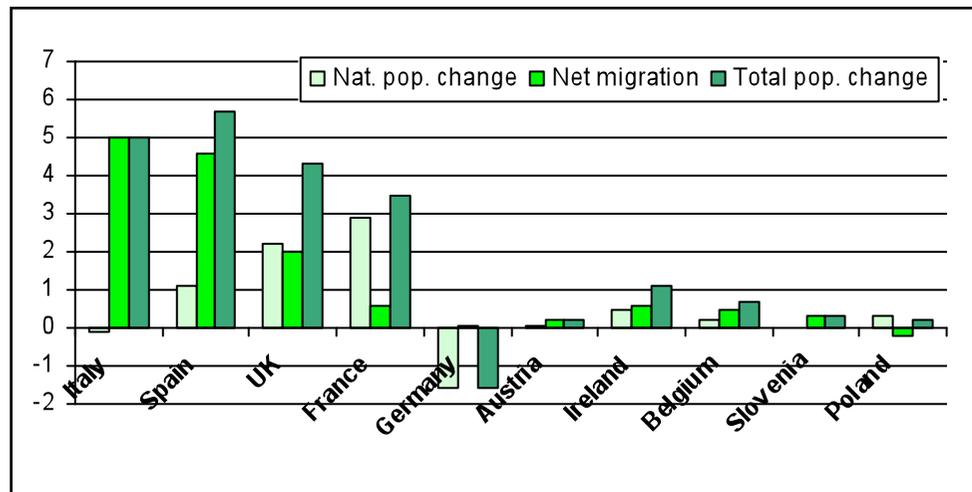
The Demographic Imperative

Demographic decline in several European countries has led to pressure to admit more immigrants in order to maintain the size of the labour force. In particular, immigration is thought to be necessary as part of a solution to ageing populations that are being supported by a shrinking working-age population. International students are particularly attractive in addressing the demographic problem, since they are young, but also highly-skilled and hence able to boost long-run productivity.

The figures below show the extent of the problem in a number of developed countries. Note that the UK's position is significantly better than that of countries such as Italy or Germany. The UK is still experiencing natural population growth (e.g. before migration – although migrants contribute to this because they have higher fertility rates) and will have a lower dependency ratio in 2025 than Italy, Spain and Germany.

Immigration cannot solve the demographic problem alone: a long-term solution is likely to involve both increased retirement ages and efforts to bring more local workers into the labour force.

Migration's contribution to population change



Source: Rainer Munz; data from Eurostat

Demographics in developed countries

Country	Total Fertility Rate (children per woman) in 2005*	Old-age Dependency Ratio** in 2005	Projected Old-age Dependency Ratio in 2025
Japan	1.27	30	50
Italy	1.29	30	39
Spain	1.29	24	33
Germany	1.35	28	39
United Kingdom	1.82	24	32
France	1.88	25	35
United States	2.04	18	28

Source: United Nations 2006 Revision Population Database

Migrant Social Networks

The drivers of immigration discussed so far are primarily demand-side factors, or ‘pull factors’. However, substantial supply-side, or ‘push factors’ encourage migration – particularly social networks and growth in the youth population in sending countries.

How will migrant social networks affect future immigration flows?

- Social networks play an important role in helping immigrants to get jobs and access housing and other amenities. This means that once a certain migrant group has a significant presence in a host country like the UK, new migrants find it easier to move here and an immigration stream can become self-perpetuating.¹
- Empirical estimates show that this is an important driver for migration to the UK. The National Institute for Economic and Social Research, for example, found that the presence of other migrants from a given country was the third most important factor in explaining the rise in immigration during the 1990s, after host-source country differences in per capita income, and the population of the source region.² Timothy Hatton also finds that the existing stock of migrants in the UK is a strong determinant of further migration.³
- As we outline earlier in this paper, the overall stock of migrants in the UK is not expected to change dramatically during the downturn. Inflows may slow somewhat, but will not cease; while many categories of outflows (with the primary exception of A8 workers) are not likely to change significantly. This means that migrant social networks will continue to attract more immigrants to the country during the economic recovery and into the future.

