

Under new management

How immigration policy change will, and won't, affect the UK's path to becoming a high-wage, high-productivity economy

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February 2022



Acknowledgements

The author is grateful to the Nuffield Foundation for supporting this work. They would particularly like to thank Alan Manning for his thoughtful comments and contributions throughout the report process. Contributions from colleagues at the Resolution Foundation, in particular Greg Thwaites, Torsten Bell and James Smith were especially welcome. Many thanks also to Brian Bell, Mark Franks, and colleagues London School of Economics, including Minouche Shafik, Henry Overman and Swati Dhingra, for helpful comments on an earlier draft. Any errors remain, of course, the author's own.

Citation

If you are using this document in your own writing, our preferred citation is: K Henehan, *Under new management: How immigration policy change will, and won't, affect the UK's path to becoming a high-wage, high-productivity economy*, The Resolution Foundation, February 2022

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The Economy 2030 Inquiry is a collaboration between the Resolution Foundation and the Centre for Economic Performance at the London School of Economics, funded by the Nuffield Foundation. The Inquiry's subject matter is the nature, scale, and context for the economic change facing the UK during the 2020s. Its goal is not just to describe the change that Covid-19, Brexit, the Net Zero transition and technology will bring, but to help the country and its policy makers better understand and navigate it against a backdrop of low productivity and high inequality. To achieve these aims the Inquiry is leading a two-year national conversation on the future of the UK economy, bridging rigorous research, public involvement and concrete proposals. The work of the Inquiry will be brought together in a final report in 2023 that will set out a renewed economic strategy for the UK to enable the country to successfully navigate the decade ahead, with proposals to drive strong, sustainable and equitable growth, and significant improvements to people's living standards and well-being.

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Summary

Immigration has been seen as both a driver of, and a cure for, a low-wage, low-productivity economy

Looking back at recent decades marked by high levels of immigration, the Prime Minister stated last autumn that the UK's "old broken model with low wages, low growth, low skills and low productivity" was "assisted and enabled by uncontrolled immigration." By shifting to a new, post-Brexit system of controlled immigration from the European Union (EU), the UK would move "towards a high wage, high skill, high productivity and yes, thereby low tax economy." At the opposite end of the spectrum to the Prime Minister are concerns that, as a result of moving to this new migration regime, with fewer EU citizens moving to the UK for work, the UK's rate of economic growth, innovation and productivity will all begin to slow.

Both lines of reasoning infer that immigration strategy is a – if not, *the* – defining element of an economic strategy. But if policy makers are to successfully navigate the UK through the decade of economic change that is the 2020s, they will need a clearer assessment, of both the scale, and the nature, of the impact that the UK's new immigration strategy will have on the economy. We set out the key features of that assessment in this note, starting with the ways in which immigration has helped change the size and shape of the UK labour force since the mid-1990s.

Over recent decades international migration raised the size of the UK labour force, and altered its composition

The UK swiftly transitioned from a country with net *outward* migration in the early 1990s to one with consistent net *inward* migration by the early 2000s, significantly impacting both the size and the shape of the UK workforce. Non-UK born workers comprised just 7 per cent of the 16-64-year-old workforce in 1995, rising to 12 per cent in 2007, and over 18 per cent in 2019. This sharp rise in migrant labour led to the workforce to growing faster in the early 21st century than it would otherwise have done: between 1994 and 2019, migrant workers accounted for nearly three-quarters (77 per cent) of the growth in the labour force, roughly evenly split between workers born in the EU (accounting for 41 per cent) and non-EU workers (36 per cent).

Migrant workers are significantly more likely than their UK counterparts to live in London: 10 per cent of the UK-born labour force resides in London, compared with 19 per cent of those from EU-8 countries (Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia), and 37 and 42 per cent from EU-14 countries (member states that were part of the EU prior to 2004) and the rest of the world (RoW), respectively. EU migrants in particular have higher employment rates, across nearly all age groups, than

their counterparts from the UK and other non-EU countries. Finally, EU-born workers are more likely to work in occupations classed as requiring less formal education. For example, the proportion of EU-born workers in an elementary occupation (classed as requiring lower-levels of formal education and training) is 9 percentage points higher than their UK-born counterparts.

It appears likely that migrant workers have, since the mid-2000's, shifted the UK workforce towards London and slightly boosted the share of UK employment in lower-skilled work. However, migrant workers' own location and employment choices might also have had an impact on what their UK-born counterparts do.

But immigration levels are likely to be lower – and more skewed to those with higher skills – under the new system than they were before the EU referendum

The number of immigrants moving to the UK from the EU began to fall shortly after the 2016 EU Referendum: between June 2016 and March 2020 the annual number of migrants moving to the UK from the EU fell by 111,000 and the number emigrating ticked up. By December 2017, net migration among people from EU-8 countries had in fact turned negative, with more moving from the UK than moving to it. The Covid-19 pandemic has further limited immigration levels (and could have boosted the number of migrants leaving the UK). And, crucially, a new work-related migration system – effective from January 2021 – will have begun to reshape the size and composition of migrant workers moving to the UK.

As a result of the UK leaving the EU, 'freedom of movement' to live, work and study between the UK and EU countries came to an end. In most cases, EU workers wanting to move to the UK either have to be eligible for a family-related visa or have a UK employer to sponsor them for a skilled worker visa (SWV, an employer sponsored route that's limited to mid- and higher-skilled occupations). Separately, the Government opened up a visa route for British National Overseas (BNO) – a status held by some Hong Kong residents – for them to live and work in the UK. For non-EU workers, the SWV route represents something of a liberalisation: the number of eligible occupations has grown under the new system, and the cap on the number of SWVs that the Government can issue in a given year has been abolished.

But for EU workers, this is a significant tightening, given their previous rights to work in any occupation had been unimpeded under freedom of movement. In fact, 47 per cent of EU-born workers already in the UK during 2017-2019 worked in occupation that would not be eligible for the new SWV, equivalent to 4 per cent of the total 18-64-year-old labour force. (In practice, the new system only applies to incoming migrants, and EU workers already in the UK before 2021 will have been allowed to settle. Moreover, most migrants

who come to the UK – regardless of whether they enter on a family, study, or work-related route – will have some right to work, and that is unchanged.) The introduction of visa requirements could also put off higher-skilled EU migrants from moving to the UK now more so than in the past.

The relative liberalisation of work visas for non-EU workers, and the introduction of the BNO route, is likely to boost the number of people from these countries moving to the UK and working. The extent to which this will balance out the fall in the number of workers moving from EU countries is of course uncertain. But we do expect future flows of work-related migrants to be more highly qualified and, despite the uncertainty, smaller in size than they were in the 2010s, before the 2016 EU referendum (when immigration levels from EU-8 and EU-2 countries – i.e. Bulgaria and Romania – had been rising).

Recent migration policy changes will bring acute labour supply problems for a small number of sectors in the short run

The shift to this new system won't affect all sectors equally. In the near term, some industries – namely those with high staff turnover that are reliant on workers who would be ineligible to come to the UK for work under the new rules – are likely to experience a labour-supply pinch in short order. Sectors like transport and storage, food and accommodation, manufacturing and domestic services, where EU-born workers in SWV-ineligible occupations form between 6 and 16 per cent of new starters (workers with their firms for fewer than two years), stand out.

In fact, there is evidence that these 'at risk' industries are already experiencing a migrant-induced labour supply pinch: vacancies in highly EU migrant-reliant sectors like administration and support, food and hospitality, and transport and storage have grown by much more than other sectors on average since before the pandemic (Autumn 2019). The correlation between migrant reliance and a sharp increase in vacancies isn't perfect however: vacancies are also up significantly in sectors that have a lower than average share of migrants working in SWV-ineligible roles. Wider labour supply issues, like early retirement and long-term health conditions, are also probably likely playing a role here.

Over the medium-term, changes to the immigration regime will render the UK somewhat less able to flex in light of economic change caused by Covid-19, Brexit or the transition to a net zero economy

In the short-term, it's highly likely that reduced levels of immigration from the EU will play a role in driving up labour shortages in specific sectors. But, in the medium-term, its effects are likely to be somewhat subtler. Over recent decades, the ability of UK to be able to freely hire migrants from the EU will have increased the ability of the workforce overall to meet shifting economic needs.

By virtue of their mobility into the country, and once here, being more likely than UK-born workers to move across the country and across sectors and occupations, migrant workers help the UK economy respond to change. Just over one-in-four (26 per cent) of UK-born workers reported being with their employer for less than two years during 2017-2019, compared with more than a third (35 per cent) of those born in EU-8 and EU-14 countries, and closer to half (46 per cent) of those from EU-2 countries. Migrants, and especially those EU migrants working in SWV-ineligible roles are also more likely to change both job and region, as well as to change occupation and sector. For example, 11 per cent and 10 per cent of 25-34-year-old EU-2 and EU-8 workers, respectively, reported changing industry division in the year to 2019, compared with just over 8 per cent of their counterparts born in the UK.

However, it's not as simple as immigration only helping growing sectors to access labour: in some cases, migrant workers have also played a role in sustaining shrinking sectors – potentially slowing change down. Over recent decades, the share of migrants newly entering work (i.e. migrants with less than 2 years employer tenure) did indeed increase in some growing, mostly higher-skilled sectors, like science and research professionals. However, migrants also played a role in shoring up declining sectors: they increasingly flowed into some mid- and lower-skilled roles that were declining as a share of employment over recent decades – like elementary administrative occupations.

As with the previous immigration system, most migrants moving to the UK on a non-work visa route will have some working rights, without restrictions on the types of occupations that they can enter into. But because nearly half of EU migrants arriving in the UK over recent years moved for work-related reasons, and would now need a visa to do so, the new system will likely reduce both the number of migrants moving to the UK, compared with the pre-EU referendum period, and for those arriving on a work visa, the system will restrict the occupations they go into. Given that migrants are more likely than average to change both where they live, and the sectors they work in, the combined effect of comparatively lower levels of work-related immigration and more restrictions on their destinations will likely reduce the economy's ability to shift labour across industries and occupations. This is worrying in the context of changes to the structure of the economy – like those brought about by Covid-19 recovery, Brexit and the transition to net zero emissions – coming over the course of the 2020s.

However, the new system's impact on the UK economy in aggregate is likely to be small in the longer term

So, how will the shift to this new migration system affect the UK's economy in the longer-term? The new rules are unlikely to do much to shift the regional composition of the UK labour force away from London. Migrant workers in roles that wouldn't be eligible

for a work visa are significantly more likely than their UK-born counterparts to live in London. But even under an extreme ‘thought experiment’ in which the current stock of EU-born workers in SWV-ineligible occupations were not counted in the labour force (in other words, were the new immigration rules applied ex-post to the stock of EU migrants already working in the UK, rather than only to the flows of migrants now moving into the UK), the regional composition of UK employment wouldn’t shift by a large amount. For example, the share of UK workers accounted for by outer London would fall from 8.4 to 8.2 per cent; in Wales it would rise from 4.5 to 4.6 per cent. If anything, the fact that EU migrant workers in SWV-eligible roles are already significantly more likely to live in London than their counterparts in ineligible occupations (36 and 22 per cent, respectively) suggests that new system may do even more to concentrate migrant labour in the capital in future.

By design, the system will shift the occupational composition of migrant workers moving to the UK towards higher-skilled roles. Were we to run a similar thought experiment, where the stock of EU workers in SWV-ineligible roles are not counted in the labour force, the overall impact on the composition of UK employment would be to boost the share of UK employment in higher-skilled occupations, slightly: for example, a 0.8 percentage point increase in the share of employment taken up by corporate managers (a higher-skilled occupation); a 1.1 percentage point fall in the share that work in elementary administration (a lower-skilled occupation). Given that the rule change will, in practice, work its way through the labour market by changing the composition of flows rather than changing the entire stock of migrants at once, it’s fair to expect these smaller changes to be gradual, too.

But how will these changes affect other, big picture outcomes like the public finances and productivity? Although some fear that the public finances will suffer if migration levels fall, given the fact that the income tax receipts would fall too. In the short-run at least, the impact of lower migration on the public finances is likely to be positive given public spending would fall too – within the realm of +£2 billion by 2024-25. Despite being a positive figure, its impact is still small in comparison public spending in the round. In the longer-term, the effects of the new migration system on the public finances hinge on a number of assumptions made about migrant workers’ personal lives, and whether – the longer they live in the UK – their family, employment and earnings trajectories become more like their domestic-born counterparts. Assuming that work-related migrants have higher earnings and higher employment for their working lives suggests the impact will be positive on a per-person basis, but the size of that positive impact could fall or rise depending on personal factors, like how many children they have or what that generation goes on to do.

If the new work-related migration regime causes lower-wage, lower-productivity sectors to decline by dint of a smaller labour supply, the overall level of productivity in the UK economy will rise, by virtue of a 'batting average' effect. Similarly, as the new work-related migration regime shifts the educational and occupational composition of incoming migrants upward (towards skilled and higher-productivity sectors) then we would also expect average productivity levels to grow. Beyond the 'batting average' effect, there are questions about whether migration itself has intrinsic benefits for productivity: for example, if the presence of migrants – or a particular type of migrants – generates higher levels of productivity of their own accord.

There is a wide body of research that suggests migrant (and especially those in higher-skilled occupations) do indeed have a positive 'spillover' effect on productivity levels, but the size of the effects varies substantially. Overall, the likely effect of the move to a new work-related migration regime (where migration flows are smaller than before the EU referendum but more concentrated in higher-productivity occupations) on productivity is likely to be positive – certainly by virtue of compositional effects and possibly via induced effects. But policy makers shouldn't expect big productivity gains from the move to a new migration system, as there is no strong cross-country relationship between changes in the share of workers that are migrants across countries and productivity growth.

Policy makers shouldn't expect current disruption in the migrant labour supply to drive up pay and conditions in migrant-reliant sectors in the longer term

However, there is a sense, at least according to the Prime Minister, that any migrant-induced labour shortages that do transpire will result in higher wages in the longer term. So far, the evidence suggests this is unlikely: research finds that an increase in the proportion of migrant workers only had a small, negative, impact on the wages of domestic born workers in lower-skilled occupations. Therefore, we shouldn't expect a reduction in migrant workers to automatically drive up wages for UK-born workers in these same sectors. In practice, the impact of a few migrant workers on pay and productivity will depend on whether firms can replace workers with labour-saving technology. In some sectors there will indeed be short-term wage pressure. And the evidence suggests that where firms can replace labour with technology they will do so – pushing up measured productivity and pay for the few remaining workers. Where they can't, they need to choose between raising wages and raising prices (and therefore lower wages for everyone else), with production falling over the medium-to-long term. There are few potential situations in which a shortage of migrant workers will drive up wages without reducing employment or production in the long term.

Instead, policy makers should recognise that the new migration regime can complement a high-wage, high-productivity economic model, but it won't drive it

The difficult choices faced by sectors at risk of losing their labour supply also highlights the trade-offs policy makers will have to confront. They will need to decide where the lower production in return for lower migration is – and isn't – an acceptable trade-off. For example, they will need to decide whether a decline in domestic farming and food manufacturing (and its implications for food security) are an acceptable price to pay for lower levels of lower-paid migration. In some cases, policy makers may decide the trade-offs from reduced labour supply are too big to bear, and will make exceptions to the rule, through expanding the size of routes like the Seasonal Agricultural Workers Scheme (SAWs). In others, they may accept higher prices and lower production in return for lower-levels of migration.

However, these decisions should be grounded in a firm assessment of just how much migration policy affects the country's wider economic outcomes. Although the new system is likely to result in lower levels of immigration, it's unlikely to move the dial very much on big-picture economic outcomes like the shape of the economy, or even the regional distribution of workers. Decisions on industrial policy will be needed in order to understand which sectors can, and those which are likely to, drive economic growth; decisions on trade strategy have to happen in order to decide which goods are better produced at home and imported from abroad. And stemming from all of these choices are key decisions on domestic policy: on how build the country's human capital, boost innovation and encourage job mobility. In other words, migration policy complements, but it certainly doesn't drive, the course of a country's economic model. In order to navigate the UK towards a high-wage, high-skill economy by 2030 the country will need a clear economic strategy, not just a migration strategy.