1 Carrington et al (1996) 2 Mitchell and Pain (2003) 3 Hatton (2005)

The 'Supply' of Immigrants from Abroad

In the long run, can developed countries rely on a continued 'supply' of immigrants from abroad?

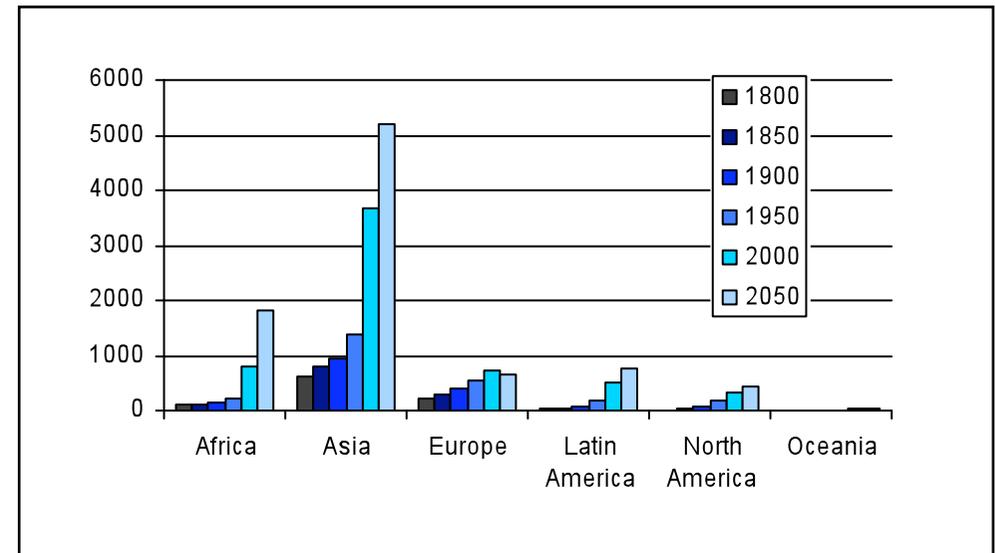
The growing populations of the UK's top source countries have been estimated to be one of the most important determinants of annual immigration in the decade to 1998-2000.¹ While Europe (including Eastern Europe, an area with low fertility rates) is growing slowly and is expected to start to decline in size by 2050, large absolute growth in Asia, and large proportional growth in Africa are likely to increase the size of the pool of potential migrants.

- Demographic analysis suggests that young people in immigrant sending countries will continue to find migration an attractive option: the 'pressure to migrate' will remain strong:
 - Wage differentials, even with fast-growing countries in East Asia, persist.
 - China and India are rapidly expanding tertiary education, but the employment opportunities for educated workers are often insufficient, creating pressure to migrate.²
 - Large and growing youth populations in Mexico and the Middle East have also been failing to find employment at their education level.³
 - In the longer term, the population of the African continent is expected to grow particularly fast, leading to greater pressure for migration to developed countries.⁴

Economic development in sending countries, in the very long term, should reduce the pressure to migrate due to improvements in living standards. However, greater wealth can also **increase** migration flows, since migrating requires an up-front investment that the poorest in many sending countries currently cannot afford.

1 Mitchell and Pain (2003) 2 Hawthorne (2008); White (2008) 3 Zuniga (2008) for Mexico and Fargues (2008) for the Middle East 4 Lutz (2008)

Population growth by continent, 1800-2050, millions



Source: Rainer Munz

Long-Term Trends and Policy

In the long term, therefore, immigration is set to continue...