Immigration has been called both the source of – and the cure for – a low-wage, low-productivity economy

Migrant labour is seen as having a key role in driving economic outcomes

To listen to the Government, you could be forgiven for thinking migration plays a dominant role in our economy. During his speech at the 2021 Conservative Party conference, the Prime Minister stated that the UK's "old broken model with low wages, low growth, low skills and low productivity" was "assisted and enabled by uncontrolled immigration." According to the Prime Minister, the labour shortages, haulage backlogs and wider supply-chain bottlenecks that had been disrupting the UK economy, as in other countries, were not an excuse to revert back to the pre-Brexit migration regime, where EU citizens had freedom of movement to live and work in the UK (and vice-versa). Instead, by controlling immigration, and not using it "as an excuse for failure to invest in people, in skills and in the equipment the facilities the machinery they need to do their jobs" the UK would move "towards a high wage, high skill, high productivity and yes, thereby low tax economy."¹ This suggests that high levels immigration to the UK has allowed businesses the option to pay lower wages, invest less in domestic workers and skills and therefore drive down productivity. So tighter controls on immigration would, as a result, force investment in the local labour force, boost capital spending and drive up productivity.

At the opposite end of the spectrum, there are fears that the end of the freedom of movement, and a reduction in the number of EU citizens moving to the UK to work, will begin to slow economic growth, diminish innovation and reduce productivity. According to this argument, the economic impact of reduced levels of immigration from the EU would reduce both the of the UK labour force, and its base of skilled workers. Fewer migrant workers could, therefore, result in lower levels of productivity, too.

In order for policy makers to navigate the UK through the economic change this decade will bring – including the broader effects of Brexit, the recovery from Covid-19 and the transition to net zero – they will have to have a more measured assessment of both the size, and the direction, of the impact that a new migration policy will have upon the UK economy. In this note we will set out the key features of that assessment along with a discussion of potential policy implications for the Economy 2030 Inquiry, to which this note contributes. We begin by setting out the ways in which immigration has altered the UK labour force since the mid-1990s, before turning to the impact of the new regime and what that might mean for policy.

¹ Boris Johnson, [Boris Johnson's Keynote Speech – We're getting on with the job](#), Conservative Party Conference, October 2021.

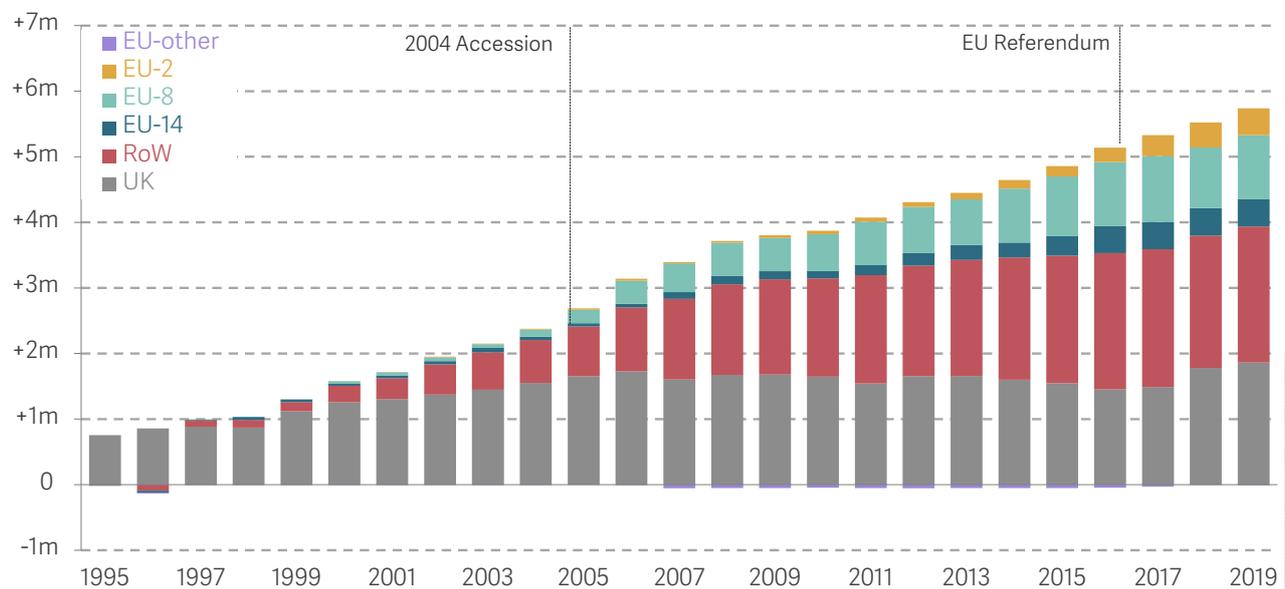
Over recent decades, immigration has altered both the size and mix of the UK's workforce

Immigration has led to faster workforce growth

International migration levels have changed markedly in the UK over recent decades: during the early 1990s, the UK had seen net emigration, losing more residents to emigration than gaining through immigration. This change began from the late 1990s and early 2000s; for example, non-UK born workers comprised just 7 per cent of the UK labour force in 1995, rising to 12 per cent in 2007, and just over 18 per cent by 2019 (for further discussion see Box 1). And although this was a period of strong employment-rate growth among UK-born workers, a large rise in the number of migrants (and their high employment rates) meant that migrants have accounted for the lion's share of the increase in the size of the UK labour force between 1995 and 2019. Figure 1 shows that workers from the EU accounted for 36 per cent of workforce growth, and those from the rest of the world (RoW) made up 41 per cent. Overall, migrants comprised 77 per cent of the growth in the size of the UK labour force over this period.

FIGURE 1: Migration has led to a faster rate of workforce growth than the UK would have otherwise experienced

Net change from 1994 in the size of the labour force among those aged 16-64, by country of birth: UK



NOTES: EU-14 refers to the member countries (excluding the UK) in the European Union prior 2004: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain and Sweden. It also includes countries that are part of the European Economic Area which are part of the single market and have thus had freedom of movement alongside EU-14 countries. EU-8 refers to eight of the ten countries who acceded to the EU in May 2004, upon which their citizens could freely live and work in the UK: Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia. EU-2 refers to Bulgaria and Romania, whose citizens gained free access to the UK in 2014; EU-other refers to Cyprus, Malta and Croatia.

SOURCE: Analysis of ONS, Labour Force Survey.

BOX 1: Between 1994 and the 2016 EU Referendum, the share of migrants in the UK labour force more than doubled

The 1990s and, especially, the 2000s and 2010s were marked by significant growth in the number of migrants living in the UK. During this time, the UK went from net negative migration (with 13,000 more people leaving than entering in 1992), to positive net migration (329,000 more people entering than leaving in 2015). From 1992, citizens from the 14 other EU member states were free to live and work in the UK. Furthermore, a strong UK economy during much of the 1990s served as something of a ‘pull’ factor for migrants – both from the EU and eligible migrants coming from the rest of the world. On 1 May 2004, the ‘freedom of movement’ enjoyed by EU-15 countries (including the UK at the time) was extended to a further eight, recently acceded, EU member states, mostly from central and Europe.²

Freedom of movement was further extended to Bulgaria and Romania (EU-2) in 2014.

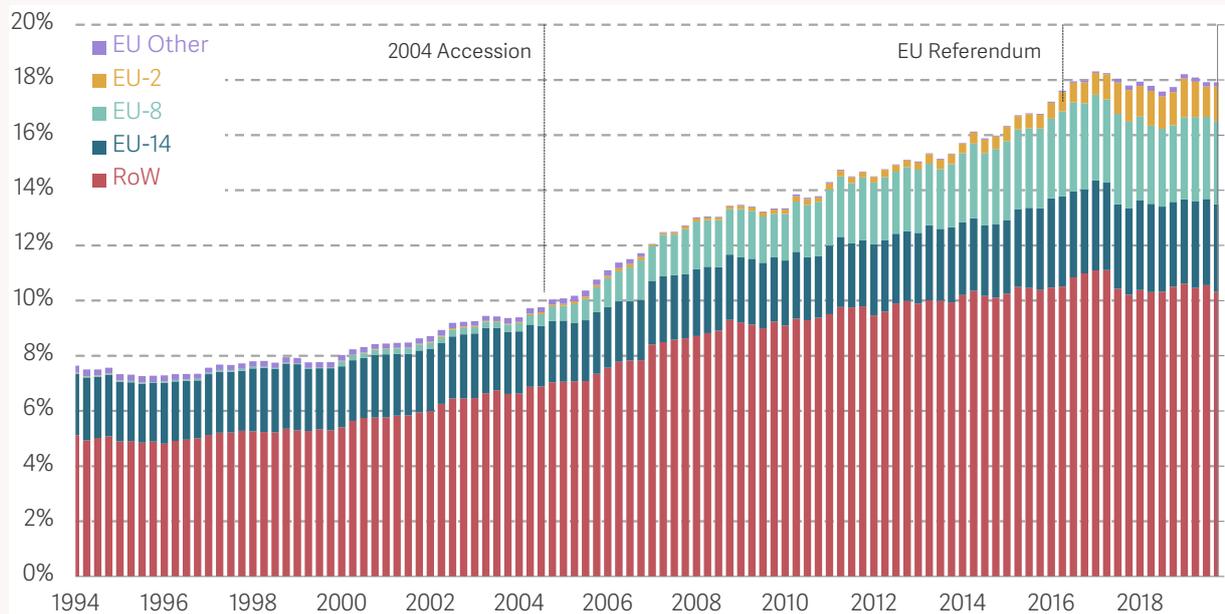
Around this time, the euro-area financial crisis will have served as something of a ‘push’ factor, encouraging EU citizens to move to the UK: although economic growth in the UK suffered in the wake of the 2008 financial crisis, it remained higher (and the UK had a lower level of unemployment) than in many other EU countries.³ These patterns surely helped contribute to a significant increase in the share of migrants in the UK workforce, which more than doubled between the early 1990s and the 2016 European Referendum, from just under 8 to just over 18 per cent (see Figure 2).

² Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia. Where this note refers to ‘other EU’ countries these are: Cyprus, Malta (both joined January 2004) and Croatia (joined July 2013).

³ OECD, *Economic Outlook*, 2014(1), June 2014.

FIGURE 2: The share of migrants in the UK workforce more than doubled between the 1990s and the EU referendum

Proportion of the 16-64-year-old UK workforce that is foreign born, by country of birth



NOTES: EU-14 refers to the member countries (excluding the UK) in the European Union prior 2004: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain and Sweden. It also includes countries that are part of the European Economic Area which are part of the single market and have thus had freedom of movement alongside EU-14 countries. EU-8 refers to eight of the ten countries who acceded to the EU in May 2004, upon which their citizens could freely live and work in the UK: Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia. EU-2 refers to Bulgaria and Romania, whose citizens gained free access to the UK in 2014; EU-other refers to Cyprus, Malta and Croatia.

SOURCE: Analysis of ONS, Labour Force Survey.

As discussed further below, migrant workers are in no way a homogenous group: attainment, employment patterns, occupational composition and pay both vary significantly among and between EU and RoW migrant workers.⁴ However, as migrant levels in the UK workforce have grown during recent decades, the overall composition of migrants has shifted somewhat. For

example, before 2004 migrant workers from the EU were overrepresented in largely higher-skilled and higher-paid occupations whereas, by 2019, they were somewhat more likely than their UK-born counterparts to be working in occupations that tend to offer lower levels of pay and require less formal education (see Figure 7).

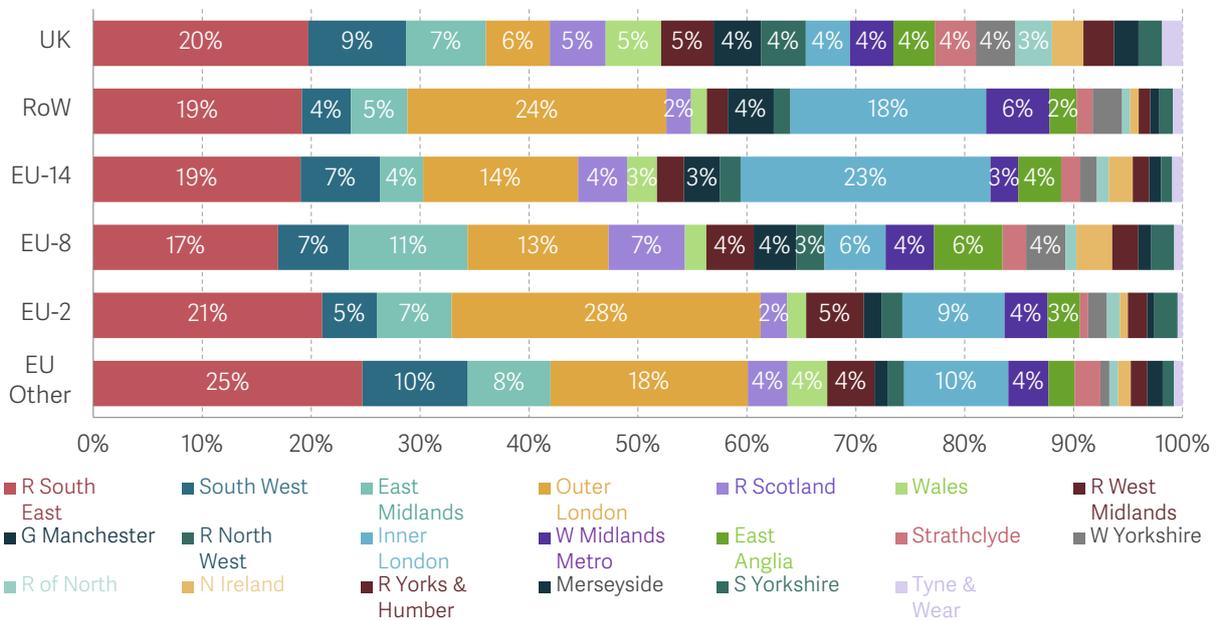
⁴ M Fernández-Reino & C Rienzo, *Migrants in the UK Labour Market: An Overview*, Migration Observatory, 6 January 2022.

Migrant workers are more likely to be young and live in London than those who are UK-born

Migrants workers are significantly more likely than their UK-born counterparts to live in London. For example, Figure 3 shows that although 10 per cent of UK-born workers reside in London (6 per cent inner London; 4 per cent outer), that figure is 19 per cent for those from EU-8 countries, and 37 and 42 per cent from EU-14 and RoW countries respectively (Figure 3).

FIGURE 3: Migrant workers both from the EU and the rest of the world are significantly more likely to live in London

Residency of the 18-64-year-old labour force by country of birth: UK, 2017-2019



NOTES: EU-14 refers to the member countries (excluding the UK) in the European Union prior 2004: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain and Sweden. It also includes countries that are part of the European Economic Area which are part of the single market and have thus had freedom of movement alongside EU-14 countries. EU-8 refers to eight of the ten countries who acceded to the EU in May 2004, upon which their citizens could freely live and work in the UK: Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia. EU-2 refers to Bulgaria and Romania, whose citizens gained free access to the UK in 2014; EU-other refers to Cyprus, Malta and Croatia.

SOURCE: Analysis of ONS, Labour Force Survey.

There are, however, differences between different groups of EU migrants. For example, during 2017-2019, workers from EU-8 countries were more than twice as likely than their counterparts from EU-14 countries to live in the East Midlands (11 and 4 per cent respectively), as well as more likely than UK-born workers (7 per cent) to do so. Putting to one side the potential for migration to have some induced effects on the regional

composition of UK-born workers,⁵ we find that the overall impact of immigration on the regional composition of the UK workforce – that is, the percentage point difference in the regional composition of the workforce with and without migrant workers included – was to shift the overall composition of the workforce, slightly, towards London and the West Midlands metropolitan area: a 2.7 percentage point shift to inner London, a 2.2 point shift to outer London and a 0.2 point shift to West Midlands metro area.