- Government policy has a certain amount of power to limit migration (this power is limited by the existence of illegal immigration and immigrant streams governed by international commitments such as A8 flows, asylum and family reunification). On the other hand, government cannot guarantee minimum levels of immigration unless the long-term drivers reviewed are in place (migrants still want to come to the UK and employers want to hire them).
- However, the drivers described are indeed likely to continue to create a pressure (on both the demand and supply sides) for immigration to the UK well into the future, even if this pressure moderates in the short run, during the recession. This means that in the long run, a significant amount will depend on policy – how open we remain to migrant flows.
- The development of protectionist sentiment could, for example, work against the trend of openness to migration, if it was strong enough to reduce policymakers' responsiveness to economic demand for migrants.

... unless attitudes to migration change significantly

- The development of protectionist sentiment could, for example, reverse the trend of openness to migration. The tendency towards economic nationalism is strong during downturns, and is already apparent around the world. For example:
 - Spain and the Czech Republic have both launched programmes that pay immigrants to return home.
 - Restrictions on work visas have been announced in Thailand, Malaysia and the United Arab Emirates.
 - The United States' recent stimulus package contained a provision to limit recruitment of foreign workers in banks receiving state funds.
- The threat of economic nationalism means that integration policies, enforcement of labour standards and active labour market policies to help all workers, become more important during a recession, in order to reduce the risk that immigrants will become scapegoats.

Policy options and future scenarios

Policy Options

The trends identified in this paper have a number of implications for policy. We have identified four policy areas clearly affected.

1) *Immigrant integration policies*

- The combustible issues of employment and immigration have already been marked at the local level (several wildcat strikes have been portrayed as British workers exercising anti-foreign worker sentiments, although events on the ground are rather more complex) and at the national level (for instance with the publication of statistics on employment and jobs by the National Statistician).
- Immigrant integration policies are likely to become particularly important during a time of economic stress as history tells us that the risk of social unrest is higher and the likelihood of possible backlashes against immigrants grows.¹
- In particular, job losses coupled with ineligibility for benefits are likely to hinder economic and hence social integration of immigrants. Furthermore, language skills gain importance during downturn, as this is likely to be a strong barrier to immigrant employment and productivity at a time when the least productive workers are laid off. (This implies some targeted language support and flexible resource allocation for ‘pinch points’.)
- At the same time, high unemployment may fuel tensions between immigrants and native workers who feel that their jobs are being threatened. A ‘whole-of-society’ approach, defined as increased investment in social or community cohesion, equality, and active citizenship measures (such as volunteering and mutuality), are therefore likely to reap greater rewards.
- Leadership at the local, regional, and national levels from government and from outside government provides a crucial and powerful behavioural frame.
- A more flexible funding system in a clear strategic framework, much of which is under development, is vital.

¹ A potential parallel with today is the resentment and ultimately the violence perpetrated against Italian workers in Southern France between 1870 and 1940 (especially 1880-90) as French workers perceived Italian workers in low-skill occupations as accepting too low wages and as strike breakers and consequently targeted them for reprisals (Lucassen, 2005).

Policy Options

Regulatory efforts to ensure good race relations and community cohesion will be crucial in the effort to achieve better integration outcomes

- Such efforts apply directly to the role of the Equality and Human Rights Commission's work with public agencies to ensure good race relations. Among the many initiatives the Commission is currently undertaking is a serious national effort to monitor tensions in local areas through the development of a 'good relations barometer'.
- More generally, important community-building and diversity awareness strategies and projects can deliver real outcomes on the ground. Among the numerous examples the Commission has funded is the Croeso project in Wales¹ and the Commission's recently-announced Inquiry into Race in the Construction Industry. The Inquiry will, among other things, seek examples of good practice in entry and retention of minority workers and look at whether ethnically diverse companies are proving to be successful in the current economic climate. Given the current climate, the Inquiry will also examine whether redundancies in the sector are disproportionately affecting ethnic minorities.²
- A range of good practices to achieve local integration have been developed on the ground and are being taken forward by a number of local agencies.³

1 For more information, see the Croeso project website: <http://www.croesoproject.org/croeso/> 2 For more information see: <http://www.equalityhumanrights.com/en/policyresearch/usinglegalpowers/pages/raceandconstructionfi.aspx> 3 See Audit Commission (2007)