Migrants also tend to be younger than UK-born workers, reducing the average age of the UK workforce. This is perhaps unsurprising given that migrant workers tend to move while young. For example, the average age of UK and RoW-born workers over 2017-2019 was 41; the average of EU-14 and EU-8 workers was somewhat lower, at 39 and 35 respectively. Ages among recently-arrived migrants (those living in the UK for two years or fewer) are lower still (33 for those from RoW; 31 from EU-14 and EU-8 countries). Migrants age too, however, so the long-term impact of migration on ageing depends very much on a number of factors, not least the likelihood of permanently remaining in the UK (see Box 2).

BOX 2: Most migrants do not come to the UK for work-related purposes and, in the past, many who came on non-work visa routes ended up working in lower-skilled occupations

Though this note is primarily focused on the effect of the UK moving to a new work-related migration system, wherein EU migrants are now required to have a visa before coming to live and work in the UK, with work visas restricted to mid- and higher-skilled occupations. Although the application of visa requirements for EU citizens (and a slight liberalisation of work visa requirements, compared to the past, for non-EU citizens) is expected to have a clear impact on both the size of immigration levels and the types of occupations that immigrants go to

work in, it's important to remember that most migrants do not move to the UK for work-related purposes. And because most migrants, regardless of whether they come through a family, study or work-related route will have some right to work, many will continue to go onto work in lower-skilled occupations.

Figures from the ONS Long-term International Migration (LTIM) survey find that in the year-ending March 2020 44 per cent of migrants moving to the UK did so for purposes of formal study, a third (33 per cent) moved for

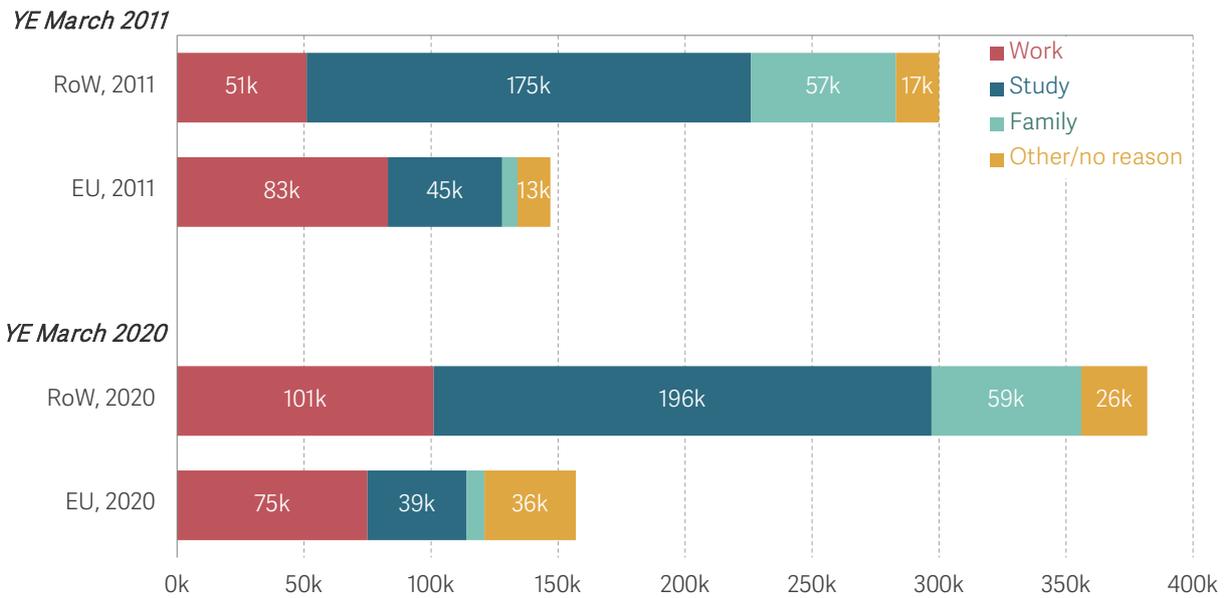
⁵ There are those that would argue that the regional dispersion of migrants could have had some impact on where UK-born workers lived – for example, by pushing up house prices in London. However, the overall share of UK born workers that lived in London declined by just under a percentage point between the mid-1990s and mid 2000's, before the 2004 accession of EU-8 countries and the rise in immigration levels. After 2004, the share of UK born workers in London remained broadly flat.

work-related reasons (they either had secured or a job or were moving to the UK to look for one) and the remaining 23 per cent were moving to the UK either for family reasons (including for example spousal or partner visas) or to join/accompany family with leave to remain in the UK. Figure 4 shows that European migrants were much

more likely to move for work than their counterparts from non-EU countries. In the year-ending March 2020, 75,000 people (48 per cent of all EU migrants to the UK that year) from the EU moved to the UK either for a definite job or to look for work, compared with 101,000 (26 per cent) of their non-EU counterparts.⁶

FIGURE 4: A third of migrants moving to the UK in 2010 and 2019 did so for work-related reasons, just under half of migrants from the EU do

Migration flows to the UK by reason and area of birth: YE March 2011 and YE March 2020



NOTES: In August 2019, the ONS revised its estimates of net migration in order to bring coherence between several different official data sources related to international migration. However, it was not able to provide administrative-data adjustments to their migration estimates according to reason for immigrating/emigrating. As such, this chart provides an unadjusted estimate of immigration by reason, which will not sum to the adjusted estimates that the ONS provides. EU also includes citizens from EEA member states. "Family" refers to those accompanying family to the UK or joining family already in the UK; and "other" includes "going home to live," "other" and "no reason."

SOURCE: Analysis of ONS, Long-term International Migration (LTIM).

But regardless of the reason for moving to the UK, figures from the Migration Observatory show that, although there are large differences in employment

rates between migrants depending on why they moved to the UK in the first place, the vast majority who arrive for non-work-related reasons do go

⁶ ONS Long-term International Migration figures, which were based on the International Passenger Survey and are going to be replaced with a new administrative data source intended to capture a more accurate picture of migration flows, found that net migration in the year to March 2016 was +326,000. See: ONS, [Provisional long-term international migration estimates](#), August 2020.

on to work: for example in 2020, the employment rate among 16-64-year-old men from non-EU countries who moved to the UK for family reasons was 74 per cent; among those who moved for study it was 84 per cent.⁷

Importantly, however, migrants who are not in the UK on a work-related visa will have fewer restrictions on the type of occupations they can take up. That explains why, as we discuss below, a significant share of migrant workers from RoW countries work in lower-skilled occupations: during 2019, 20 per cent of RoW workers were employed in lower-skilled occupation groups, like process and operative roles and elementary occupations (compared with 14 per cent of their UK-born counterparts). These workers are unlikely to have come to the UK on a work visa (because these occupations have never been eligible for skilled visa sponsorship) but would have come through another route – mainly family

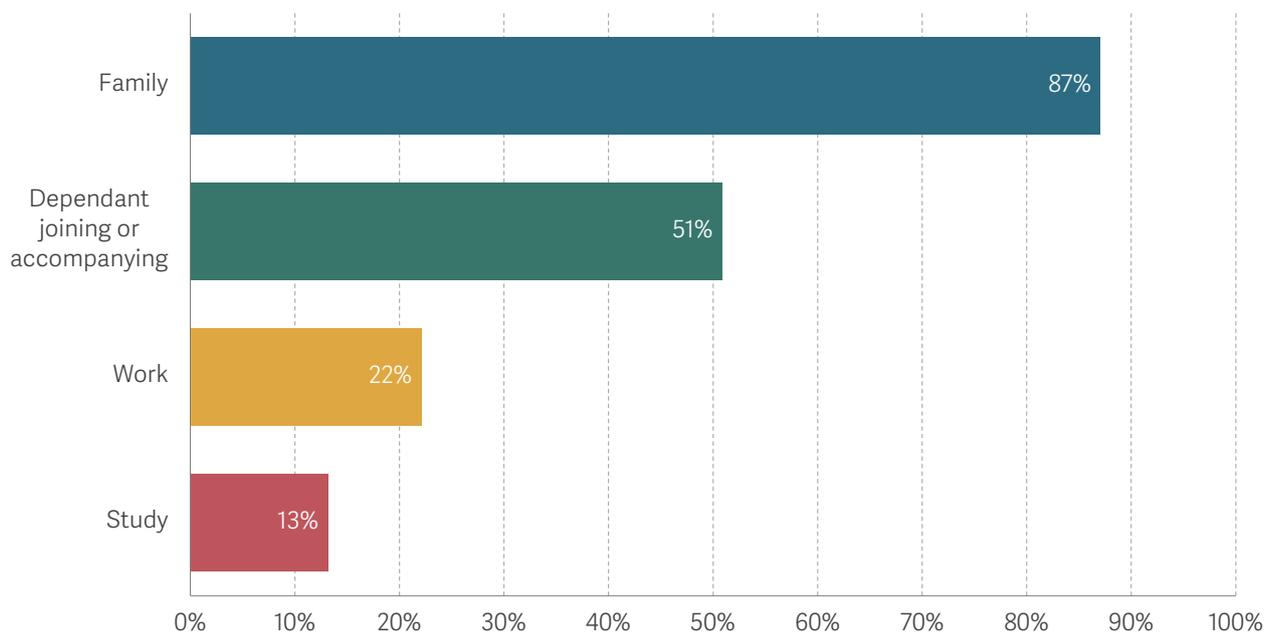
or joining a partner – and then moved into employment. Recent immigration policy changes will leave these patterns unaffected.

And finally, the route a person takes into the UK is likely to shape the amount of time they remain here. Figures from the Home Office (see Figure 5) show that the vast majority (87 per cent) of individuals who received a family-route visa in 2011 either had leave to remain or permanent residency by 2020, just under a quarter (22 per cent) and 13 per cent of those who had initially applied for a work or student visa did. Importantly, however, these figures refer mainly to non-EU citizens, given that in 2011 most EU citizens (excluding those from EU-2 countries) would not have required a visa to study, work or live in the UK. It's unclear whether staying-on rates would indeed be higher or lower overall, or by specific migration reason, for EU citizens.

⁷ Figures published by the Migration Observatory show, perhaps unsurprisingly, that although most migrants will have some right to work in the UK, employment rates of those who report having moved to the UK for specifically work-related reasons are highest. For example: 94 and 89 per cent among EU men and women, respectively, and 89 and 85 per cent among their RoW counterparts. That is significantly higher than employment rate among those who report having moved for family reasons (68 and 70 per cent of EU men and women, and 74 and 61 per cent of their RoW counterparts). See: M Fernández-Reino & C Rienzo, [Migrants in the UK labour market: An overview](#), Migration Observatory, 6 January 2022.

FIGURE 5: In the past, most migrants who required a visa to come to the UK did not stay permanently

Proportion of migrants who were first issued a UK visa in 2011 that had leave to remain or permanent residency in 2020, by initial visa type



NOTES: Dependants joining or accompanying refer to dependants who were granted a visa on the basis of their relationship with another migrant (who does not have settlement and is not a British citizen).

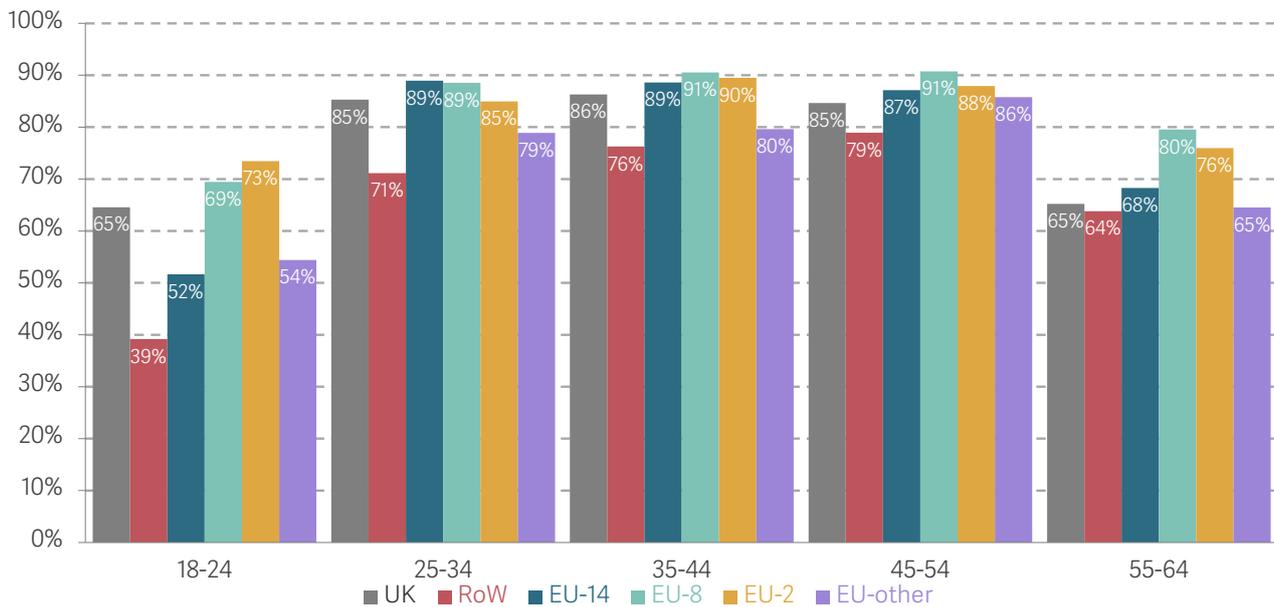
SOURCE: Home Office, Migrant Journey, 2020.

Given that EU and RoW migrants tend to move to the UK for different reasons (as Box 2 sets out, a larger proportion of EU than RoW migrants report coming to the UK for work-related purposes), we might expect employment rates to vary between migrants. During the period from 2017 to 2019, the employment rate among UK-born workers was, across most age groups, considerably higher than that of their RoW-born counterparts. For example, 86 per cent of 35-44-year-olds born in the UK were employed, compared with 76 per cent of those from RoW countries. And yet, employment rates among EU-born workers were, in most age groups, higher than those of their UK-born counterparts. Whereas 86 per cent of UK-born 25-34-year-olds were employed, 89 per cent of those from EU-14 countries and 91 per cent of those from EU-8 countries were.⁸

⁸ See also: S Dhingra et. al., [Brexit and the impact of immigration on the UK](#), LSE Centre for Economic Performance, May 2016.

FIGURE 6: Employment rates among EU migrants are higher than both their UK and non-EU born counterparts

Employment rate by country of birth and age band: UK, 2017-2019



NOTES: EU-14 refers to the member countries (excluding the UK) in the European Union prior 2004: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain and Sweden. It also includes countries that are part of the European Economic Area which are part of the single market and have thus had freedom of movement alongside EU-14 countries. EU-8 refers to eight of the ten countries who acceded to the EU in May 2004, upon which their citizens could freely live and work in the UK: Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia. EU-2 refers to Bulgaria and Romania, whose citizens gained free access to the UK in 2014; EU-other refers to Cyprus, Malta and Croatia.

SOURCE: Analysis of ONS, Labour Force Survey.

The impact of migrants on the skills and occupational composition of the UK workforce is mixed

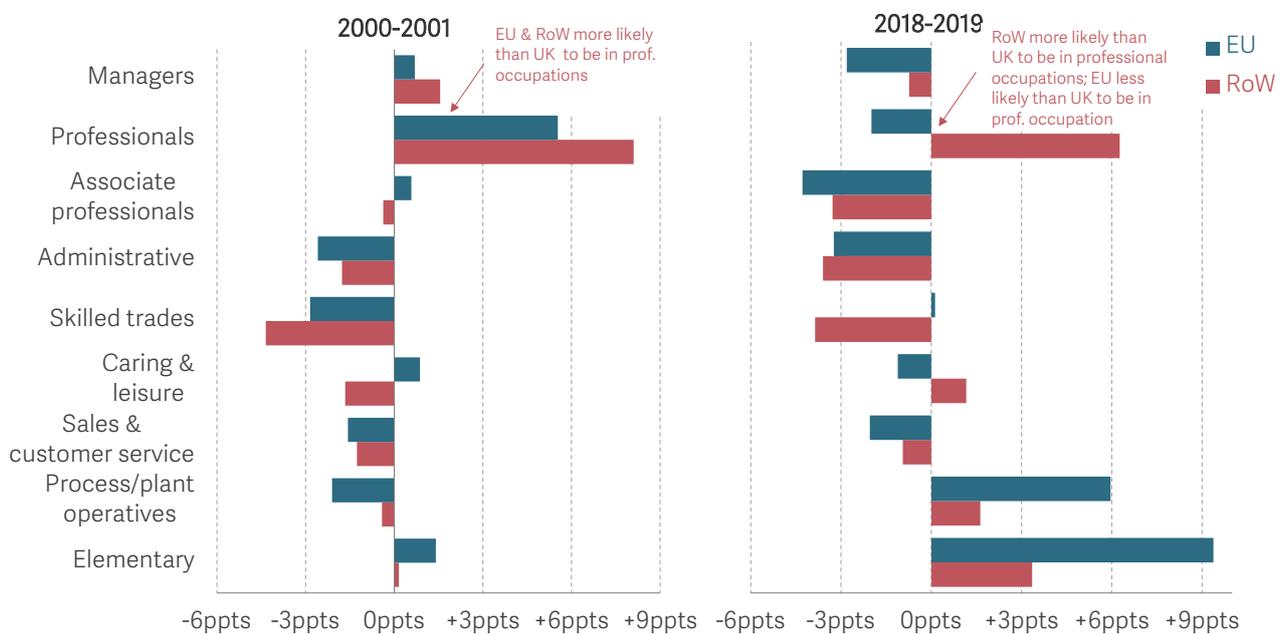
Although it can be difficult to accurately translate foreign-awarded qualifications into UK standards, figures from the Labour Force Survey (LFS) suggest that 22-64-year-old migrants from RoW and EU-14 countries who are active in the labour force are significantly more likely than their UK-born counterparts to have a degree-level qualification - 57 and 47 per cent of RoW and EU-14 workers, respectively, compared with 33 per cent of those born in the UK. By contrast, nearly half (48 per cent) of those from EU-8 and EU-2 countries reported having either lower (GCSE-equivalent or below), or other/no formal qualifications, compared with just 22 per cent of those from EU-14 countries and 33 per cent of those born in the UK.

Given such different qualification levels among migrant workers, to what extent are EU and RoW migrants over and under-represented in different occupational groups? The right-hand panel of Figure 7 shows that during 2018-2019, RoW migrants were significantly more likely than their UK-born counterparts to work in professional occupations (the

share of RoW migrants in these roles is 6 percentage points higher than the share of UK-born workers in them). By contrast, EU workers were much more likely than their UK-born counterparts to work in operative/process and elementary occupations (a 6 and 9 percentage point difference, respectively). These tend to be lower paid and require less formal education. (RoW migrants were more likely to work in these roles as well, although the difference with their UK-born counterparts was smaller, at 2 and 3 points, respectively).

FIGURE 7: By 2019, EU migrants were over-represented in lower-paid occupations, a reversal from the early 2000s

Percentage point difference in the occupational composition of employment between UK and EU/RoW-born workers: UK



NOTES: EU includes those born in EEA member states.
SOURCE: Analysis of ONS, Labour Force Survey.

And yet, this pattern for 2018-2019 stands in contrast to how EU and RoW migrants were distributed across different occupations at the start of the millennium. The left-hand panel of Figure 7 shows that during 2000-2001 both EU and RoW migrants were over-represented in managerial and professional roles, and that EU migrants were only slightly (a percentage point different with their UK-born counterparts) more likely to be in an elementary occupations.

In large part, this reflects the change in the composition of EU migrants that took place when the EU-8 countries acceded to the EU and gained freedom of movement in 2004: during 2000-2001, EU-14 migrants (who have significantly higher degree attainment rates than workers both born in the UK and in EU-8/EU-2 countries) formed almost all EU workers in the UK (2.3 per cent of the UK labour force were from EU-14 countries,

compared with under 0.3 per cent from countries that would eventually become EU-8/EU-2 countries). By 2019, however, there were more workers in the UK from EU-8 and EU-2 countries (combined) than from the EU-14: EU-8/EU-2 migrants formed 3.9 per cent of the UK workforce, whereas EU-14 workers accounted for 3.5 per cent.

Understanding these changes in the size and composition of migrant workers moving into the UK is crucial to understanding the impact these migrant flows have on the rest of the population. In turn, as we move to a new migration regime, the size and composition of flows into the UK (and eventually, the stock of migrants living here) will, once again, change. So, we turn next to these changes and the implications for the UK economy and specifically its labour force.

The shift to a new work-related migration regime will affect some sectors quickly and acutely

Net migration from the EU began falling well before freedom of movement drew to a close in 2021

Net migration (the balancing between the number of people immigrating to and emigrating from the UK) began to fall shortly after the UK's 2016 vote to leave the European Union (Figure 8). Between the year-ending June 2016 and the year-ending March 2020, net migration among EU-14 citizens fell from +84,000 to +61,000; among EU-8 citizens it turned negative (more citizens left the UK than moved to it), from +41,000 to -16,000 over the same period; and it also fell markedly among EU-2 citizens, from +62,000 to +12,000. Among citizens from RoW countries, by contrast, net migration rose: from +166,000 to +316,000. Growing net migration figures among RoW citizens helped drive up the UK's total net migration figure, which after having fallen from 307,000 to 228,000 between year-ending 2016 and the year-ending June 2017, rose to 313,000 by year-end March 2020.⁹

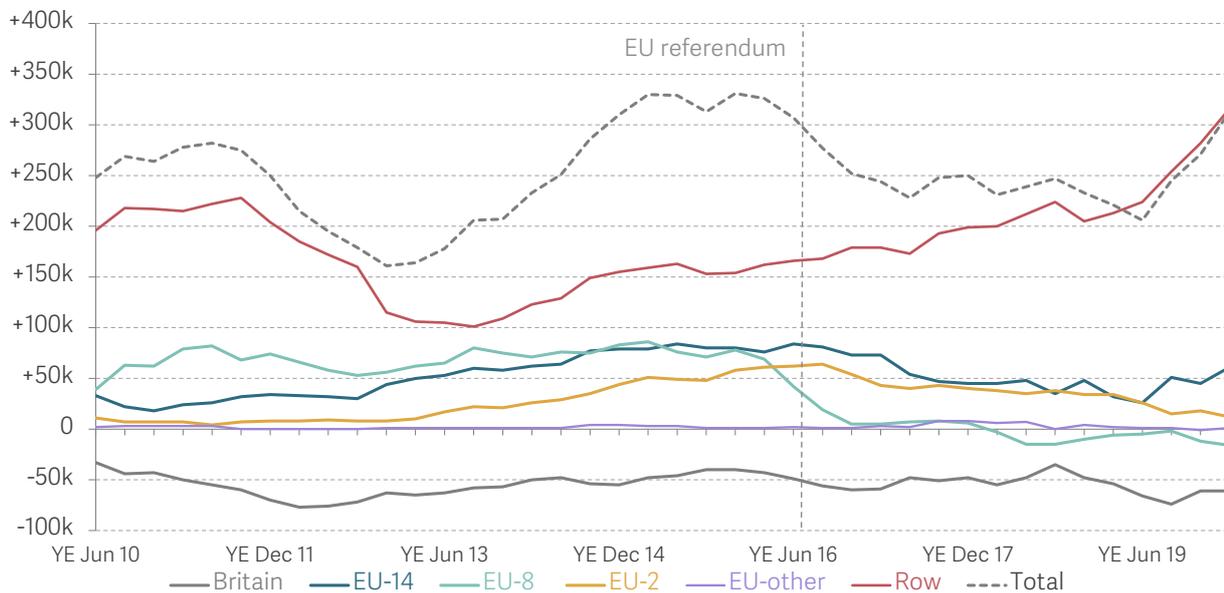
Some of this fall will have been driven by the UK's vote to leave the EU, and the uncertainty around living and working rights that it brought migrants; some of it could also have been a consequence of the decline in the value of the pound that occurred in the wake of the EU Referendum, which would have made the UK a less attractive place to earn.¹⁰ At the same time, net migration continued to rise among non-EU citizens. Although there was some concern that this trend was driven by EU students who were less likely to move to the UK for university given uncertainty about their tuition fees, the same pattern holds even when students are excluded.

⁹ ONS Long-term International Migration figures, which were based on the International Passenger Survey and are going to be replaced with a new administrative data source intended to capture a more accurate picture of migration flows, found that net migration in the Year to March 2016 was +326,000. See: ONS, [Provisional long-term international migration estimates](#), August 2020.

¹⁰ For further discussion, see: Migration Advisory Committee, [EEA migration in the UK: Final report](#), September 2018.

FIGURE 8: Net migration among EU citizens fell in the wake of the EU referendum; among those from EU-8 countries it turned negative

Net migration to the UK by country of birth



NOTES: EU-14 refers to the member countries (excluding the UK) in the European Union prior 2004: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain and Sweden. It also includes countries that are part of the European Economic Area which are part of the single market and have thus had freedom of movement alongside EU-14 countries. EU-8 refers to eight of the ten countries who acceded to the EU in May 2004, upon which their citizens could freely live and work in the UK: Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia. EU-2 refers to Bulgaria and Romania, whose citizens gained free access to the UK in 2014; EU-other refers to Cyprus, Malta and Croatia. Figures for 2019 are provisional
SOURCE: Analysis of ONS, Long-term International Migration (LTIM).

Although there are considerable question marks around migration during 2020, it's very likely that net migration turned negative at some point in the year, with it probable that many EU workers decided to return home, and very few were willing or able (especially under pandemic restrictions) to come to the UK.¹¹ National Insurance Number (NINo) registration data shows that the initial 2020 Covid-19 'lockdown' unsurprisingly limited immigration flows¹²; the number of visas granted similarly fell during 2020 (visa application figures only relate to non-EU citizens, as EU citizens at the time still had freedom of movement).¹³ Visa application and National Insurance registration data for 2021 also show comparatively fewer applications from EU citizens than their RoW counterparts. Although Covid-19 health concerns and mobility restrictions will have put a large damper on both visa applications and actual moves, NINo registrations were significantly greater among RoW citizens than their EU counterparts in the year to June

¹¹ G Thwaites, [Migration during the pandemic: Have 1.3 million migrants really left the country?](#), Resolution Foundation, January 2021.

¹² DWP, [National Insurance numbers allocated to adult overseas nationals to December 2020](#), June 2021.

¹³ Home Office, [Immigration statistics year ending December 2020: entry clearance visas, summary tables](#), February 2021.

2021 (191,000 and 78,000, respectively), thereby reversing a pattern – in which EU citizens had higher registration levels – that had prevailed since 2011.¹⁴

The new work-related migrant regime is designed to change the educational composition of migrants who move to the UK; it will most likely lead to fewer migrants moving to the UK, too

January 2021 marked a significant change in UK migration policy: as the UK officially left the European Union's single market and customs union, freedom of movement – meaning the freedom for EU citizens to live, work and study in the UK without a visa (and vice-versa) – drew to a close. From 2021, EU citizens looking to move to the UK faced the same requirements as those coming from the rest of the world, and though most of the requirements and conditions underpinning family and study immigration routes had remained the same, the work-related migration rules underwent considerable change, representing a liberalisation of rules for work-related RoW migrants but, on the face of it, an imposition on EU workers who had previously been under no constraints (and as such, on the firms that were reliant on continual inflows of EU workers).

Under the new system, employers will be able to sponsor foreign workers on 'skilled worker visas' (SWVs) for occupations that are assessed as requiring an A level-equivalent qualification and have a minimum salary of £25,600 (although this will vary according to the specific occupation and the age of the applicant; for example £20,480 for some new entrants).¹⁵ Occupations on the Shortage Occupation List (SOL), which are SWV-eligible occupations classed as being in short supply in the UK labour market, have more flexible salary requirements.¹⁶ These new work visa requirements are less stringent than those faced by non-EU workers under the previous system, where eligible occupations required a degree-level qualification and the minimum salary was set at £30,000. As a result, a much wider range of occupations are now eligible. Moreover, the annual 'cap' on the number of SWVs, which existed for 'Tier 2 (general)' applicants under the previous system has been abolished.

A post-study work visa for graduates from UK universities has been re-introduced (after closing in 2010), allowing them to study and work in the UK for up to two years (during which time they may find a job that allows them to transfer onto the skilled worker route, which leads to settlement). Other work-related avenues, like inter-company transfers

¹⁴ DWP, [National Insurance numbers allocated to adult overseas nationals to June 2021](#), August 2021.

¹⁵ In most cases, visa applicants would need to be paid the higher of either the 'going rate' for their occupation, or the £25,600 threshold, although in some cases, the pay threshold will be subject to national pay scales. Applicants classed as 'new entrants' (those under 26, those switching from a student, graduate or graduate entrepreneur visa, and those working towards qualifications in a professional body, or moving onto a postdoctoral position in particular sectors) will be subject to a lower salary threshold, either 70 per cent of their occupation's going rate or £20,480 – whichever is higher. See: UK Visas and Immigration, [Skilled Worker visa: eligible occupations](#), 1 December 2020; UK Visas and Immigration, [Skilled Worker visa: going rates for eligible occupation codes](#), 1 December 2020; Fragomen, [Immigration rules changes announced](#), 23 October 2020.

¹⁶ Applicants for roles that are on the SOL can be paid 80 per cent of the 'going rate.' See: UK Visas and Immigration, [Skilled Worker visa: shortage occupations](#), October 2021.

and the youth mobility scheme (a temporary work visa available to 18-30-year-olds from 9 countries but predominantly taken up by those from Australia and New Zealand) remain largely unchanged. There is a seasonal agricultural workers scheme (SAWS), currently in pilot mode and which opened up 30,000 visas in 2021. The Government have also opened up a visa route for British National Overseas (BNO) – a status held by some Hong Kong residents, which would make about 5.4 million residents (including their dependents) eligible to live and work in the UK (with a route to permanent residency). All of the work-related changes only apply to immigrants arriving after January 2021; EU migrants in the UK prior to it formally leaving the EU Single Market had been offered the right to settle.¹⁷

The primary question for UK businesses and policy makers has been whether – and how – the introduction of a new work-related migration regime will shape the size and composition of people immigrating to the UK each year and, eventually, the size and composition of the UK labour force. The new system is designed to prioritise workers in mid- and higher-skilled roles and, in doing so, will automatically skew the educational composition of new migrant workers upwards, by preventing large numbers of EU migrants to enter the UK to work in occupations that are ineligible for the new SWV. As detailed further below, this would represent a considerable proportion of the stock of EU migrants working in the UK: during 2017-2019, 47 per cent of 18-64-year-old EU-born workers in the UK were in occupations that are ineligible for the SWV route, equivalent to 4 per cent of 18-64-year-old employment in the UK. Those migrants already in the UK would be unaffected, and those EU citizens moving to the UK for family or study reasons would still be able to do so (and work while here) under pre-existing visa routes

However, given that nearly half of EU citizens who moved to the UK in the year to December 2020 did so for work, and that during 2017-2019 55 per cent of EU workers who were recent arrivals (having lived in the UK for two years or less) worked in occupations that would now be ineligible for SWV sponsorship, it's very likely that the new system will lead to a fall in the number of EU citizens moving to the UK for work-related reasons. If the current rules were in place during the year-ending March 2020, and the composition of EU migrants who moved to the UK for work-related reasons were the same (i.e. 55 per cent working in SWV-ineligible roles), then the total number of EU, work-related, migrants moving to the UK could have more than halved from 75,000 to halved, to 34,000, leaving only those who would go on to work in higher-skilled roles. This will likely lead to a slower rate of labour force growth than the UK has become used to over recent decades.