Policy Options

2) Immigration policies

- Government has greater control over some flows than others (for example, it can adjust flows through the Points-Based System but must allow immigration – free movement – from A8 countries and allow claims of asylum for those escaping persecution).
- For the flows where Government has powerful levers, it may be tempting to develop counter-cyclical policies (admitting fewer immigrants during downturns and more during upswings). However, this is difficult to implement for several reasons.
 - Shortage occupation lists (Tier 2 of the UK's new points-based system) simply cannot respond quickly to rapidly changing economic circumstances and is unnecessary given existing levers (you must have a job offer to enter under Tier 2) already exist.
 - Given some natural correction may occur with the business cycle if immigrant flows are cyclical without government intervention and that demand for migrant workers will continue during the recovery, strong cutbacks could damage recovery prospects.¹
- Nevertheless, the potential risk of economic scarring and the opportunities for supporting the UK's new industrial policy indicate some minor room for increased selectivity within Tier 1; greater enforcement of existing levers on Tier 2 (for example, ensuring the robust nature of the Resident Labour Market Test); and renewed efforts to attract students within Tier 4.²
- There is also room for preparing for the upswing by attracting the talent we need to reshape our economy – from green engineers to low-carbon experts for example.

¹ As outlined in this paper, natural corrections are not likely to be substantial for many immigrant categories ² The Government has already announced measures to increase selectivity in the Points-Based System and to toughen the Resident Labour Market Test

Policy Options

3) Working conditions

- Experience indicates that exploitation rises during a recession. This paper has attested to the widespread existence of certain forms of exploitation, particularly in certain sectors.
- The success of the Gangmaster's Licensing Authority (GLA) in combating exploitation in the food processing and agriculture industry suggests there are policy models to root out severe forms of labour exploitation currently taking place in the UK.
- The Equality and Human Rights Commission is currently conducting a Formal Investigation (FI) into the meatpacking industry and has ongoing concern over labour standards in several sectors involving migrant workers (see over). The clear policy implications of exploitation for equality and human rights across the UK makes this a particular issue for the Commission.
- Investment in labour standards for all workers, particularly in low-skill occupations, is important and there is a case for revisiting regulatory structures. This may also reap broader benefits for society, including increased taxable revenues.

The Commission is currently conducting a Formal Inquiry using its powers under s.16 of the Equality Act 2006 into the recruitment and employment practices in the meat and poultry processing industries.

As many workers in these industries are migrant workers, one aspect of the Inquiry will be an examination of the impact of current recruitment and employment practices, not only on individuals but also on relations between different nationalities within the workplace and local communities. The Commission will be considering evidence on:

- The impact of recruitment and employment practices on different types of workers
- The impact of recruitment and employment practices on relations between different nationalities in the workplace and in the surrounding communities
- Examples of good practice in promoting equality or good relations.

Policy Options

4) Active Labour Market Policies

- Policy needs to address the problems that the lowest-skilled workers face in trying to compete in the labour market – whether or not such problems are the consequence of immigration. In the UK, active labour market policies to help low-wage and out-of-work individuals are already quite developed but there is room for expansion, particularly for those furthest from the labour market.
- Further initiatives to enable low-skilled workers to access training are already being introduced.¹ That said, there is an argument for refocusing some aspects of these policies to meet the needs of immigrant-competing workers, for example by considering how training can prepare natives for jobs such as those requiring strong language and communication skills, in which immigrants compete less effectively.
- Furthermore, there is a case at a time of economic downturn to explore options for non-compulsory wage insurance programmes to assist workers displaced by processes of ‘openness’, which includes immigration as well as industrial restructuring.² Similar programmes can be found in Europe and North America, including France, Germany and the US (the latter as part of the Trade Assistance Act programme).
- To avoid the development of areas where there is a ‘low-skill equilibrium’, policy interventions to incentivise on-the-job training provision or to take on newly-qualified trainees may be productive.