Moreover, it's unclear whether the EU workers (and their employers) who are eligible for the SWV scheme will be put off by the administrative and cost burden of now having

¹⁷ Up until June 2021 EU citizens who had lived in the UK for at least five years were able to apply for 'settled status,' allowing them to permanently live and work in the UK. Those who had been resident for fewer than five years could apply for pre-settled status, and then apply again for settled status once they reach five years of residency.

to apply for a visa: so far, the number of SWV applications among non-EEA citizens has been over ten times as large as those among EEA citizens.¹⁸ Although it's too early to tell whether the relative liberalisation of rules (compared to the past) for non-EU workers, running alongside the re-introduction of a post-study work route, and the new BNO visa, would lead to take up sufficiently large so as to balance out a reduction in the number of EU migrants moving to the UK. However, it seems very likely that, unless further changes in the immigration system are forthcoming, the end of freedom of movement with the EU will lead to fewer immigrants moving to the UK each year than occurred before the UK's 2016 vote to leave the EU.

A large share of EU-2 and EU-8 migrants already in the country would be ineligible to move to the UK under new rules, accounting for roughly 4 per cent of UK employment

It is difficult to gauge the size of the new work-related migration regime's impact on the UK labour force. Although the new regime will not affect migrants who were already in the UK before 2021 (apart from their having to apply for settled status if they don't already have permanent residency or citizenship), we can run a thought experiment to test the impact of the new policy on the size of the labour force, by asking how it would change without EU citizens working in SWV-ineligible roles.¹⁹ This analysis is centred on whether or not migrants are working in SWV-eligible occupations and does not factor in salary thresholds, meaning it could overestimate the number of workers who would be eligible, were the new migration rules applied ex-post.²⁰

Figure 9 shows that, under this thought experiment, over a quarter (28 per cent) of workers from EU-14 countries would be ineligible, as would nearly two-thirds of those from EU-2 (61 per cent) and EU 8 (62 per cent) countries. 40 per cent of workers from RoW countries would similarly be ineligible but because policy won't have changed for RoW migrants (immigration rules have mostly barred migration for the purpose of working in most occupations requiring lower-levels of education), these workers will likely have come to the UK on another visa route and, under the change set out above, would be unaffected by a stricter work-related regime. In total, the share of UK 18-64-year-old employment held by EU workers during 2017-2019 that would, under this thought experiment, be ineligible is about 4 per, comprised of 1 per cent from EU-14 and EU-2 citizens each, and 2 per cent from EU-8 citizens.

¹⁸ For further discussion, see: Migration Advisory Committee, [Annual Report 2021](#), December 2021.

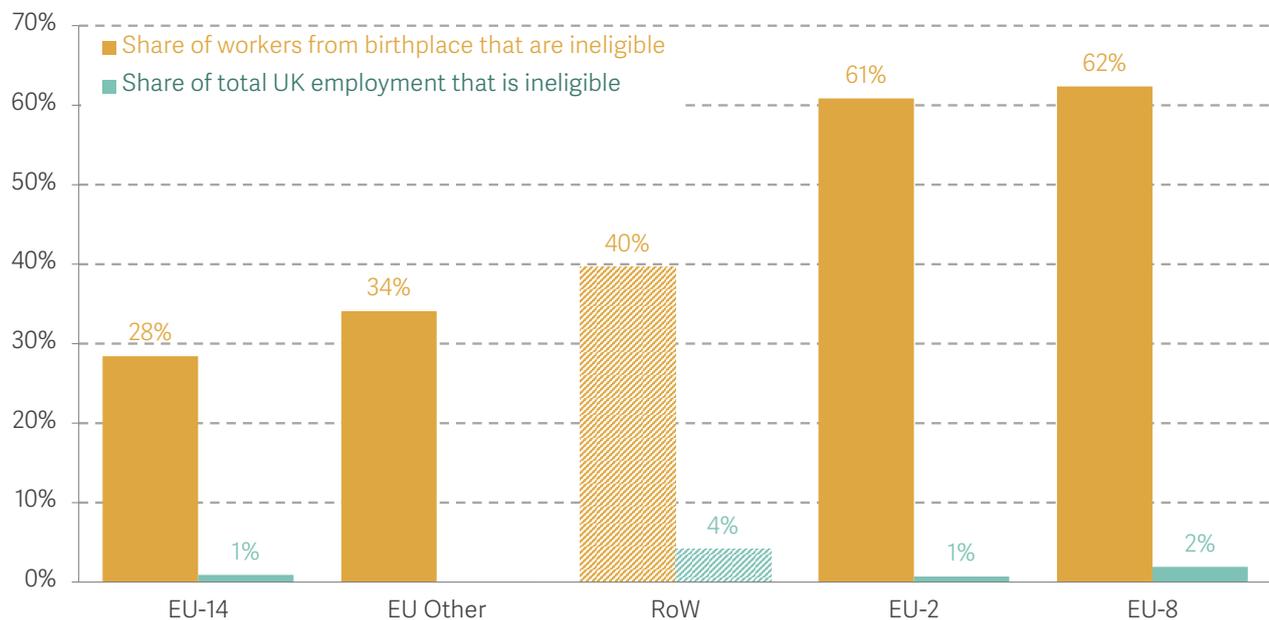
¹⁹ In reality, changes to the size and composition of the stock of migrants in the UK would be significantly slower than the experiment presented here because policy changes affect flows rather than the stock.

²⁰ For example, a worker who is not a new starter (e.g. they are over the age of 16) and is working in a SWV-eligible role but paid under the 'going rate' for that particular occupation would not be accepted for an SWV: an employer seeking to bring them to the UK would have to raise their proposed salary. In this analysis however, they would be counted as working in an SWV-eligible role. This is because pay data at such a detailed occupational and age level can be volatile.

This 4 per cent represents a large share of employment. And it only considers what might happen as a result of new rules restricting SWV ineligible migrants, it can't factor in whether having to apply for a visa will deter EU citizens who would otherwise be eligible for the SWV, or whether the relative relaxation in the work route (for non-EU citizens) would serve as a pull factor and thus bring in a balancing number of non-EU workers to work in mid- and higher-skilled roles. But in terms of the level of shock that the new system may bring to the UK labour market, it's important to remember that the effects would not come at once (because EU citizens who attained settled status are able to stay), but rather from fewer EU migrants moving to the UK each year and, potentially, some EU migrants moving from the UK and not being replaced by another foreign-born workers. Moreover, EU citizens who are eligible to move to the UK on non-work route (for example for family or study reasons) could still go onto work in these non-SWV eligible occupations because their visas won't feature occupational restrictions.

FIGURE 9: Nearly two-thirds of EU-2 and EU-8-born workers are in roles that would be ineligible for the new Skilled Worker Visa

Share of workers in SWV-ineligible occupations by country of birth; total share of UK employment in SWV-ineligible occupations by country of birth: UK, 2017-2019



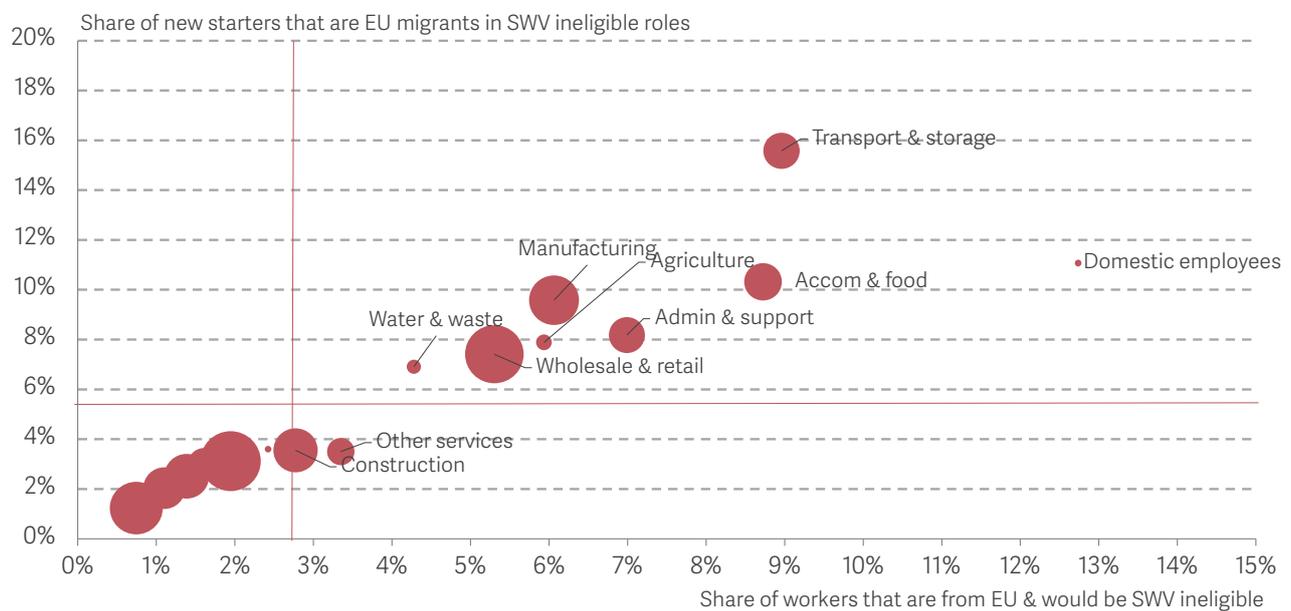
NOTES: Eligibility is based on occupation alone and does not factor in salary or 'new entrant' status. EU-14 refers to the member countries (excluding the UK) in the European Union prior 2004: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain and Sweden. It also includes countries that are part of the European Economic Area which are part of the single market and have thus had freedom of movement alongside EU-14 countries. EU-8 refers to eight of the ten countries who acceded to the EU in May 2004, upon which their citizens could freely live and work in the UK: Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia. EU-2 refers to Bulgaria and Romania, whose citizens gained free access to the UK in 2014; EU-other refers to Cyprus, Malta and Croatia. Columns for RoW workers are shaded because workers wanting to move to the UK on a work visa were already subject to occupational eligibility criteria under the previous immigration system. SOURCE: Analysis of ONS, Labour Force Survey.

In the short run, sectors that rely on high staff turnover and that have a high share of employment in SWV-ineligible occupations are likely to experience a labour squeeze

The effects of the new work-related migration system, and the restrictions newly faced by EU citizens wishing to live in the UK will affect some sectors of the economy more significantly, and more quickly, than others. We set out which sectors and occupations would be most affected here. Figure 10 attempts to highlight sectors particularly at risk of experiencing a labour supply crunch in the wake of the new migration regime by tracking the proportion of workers, by industry, who are from the EU and in an SWV-ineligible role, against the proportion of new starters that are SWV-ineligible, across industries. Transport and storage, food and accommodation, manufacturing and domestic service workers, among others, stand out.

FIGURE 10: Hospitality, transport, and manufacturing are among the industries that we would expect to struggle with labour supply under the work-related new migration regime

Proportion of 18-64-year-old workers that are new starters and working in an SWV-ineligible occupation (y-axis) and proportion of workers that are from the EU and would be ineligible for an SWV visa (x-axis), by industry: UK, 2017-2019



NOTES: New starters refer to workers who have worked for their employers for less than two years. Intersecting lines represent sector averages.
 SOURCE: Analysis of ONS, Labour Force Survey.

In order to get a more nuanced sense of which sectors might be at risk, Table 1 looks at the more detailed industry divisions but, due to sample size concerns, it considers the share of (all) workers that are new starters (rather than EU/SWV-ineligible new starters)

alongside the share of workers that are from the EU and in roles that would be ineligible for the SWV. Food manufacturing, warehousing and accommodation have the largest shares of workers that would be ineligible for an SWV under the new system. The share of workers in each of these sectors that are classed as new starters (with their employer for less than two years) ranges from 29 to 42 per cent (compared against an across industry average of 15 per cent during the time). Sectors that have a comparatively lower share of would-be SWV-ineligible EU migrants but a high proxy for turnover, for example food services (where 7 per cent of workers are from the EU and in SWV-ineligible roles, and where 48 per cent of staff have been with their firm for less than two years), are also likely to experience a significant pinch. Of course, EU workers who are eligible to move to the UK on a non-work visa route would still, under the new migration regime, be able to work in these roles – meaning that the shock of the new system may be somewhat attenuated by the availability of other visa routes.

TABLE 1: Analysing sectors at a more detailed level shows that food manufacturing, warehousing and accommodation are at risk of a labour shortage under the new work-related migration regime

Share of 18-64-year-old workers that are from the EU and SWV-ineligible and that are new starters, by industry division: 2017-2019

	Share of workers that are ineligible	Share of workers that are new starters	Sector as share of total employment
Food mfg	20%	29%	1%
Warehousing	16%	31%	1%
Accommodation	15%	42%	1%
Bldg services	11%	31%	2%
Post & courier	8%	24%	1%
Wholesale	7%	27%	2%
Food & drink services	7%	48%	4%
Land transport	7%	23%	2%
Machinery mfg	7%	24%	1%
Animal production	6%	16%	1%
Retail	5%	33%	9%
Other personal service	5%	28%	1%
Res. Care	5%	36%	3%
Vehicle mfg	5%	24%	1%
Security	5%	35%	1%

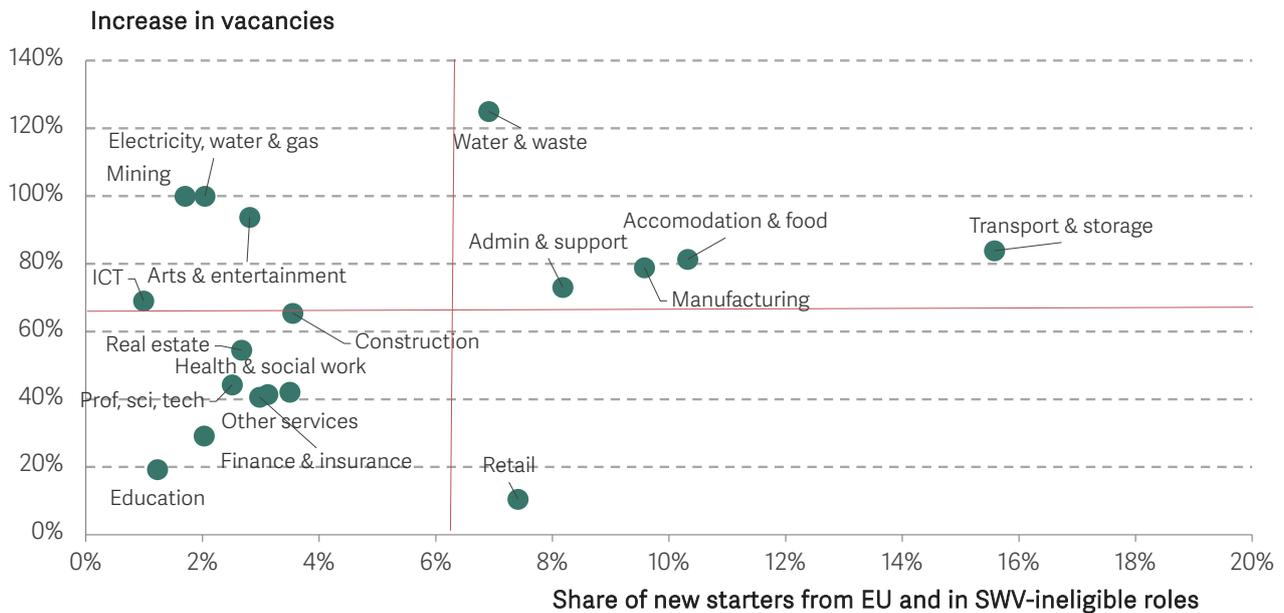
NOTES: New starters refer to workers who have worked for their employers for less than two years."

SOURCE: Analysis of ONS, Labour Force Survey.

The evidence suggests that some ‘at risk’ industries are already feeling a migrant-induced labour supply pinch, because of Covid-19 migration trends and/or the UK’s new migration system

Figure 11 tracks the proportion of workers new in their role (they have been with their employer for fewer than two years) in a given sector that are from the EU and working in what would be an SWV-ineligible role against the percentage increase in the number of vacancies posted with a given sector between September-November 2019 and September-November 2021. It finds that sectors which have an above average share of new starters from the EU and in SWV ineligible roles also posted an above average increase in vacancies over the two years to November 2021. The administrative and support sector, food and hospitality and transport and storage all appear to be experiencing a pinch.

FIGURE 11: Some migrant-reliant sectors are posting significant increases in job
 Percentage increase in vacancies between Sept-Nov 2019 and Sept-Nov 2021 (y-axis) and share of new starters from the EU and in SWV-ineligible roles (x-axis): UK, 2017-2019



NOTES: New starters refer to workers who have worked for their employers for less than two years. Intersecting lines represent sector averages.
 SOURCE: Analysis of ONS, Labour Force Survey and ONS, VACS02: Vacancies by industry.

However, others sectors that posted a larger-than-average increases in vacancies aren’t always the ones we’d most expect to be experiencing a shortage of migrant workers: the upper-left hand quadrant of Figure 11 shows that the increase in vacancies has been especially high in arts and entertainment, information and communications, and mining, despite these industries having a below-average share of new starters from the EU in SWV-ineligible occupations.

While it's likely that a reduction in migrants – be that driven by emigration of migrants from the UK during the pandemic, the effects of the more restrictive migration regime beginning to affect flows, or a combination of the two – is driving some of the increased demand for labour, there are other factors affecting labour supply, too. For example, recent Resolution Foundation research found that as of October 2021, roughly 600,000 people in the UK have stopped working or were working fewer hours because of health conditions like 'long Covid', and nearly half of those (270,000) report that they do not expect to increase their working hours over the next six months.²¹

If migration, and wider labour supply issues, are causing labour shortages in specific sectors we might expect to see, in the shorter term, an increase in wages on offer. Evidence from the job search engine Indeed suggests that some migrant reliant sectors that have experienced falls in jobseeker interest, like driving and food preparation and service, have shown larger-than-average increases in advertised job pay between January and October 2021 (controlling for changes in the composition of job titles and location of jobs). For example, posted wages in driving and food preparation jobs rose by 8.8 per cent and 4.6 per cent, respectively, compared to an increase of 1.9 per cent across all jobs.²²

While it's highly likely that a lack of migrant workers is an important part of the reason behind the labour shortages in these sectors, it's less clear what this means for the medium term: for example, will the UK economy be less able to respond to economic change with lower migration? And will some of the pay rises that occurred in at-risk sectors lead to higher pay in the long-term, as the Prime Minister suggests? We turn these two questions in the next two sections.

The new work-related migration regime could make responding to economic change harder

Changes to the work-related migration regime will require UK-born workers to adjust more to the economic change due in the 2020s

In the short-term, it looks likely that reduced migration has played a role in driving up labour shortages, leading to some disruption and also some rises in advertised pay for particular sectors. But what does this mean over the medium-term? As the UK proceeds through to 2030, with multiple challenges arising from Brexit, the recovery from Covid-19 and the transition to a net zero economy, a key question is whether changes to the work-related migration regime will render the UK more or less able to respond to these demands, and especially do so in a way that drives up, rather than down, wages and productivity.

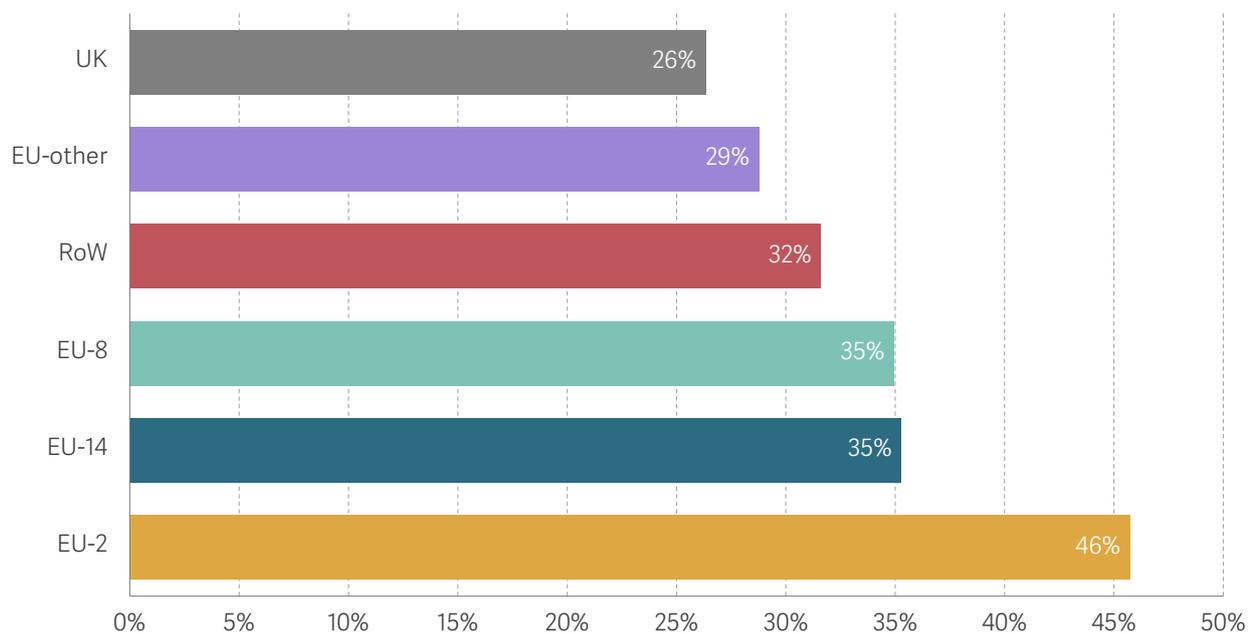
²¹ M Brewer, C McCurdy & H Slaughter, [Begin again? Assessing the permanent implications of Covid-19 for the UK's labour market](#), Resolution Foundation, November 2021.

²² J Kennedy, [High pay growth still limited to a few occupations](#), Indeed Hiring Lab, November 2021.

To date, the ability of UK firms to rely on overseas workers to fill vacancies and, potentially, to leave the country when jobs end will have reduced the burden of these adjustments on UK-born workers. And as Figure 12 shows, migrants tend to contribute more to job mobility than their UK-born counterparts: just over one-in-four (26 per cent) UK-born workers reported being with their employer for less than two years during 2017-2019, compared with more than a third (35 per cent) of those born in EU-8 and EU-14 countries and closer to half (46 per cent) of those from EU-2 countries.

FIGURE 12: Migrant workers tend to report shorter firm tenure

Proportion of 18-64-year-old workers with their employers for less than two years by country of birth: UK, 2017-2019



NOTES: EU-14 refers to the member countries (excluding the UK) in the European Union prior 2004: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain and Sweden. It also includes countries that are part of the European Economic Area which are part of the single market and have thus had freedom of movement alongside EU-14 countries. EU-8 refers to eight of the ten countries who acceded to the EU in May 2004, upon which their citizens could freely live and work in the UK: Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia. EU-2 refers to Bulgaria and Romania, whose citizens gained free access to the UK in 2014; EU-other refers to Cyprus, Malta and Croatia.

SOURCE: Analysis of ONS, Labour Force Survey.

This isn't to suggest that migrant workers are intrinsically different from UK-born workers: indeed, the evidence suggests that the longer migrants remain in the UK employment differences, such as job changes, between them and UK-born workers begins to dissipate.²³ Instead it simply implies that the large number of migrant workers flowing into the UK labour force over recent years has driven up job changes and thus, mobility.

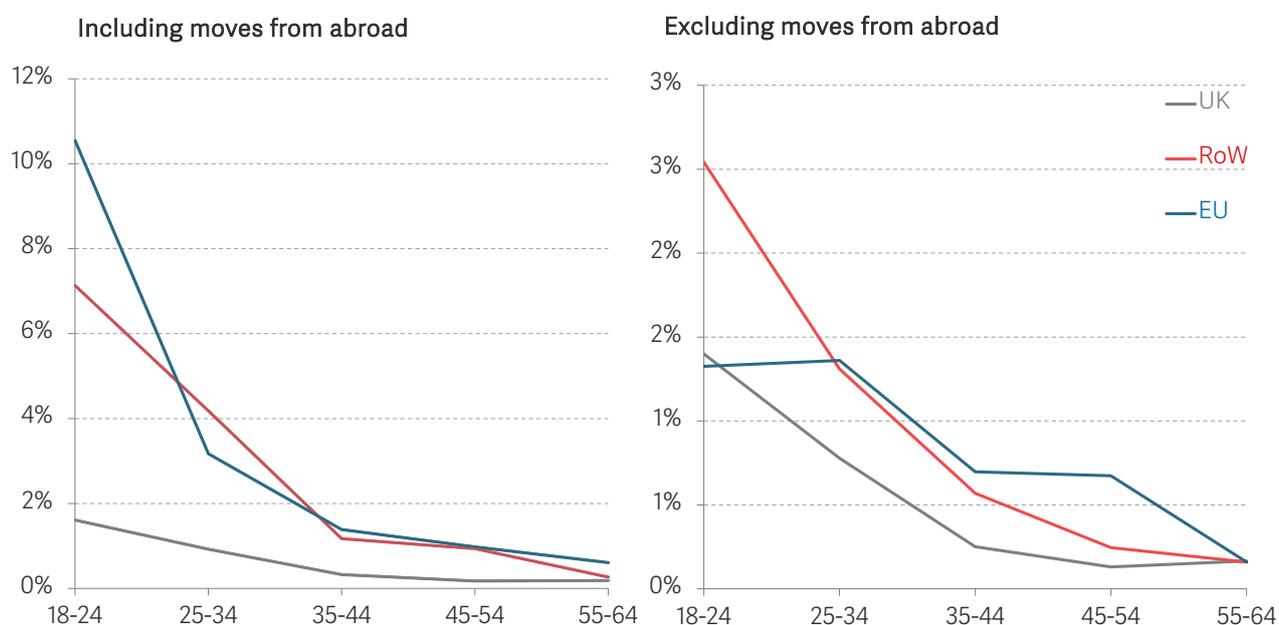
²³ Analysis from the Labour Force Survey, albeit cross-sectional rather than longitudinal, finds for example that migrants' employment rates tend to become more similar to their UK-born counterparts the longer they have lived in the UK, even after factoring in age. Dickens and McNight (2008), find that the longer migrant workers live in the UK the narrower the size of their pay gap with the average UK-born workers, with it taking 20 years on average for migrant men to bridge the difference. However, the extent to which pay gaps narrow does vary by ethnicity. See: R Dickens & A McKnight, [Assimilation of migrants into the British labour market](#), Centre for Analysis of Social Exclusion, London School of Economics, October 2008.

If the number of working migrants falls, all else equal, we would therefore expect to see overall rates of job moves fall too, or rates of job moves among UK-born workers rise – even if only slightly.

We find a similar story in Figure 13, which compares the share of workers from different countries, according to their age, making both job and region moves at the same time. The left-hand panel includes all job and place moves (and could thus include migrants who did not live or work in the UK 12 months prior), whereas the right-hand panel excludes migrants newly arriving in the UK and are classed as having moved between two UK regions.²⁴ Across both panels, younger workers are more likely to make job plus regional moves and migrant workers are more likely to make them than their UK-born counterparts – although differences between migrant and UK-born workers narrow across the age range. The rates of job and regional mobility among both EU and RoW migrants are unsurprisingly larger in the left-hand panel, where moves from abroad are included. This, again, does not imply intrinsic differences between migrants and their UK-born counterparts but instead shows that an incipient flow of workers from abroad can, at least in the short term, increase the flexibility of labour supply to the economy.

FIGURE 13: The share of workers making region and job moves together varies considerably by age, but less so by country of birth

Proportion of 18-64-year-old workers reporting working in different job and living in a different place than 12 months prior, by age band and country of birth: UK, 2017-2019



SOURCE: Analysis of ONS, Labour Force Survey.

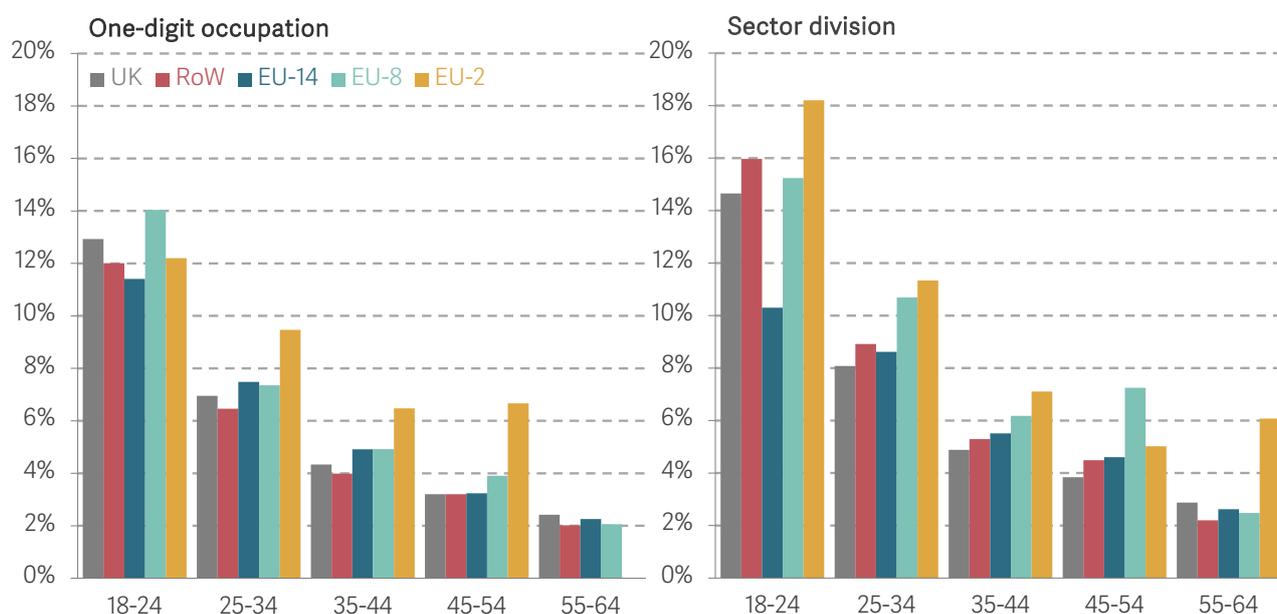
We now turn to the question of whether a reduction in migrant workers will lead to lower levels of sectoral and occupational change, focusing only on those workers who

²⁴ North East, North West, Yorkshire and Humber, East Midlands, West Midlands, South East, South West, London, East of England, Wales, Scotland and Northern Ireland.

were resident in the UK for a year or more. (In practice the majority of sectoral change tends to come from retirements from declining sectors and new entrants to new sectors, rather than individuals switching, but switching does play a considerable role in economy-wide sectoral and occupational change.²⁵) Figure 14 shows that European migrants, and primarily EU-2 migrants, are much more likely than their UK and RoW-born counterparts to report changing single-digit occupation²⁶ or the industry division (a more detailed industrial classification level) in a given 12 months, even within an age band. For example, 9 per cent of 25-34-year-old workers from the EU-2 countries reported having changed occupations in the past year, compared with 7 per cent of workers from all other countries; 11 per cent and 10 per cent of 25-34-year-old EU-2 and EU-8 workers reported changing industry division, compared with just over 8 per cent of their counterparts from EU-14 and RoW countries, and those born in the UK.