¹ Jobcentre Plus and the Department for Innovation, Universities and Skills (DIUS) are already working closely together to train local workers for vacancies in their local areas.

² Wage insurance programmes pay displaced workers to accept new jobs even if they are less well-paid by subsidising part of the difference between a worker’s old and new wages.

Scenarios

Preparing for different scenarios

Economists simply do not know how long or deep the recession will be, how many jobs will be lost and what the longer term consequences will be. Policymakers need to be ready, therefore, for a variety of scenarios.

Scenario 1: Moderate recession

- Preparing for the upswing: labour market policies to help all workers to access jobs, regardless of their origin; continued access of the highly-skilled to the UK's labour market (as such immigrants will provide a valuable resource after the downturn) and expanded efforts to recruit international students to boost the UK's higher education sector and provide the 'option' of skilled migration in one or two years from now.
- Investing in integration during an immigration pause: many categories of immigration are likely to decline somewhat but the existing immigrant population will still need help.

Scenario 2: Severe recession

- Moderating policy while preparing for the upswing: policies to increase immigrants' ability to come and go, enabling natural reduction in numbers while also developing strategies to encourage the return of migrants – who have valuable UK experience – when there is an upturn.
- Increase selectivity in the points-based system and examine changes to labour standards to prevent the development of a black market and immigrant exploitation during a protracted downturn.

Scenario 3: Recession-related migration shocks

- Policymakers must be aware of the possibility of sudden inflows from unstable areas. Previous episodes have been conditioned by historical links (the British Empire) or foreign policy (such as inflows from Uganda and Kenya in the late 1960s and early 1970s or inflows from Hungary (1956) and the Balkans (1990s)).
- Among the obvious policy actions required is building a public and political consensus over appropriate action while also putting in place contingency planning.

Recommendations

1. The UK needs to further invest in **immigrant integration**. This should involve, as far as possible, all of society and all of government. In policy terms, this might include:
 - A strategy clarifying roles at central and local government level; greater flexibility of resource allocation; more joining up, especially through Local Area Agreements.
 - A greater commitment to mutuality across society, including cross-community volunteering; mentoring projects involving new immigrants; and other integration initiatives.
 - Some investment in immigrant-tailored policies and programmes for the benefit of immigrants and their children; chiefly this should include English language tuition since language skills can hinder the job-search process and discourage risk-averse employers from hiring during periods of uncertainty.
2. **Greater leadership** from in and out of government is essential. This might include increased local and city leadership by senior politicians through more visibility (celebrating contributions in citizenship ceremonies), work with local press, more information and myth busting, and unambiguous statements to their constituencies on the importance of calm engagement with the issues. Responsibilities lie also with firms, unions, and civil society.
3. Greater investment in enforcement of **labour market standards** and a review of regulation.
4. The UK needs to think more strategically about immigration flows in a recession, namely by **increasing selectivity** and preparing for the upswing. In policy terms this means:
 - Increase selectivity by adding to the points total for Tier 1 and/or creating a ‘pool’ mark.¹
 - To capitalise on talent in a competitive world, the UK needs to continue attracting students (and easing student–worker transitions) and selecting those most able to contribute to our economy (such as low-carbon experts and green engineers).
5. Invest and commit to **greater support** for those who do lose out from restructuring, recession, and competition from immigration. Among the possible measures:
 - Skills investment through employers and outside of work.
 - Wage subsidies for training and exploring options for non-compulsory wage insurance programmes.

¹ A ‘pool’ system is used in the Australian system. Applicants who do **not** reach the pass mark under the points system but nevertheless score highly (above a certain threshold – the ‘pool mark’) are moved to a ‘pool’. If the pass mark is subsequently lowered, perhaps as the economy picks up and migrant workers are urgently needed, then those in the pool become eligible to immigrate. In the Australian system candidates are kept in the pool for a period of two years.

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