FIGURE 14: Within a given age group, migrant workers from most EU countries are only slightly more likely than their UK-born counterparts to change industry or occupation

Proportion of workers reporting that they worked in a new occupation or industry division from one year ago, by age band and country of birth: UK, 2017-2019



NOTES: EU-14 refers to the member countries (excluding the UK) in the European Union prior 2004: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain and Sweden. It also includes countries that are part of the European Economic Area which are part of the single market and have thus had freedom of movement alongside EU-14 countries. EU-8 refers to eight of the ten countries who acceded to the EU in May 2004, upon which their citizens could freely live and work in the UK: Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia. EU-2 refers to Bulgaria and Romania, whose citizens gained free access to the UK in 2014; EU-other refers to Cyprus, Malta and Croatia.

SOURCE: Analysis of ONS, Labour Force Survey.

²⁵ For further discussion, see: N Cominetti et. al., *Changing jobs? Change in the UK labour market and the role of worker mobility*, Resolution Foundation, January 2022.

²⁶ This refers to the 9 'major' occupational categories that form the ONS Standard Occupational Classification (SOC) system.

A reduction in the number of immigrants from these countries moving to the UK could be assumed to limit overall levels of mobility but given that EU-2 and EU-8 workers form such a small share of UK employment (1 and 3 per cent, respectively) it's unlikely that a reduction in the number of people moving to the UK from these countries, as a result of the new work-related migration regime will have a significant effect on workers occupational and sectoral mobility in aggregate.

Migrants from EU-14 have similar levels of mobility than those born in the UK, and so a lower share of work-based immigration from these countries would not be expected to have an effect on migration. But changes to the migration regime could still be expected to reduce the rate of mobility for migrants from these countries once they arrive here, given that SWV workers would need to find another employer to sponsor them for an SWV-eligible role before moving between firms.²⁷ It's unclear whether this requirement will significantly affect mobility: among some age groups, sectoral mobility is higher among RoW workers than their UK-born counterparts even though we know some, but not most, of the workers from these countries will have been on a skilled work-related visa, which would include job mobility restrictions. If visa-driven mobility restrictions were so large that overall levels of mobility would be expected to fall under the new work-related migration regime, we might expect to see even bigger differences between RoW and other workers shown here and in Figure 13.

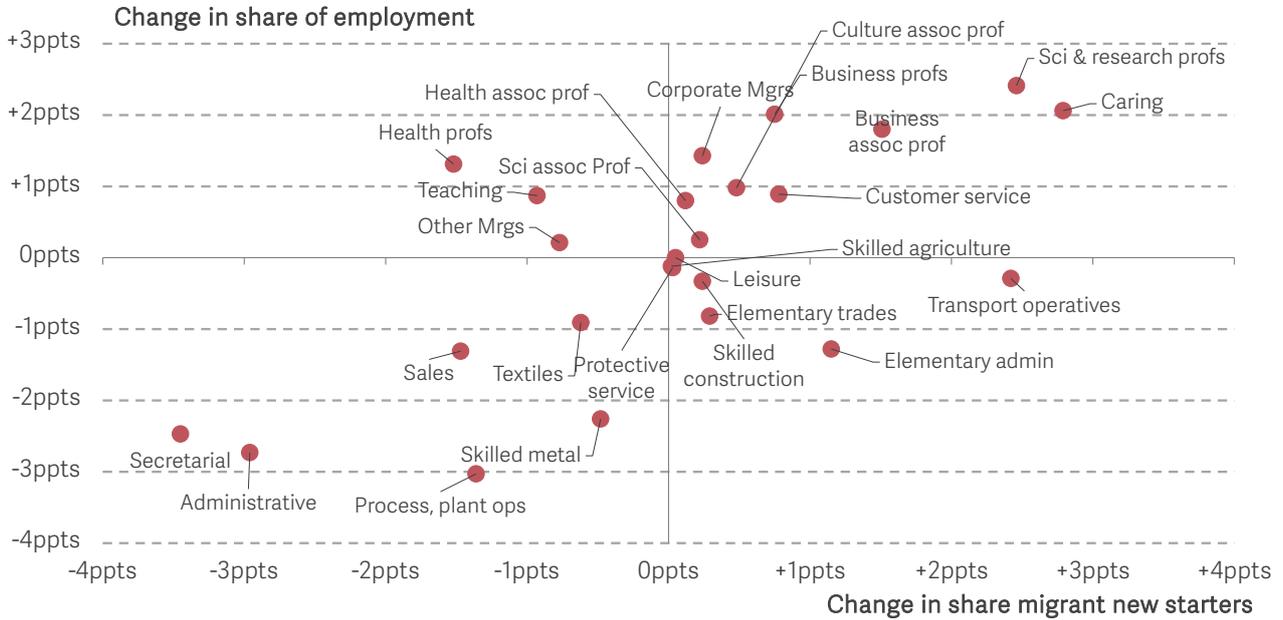
The relationship between migration and sectoral change runs in both directions: in some cases, migrants respond to sectoral change, in others, they shape it

Stepping back, there's a broader question of whether migrant flows – rather than individual occupational, sector or regional moves – can help the UK meet demand for labour in growing sectors. The past provides a mixed picture: Figure 15 shows that over recent decades the share of migrants newly entering work (i.e. migrants who have worked for their current employer less than two years) did indeed increase in some growing, highly skilled sectors. For example, the upper-right quadrant indicates that between 2000-2002 and 2017-2019, the share of migrant new starters working in scientific and research professional roles (an occupational category that grew by over 2 percentage points, an above average amount) rose 3 percentage points. We find a similar story with care workers and business professionals – suggesting that migrants have responded to economic change, and helped build up, growing sectors.

²⁷ And when moving jobs between the same employer, that new job would also need to be on the Government's list of SWV eligible occupations.

FIGURE 15: Since the early 2000s the share of migrants flowing into growing, mostly higher-skilled occupations has risen, but they're also increasingly likely to flow into declining, lower-skilled occupations

Change in share of 18-64-year-old employment, by industry, (y-axis) by change in share of 18-64-year-old migrants moving into an industry (x-axis): UK, 2000-2002 to 2017-2019



NOTES: New starters are classed as workers who have worked for their current employer for fewer than two years.

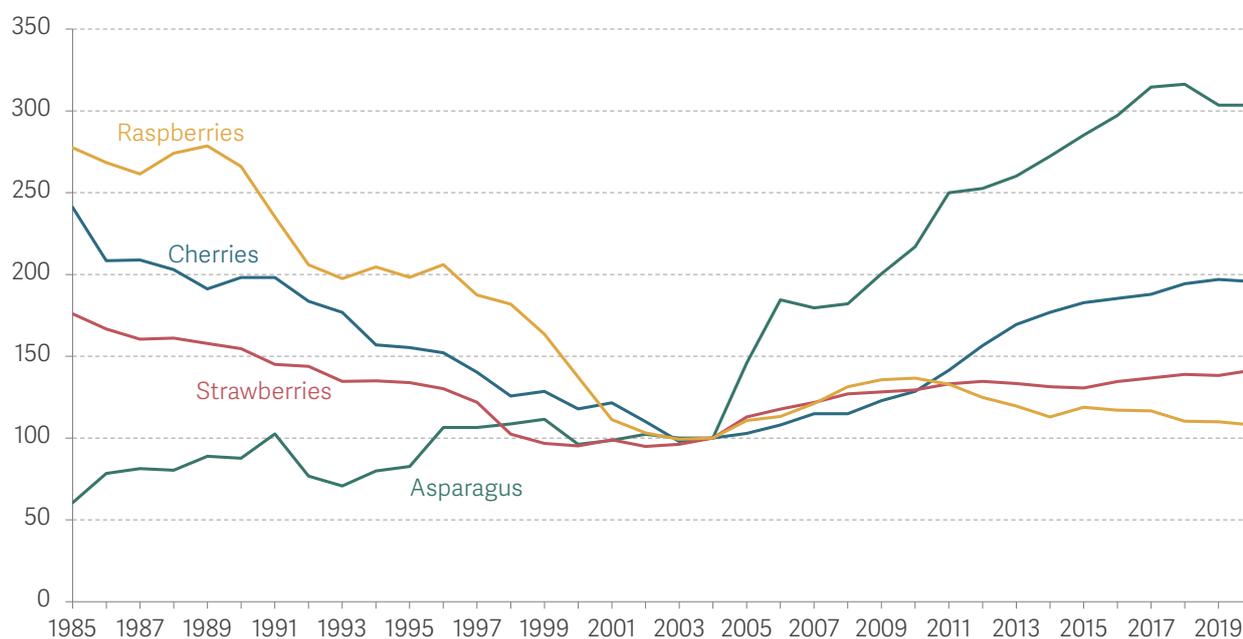
SOURCE: Analysis of ONS, Labour Force Survey.

And yet, the lower-right quadrant shows that migrant new starters also increasingly flowed into some mid- and lower-skilled roles that were declining as a share of employment over recent decades. For example, there was 1.2 percentage point (above average) increase in the share of migrant new starters that worked in elementary administrative occupations, a group whose overall share of employment fell by just over 1 percentage point over the time period.

In other words, migrant workers can both boost growing sectors and play some role in attenuating employment falls in shrinking ones. In fact, the causality can sometimes run in the other direction, with the availability of migrant labour itself changing sectoral-level behaviour. For example, Figure 16 shows that there was a sharp resurgence in the number of hectares of labour-intensive crops planted after 2004 accession of EU-8 countries, which significantly boosted the number of migrant workers in the UK economy.

FIGURE 16: The increase in labour supply flowing the 2004 A8 accession fostered a resurgence in labour-intensive agriculture

Hectares of planted crops (2004=100): UK



NOTES: This chart originally appeared in Migration Advisory Committee, EEA migration in the UK: Final report, September 2018. It has been updated to include figures from 2016-2020 here. Figures for 2020 are provisional.

SOURCE: DEFRA, Horticultural Statistics – 2020, August 2021.

This suggests that it's not as simple as immigration mainly helping growing sectors to access labour: in some cases, migrant workers have also played a role in sustaining shrinking sectors – potentially slowing change down. For example, without migrants, would there have been as much growth in food service activities and food retail on UK high streets? Would there have been such a resurgence in labour-intensive farming? Figure 16 suggests not. So the new migration system will lead to sector-specific labour shortages in the short-term, and could – to a lesser extent – render the UK economy less dynamic in the medium term. What about longer-term effects on the UK economy overall? We turn to these next.

The new migration regime will slow labour force growth and skew the educational and occupational composition of migrants upwards, but the aggregate effects on the economy are unlikely to be large

New work-related migration rules are unlikely to turn the dial very much on either the regional or occupational composition of the UK labour force

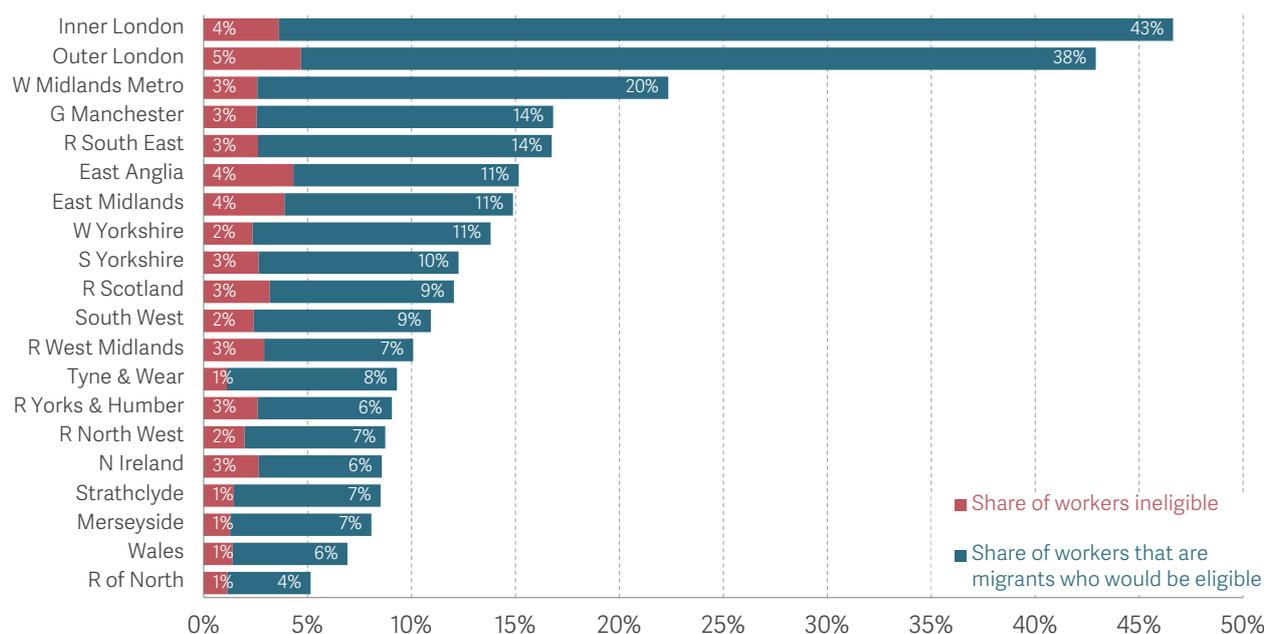
Because, as this note previously showed, migrant workers have a significantly different regional composition than their UK-born counterparts, one question arising from the new migration system is whether the balance of employment will begin to shift across

regions. Figure 17 takes the same thought experiment used in Figure 9 and asks whether, if the new migration policy were applied retrospectively (and EU migrants in ineligible occupations are not counted in the labour force), the share of workers in different regions would fall by greater or smaller amounts.

Unsurprisingly, regions with large shares of EU workers, like outer London, would be most affected: 5 per cent of its workers were EU workers in SWV ineligible occupations, compared with 1 per cent Merseyside and Wales. (Again, RoW workers in ineligible occupations are not classed as such because the change in rules would not affect them since their occupation suggests they were unlikely to have moved to the UK on a work-related visa route.)

FIGURE 17: Visa restrictions for lower-skilled occupations are unlikely to have a large impact on the regional distribution of the UK’s labour force

Proportion of 18-64-year-old workforce that is foreign born, by whether or not they are in an SWV-eligible occupation, and region: UK, 2017-2019



NOTES: Eligibility is based on occupation alone and does not factor in salary or ‘new entrant’ status. RoW workers in an ineligible occupation are excluded from the ineligible category because their route the UK is unaffected under the new work-related migration scheme.

SOURCE: Analysis of ONS, Labour Force Survey.

Were, under this thought experiment, the new rules to remove EU migrants in SWV-ineligible roles from the workforce, the effect would be only a marginal change in the composition of employment away from areas where migrants in SWV-ineligible roles formed a larger-than-average proportion of employment, like London, and towards areas where they formed a smaller one, like Wales. The share of employment accounted for by each region would only rise or fall by less than a percentage point: the share of UK

workers accounted for by outer London would fall from 8.4 to 8.2 per cent, in Wales it would rise from 4.5 to 4.6 per cent. Moreover, any changes would be more gradual than those set out in this thought experiment, given the new migration rules will apply to incoming migrants (i.e. immigrations flows) rather than directly affect the stock of migrants already in the UK before 2021. They would also be somewhat smaller than set out here because EU workers eligible to move to the UK on non-work visas would still be able to work in these roles.

Moving beyond this thought experiment, the relative relaxation (for RoW citizens) of skilled worker visas, including the removal of an annual cap on skilled visas, is likely to drive up the number of highly-skilled migrants moving to London. This is because migrants in SWV-eligible occupations are significantly more likely to live in London (during 2017-2019, 36 per cent of EU workers in SWV-eligible roles did so) than their counterparts working in non-SWV eligible roles (22 per cent). This pattern is corroborated by Home Office data, which shows that 42 per cent of all certificates of sponsorship applications lodged by companies in the year ending September 2021 were based in London, despite London comprising only 16 per cent of all employment in SWV-eligible occupations.²⁸ (We cannot, however, tell whether any changes in the stock of migrants to or from particular regions will drive behaviour change among UK-born workers, in response for example, to shifts in house prices caused by either a fall or a rise in the size of the foreign population.)

Just as our thought experiment testing what would happen to the regional shape of the UK workforce without ineligible EU migrant workers found little change in aggregate, there is not much to suggest that the new work-related migration regime will significantly affect the broad occupational composition of the workforce. Figure 18 shows how the occupational composition (using the two-digit Standard Occupational Classification system) would change if the stock of EU migrants in SWV-ineligible occupations are not counted. Again, an extreme example, which would transpire much more slowly, given that changes will happen through the flows rather than stocks of migrants.

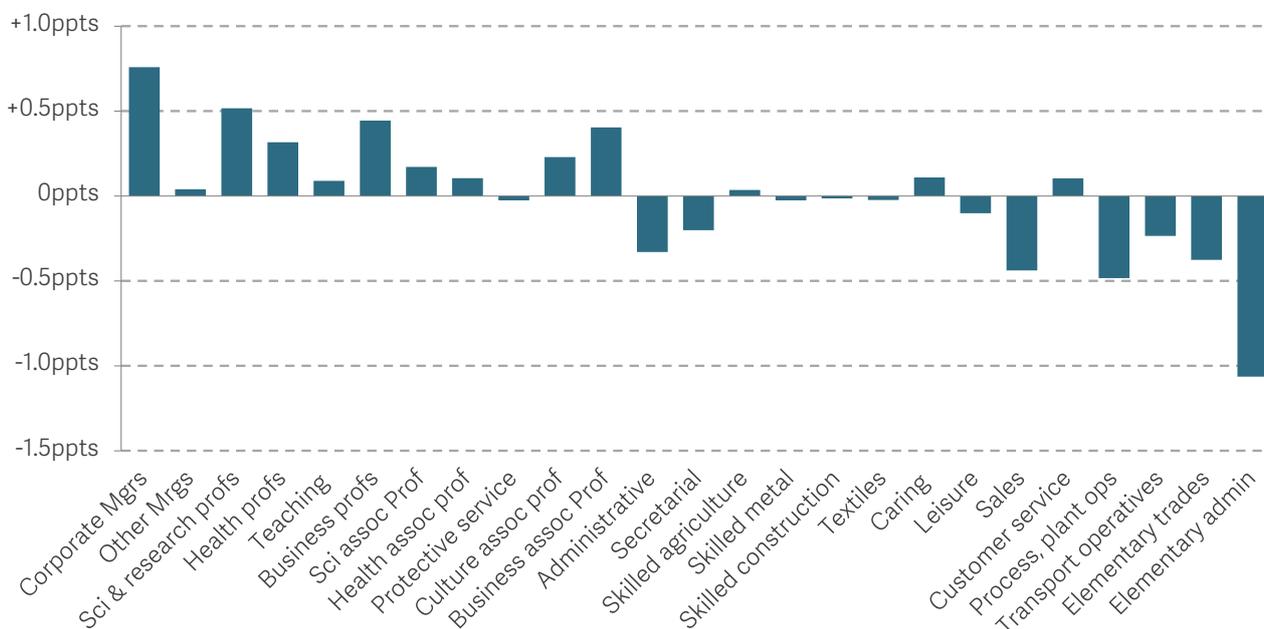
In each case, the change in the share of a particular occupation is a percentage point or less. The shares at either end of the skills spectrum would be largest: for example, a 0.8 percentage point increase in the share of employment comprised of corporate managers and 1.1 percentage point fall in the share of employment comprised of elementary administrative workers.²⁹

²⁸ Migration Advisory Committee, [Annual Report 2021](#), December 2021.

²⁹ This analysis excludes the potential for domestic workers to change their own occupational decisions based upon the presence of absence of foreign workers but simply suggests that the current occupational distribution, less would-be ineligible migrant workers, would not look significantly different.

FIGURE 18: The occupational composition of UK employment could become slightly more skewed towards higher-skilled workers but changes would not be drastic

Percentage point change in the occupational composition of 18-64-year-old employment without EU migrants working in SWV ineligible occupations: UK, 2017-2019



NOTES: Eligibility is based on occupation alone and does not factor in salary or 'new entrant' status.

SOURCE: Analysis of ONS, Labour Force Survey.

The longer-term effects of the new migration regime on population ageing, productivity and the public finances are less clear, but unlikely to be significant

Migrants, and especially those recently arrived (a clearer proxy for the composition of migrant flows), tend to be younger than the UK workforce overall. So one might assume that an overall drop in the number of migrants will mean a faster rate of population ageing. Previous ONS modelling estimated that if net migration (in 2017) were to fall from 283,000 to 100,000, the dependency ratio (here defined as the number of people of pension age for every 1,000 working-age people) would be 372 in 2041, as opposed to 360 if net migration stayed at 283,000.³⁰

Provided net migration remains higher than the balance of the number of births and deaths in the UK, we would expect migration to drive future population growth and, in the short term, limit growth in the dependency ratio. A more recent publication from the ONS projects 5,900 more deaths than births in a year, alongside annual net migration of 220,000, which is roughly similar to total net migration in 2018 and 2019.³¹ It's unclear whether that will transpire under a system that is more restrictive for EU workers, but slightly less for those from the rest of the world; it is certainly possible though this

³⁰ ONS, [How would you support our ageing population?](#), June 2019.

³¹ ONS, [National population projections: 2020-based interim](#), January 2022.

will represent a lower level of net migration than occurred in the years immediately preceding the EU referendum.³²

But because migrants themselves age, the impact of migration on ageing over the longer term hinges very much on what migrants go on to do, and not just the numbers arriving (and/or their age on arrival). For example, Marois, Bélanger and Lutz (2020) find that where they have higher levels of education and economic integration, migrants will be economically dependent on the working-age population for less time than they otherwise might have been.³³ Lutz et. al. (2019), find that improving the economic integration of migrants (rather than focusing on receiving more migrants, or becoming increasing selective on the educational attainment of migrants) is more effective for reducing the dependency ratio. This suggests that if recent immigration policy changes cause the UK's composition of migrants to become more highly-skilled (and better-paid) compared to the past, the country's dependency ratio would improve it would expe. However, it's important to remember that, as per Box 2, work-related migration, at least in the year to March 2020, formed just a third of all migration to the UK, and most other routes remain unchanged. In other words, the effect of better integrated (but potentially fewer) migrants may not make a significant difference to pre-existing trends in UK ageing.

Ageing and economic integration are also central to understanding whether the new work-related migration regime will have a significant effect on the country's public finances. Migrants contribution to the public finances, like other residents, is the sum of what they contribute through taxation, less what they consume in welfare and public services. Where migrants are likely to be employed and at that, well paid, they would naturally have a positive contribution. Where they are less likely to work and pay income taxes (and more likely to consume higher levels of welfare or other public services) they would have a net negative contribution to the public finances. Of course, these examples only apply in the short-term, and do not consider the longer-term fiscal implications of educating migrants' children for example.³⁴ Given that working-age migrants, overall, tend to have higher employment rates than their UK-born counterparts, we might expect them to be more likely to contribute to the tax system via earnings. On the public services side, evidence suggest that migrants have been less likely than their UK-born counterparts to live in social housing (after factoring in various demographic characteristics)³⁵ and that

³² ONS Long-term International Migration figures, which were based on the International Passenger Survey and are going to be replaced with a new administrative data source intended to capture a more accurate picture of migration flows, found that net migration in the Year to March 2016 was +326,000. See: ONS, [Provisional long-term international migration estimates](#), August 2020.

³³ G Marois, A Bélanger, & W Lutz, [Population aging, migration, and productivity in Europe](#), Proceedings of the National Academy of Sciences of the United States, 117 (14), April 2020.

³⁴ Although their children would be UK-born the fact that they might not have lived in the UK had their parents not immigrated is what drives debates about whether to include children in estimates of migrants' contribution to the public finances over the longer-term.

³⁵ Battison et. al., [Immigration and the access to social housing in the UK](#), LSE Centre for Economic Performance, CEP Discussion Paper 1264, April 2014.

they are no more likely to use doctors or hospitals.³⁶ Indeed, Dustmann and Frattini found that EU migrants contribute more in taxes than they receive in welfare.³⁷

But how will the recent change in immigration policy affect the public finances? In March 2020, the OBR estimated that the new migration regime, resulting in fewer migrants earning less than £25,600 (and fewer migrants overall), would save £0.5 billion in benefit spending a year by 2024-25 (equivalent to 0.4 per cent of welfare spending on children and working age-people in that year) but forego £0.6 billion income tax and NICS receipts that year, leading to a balance of -£0.1 billion. But as the OBR note, because their analysis is based (by virtue of the organisation's remit) on fixed departmental spending totals, their analysis did not factor in the cost of providing public services.

An Oxford Economics paper, published as part of the 2018 MAC report, did factor in the effects of lower migration on departmental spending. Combining these estimates of reduced departmental spending with their estimates of reduced benefit spending the OBR calculate total spending would be £2 billion lower in that year. The impact of the new migration regime would therefore shift from negative £0.1 billion (without assuming departmental spending changes) to a positive £2 billion (with assuming them).³⁸ But these numbers are relatively small in comparison to other areas of public spending, for example the Department for Health and Social Care recently reported writing off £8.7 billion on pandemic-related personal protection equipment (PPE).³⁹

Assessing the impact of the migration regime over the longer term is a more tenuous exercise: since we would expect higher-paid, economically integrated migrants to contribute more to the public finances, it's clear that in the short-term they would improve the public finances on a per person basis. But as the research set out in a 2018 Migration Advisory Committee (MAC) report on the impact of EEA migration on the UK makes clear, the long-term effects of migration on the public finances hinge on a number of assumptions made about migrants working and family lives, which may or may not transpire depending on whether the differences in migrants and domestic residents' employment, earnings and families narrow the longer they live in the UK.⁴⁰

The impact of migration on productivity is similarly difficult to disentangle. In the first instance, were the new work-related migration regime to cause low-wage, low-productivity sectors to decline as a result of a reduction in their migrant labour supply, the overall level of productivity in the UK economy would rise - a so-called 'batting average' effect. Similarly, if the new work-related migration regime shifts the composition

³⁶ J Wadsworth, [Mustn't grumble: Immigration, health and health service use in the UK and Germany](#), Fiscal Studies 34(1), March 2013.

³⁷ C Dustmann & T Frattini, [The fiscal effects of immigration to the UK](#), The Economic Journal, 124 (580), November 2014.

³⁸ OBR, [The effect of the new migration regime on our fiscal forecast](#), March 2020.

³⁹ BBC News, [Covid-19: Government writes off £8.7bn of pandemic PPE](#), February 2022.

⁴⁰ Migration Advisory Committee, [EEA migration in the UK: final report](#), September 2018.

of incoming migrants towards employment in higher-skilled and higher-productivity sectors (as it is mostly designed to do) then we might expect average productivity levels to increase.

But there are broader questions about whether migrants themselves can improve broader productivity levels, either by doing a given job more productively or by exerting a positive effect elsewhere. In the same 2018 report discussed above, the MAC commissioned three pieces of research to examine the effect of migration on productivity within the UK. These papers found that that migrants could be up to 2.5 times more productive than UK-born workers (the effect is larger for higher-skilled migrants but so too are the confidence intervals);⁴¹ that over the period 2004-2015, a 1 percentage point increase in the share of migrants in a local authority in one year was associated with a 2.95 percentage point increase in its productivity (measured as growth in gross value output per person);⁴² and that a 1 percentage point increase in the share of migrants in a particular region is associated with a 1.6 percentage point increase in firm-level total factor productivity within that region.⁴³ These studies all identify large positive effects, which would imply that the new migration system could drag on productivity to the extent fewer migrants arrive. It's unclear whether a compositional change in the type of migrants coming to the UK (i.e. a shift towards higher earning migrants), despite fewer migrants coming overall, would be large enough to offset a hit to productivity generated by the potential for fewer migrants to move to the UK under the new system.

In order to assess whether the shift to a new work-related migration regime will have a significant impact on the country's productivity levels (assuming that the size of immigration flows become smaller), we should consider the routes through which migration can affect it: research evidence is reasonably clear in its assessment that, apart from a small effect that lower-skilled migrants have upon reducing wages at the bottom of the earnings distribution, migration is said to have little impact on earnings. It's therefore unclear how migration can so significantly affect productivity without having a detectable impact on wages – unless its impact is restricted to firms and sectors where the effect is unlikely to translate into pay packets. Were high levels of migration to have an outsized effect on productivity (and therefore the new work-related migration system would have a significant effect on reducing productivity) then we might expect to see more compelling evidence of an association between migration levels and productivity in Figure 19 (despite the fact that there will be several competing factors driving productivity apart from migration).

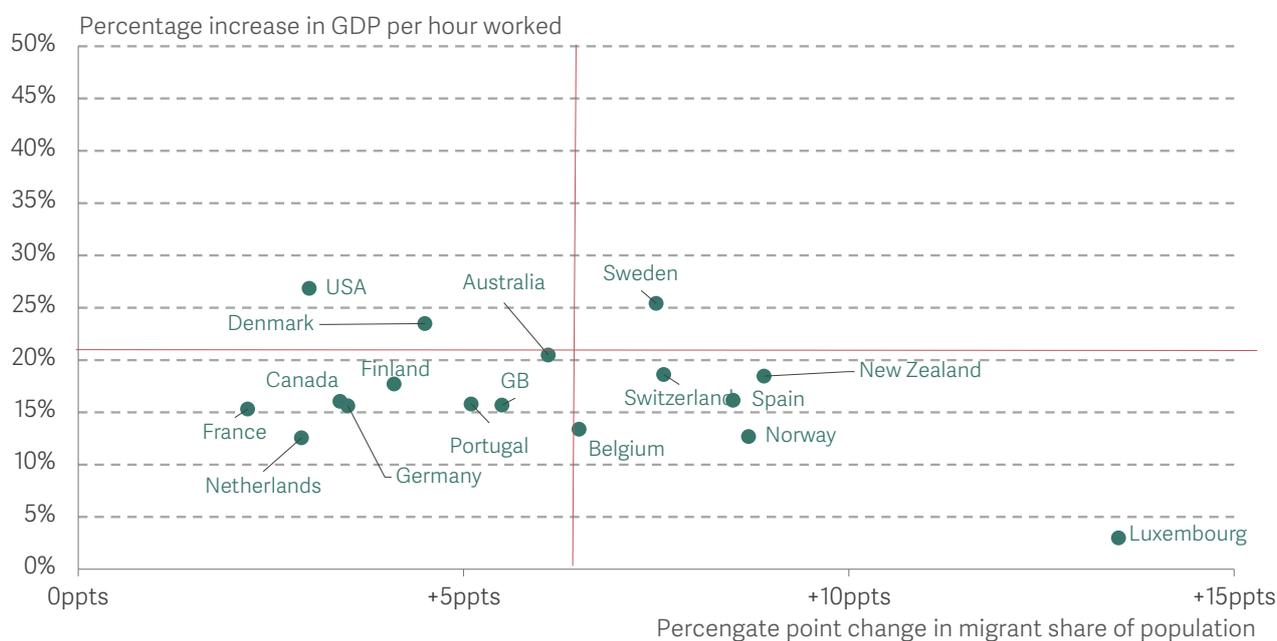
⁴¹ J Costas-Fernandez, [Examining the link between migration and productivity](#), 2018.

⁴² When examining changes over a longer period (i.e. over 2004-2015 as a whole), they similarly found that a one percentage point rise in the migrant share was associated with a 2.96 percentage point rise in productivity. See: F Campo, G Forte & J Portes, [The impact of migration on productivity and native-born workers' training](#), 2018.

⁴³ J Smith, [Migration productivity and firm performance: A report for the Migration Advisory Committee](#), 2018.

FIGURE 19: Although several factors are at play, there isn't a clear cross-country association between rising migration and productivity growth

Percentage change in GDP per hour worked and percentage point change in the share of the working-age population accounted for migrants: 2001-2018



NOTES: Migration change figures for Canada refer to 2001 to 2017. Intersecting lines reflect country averages.

SOURCE: Analysis of OECD.stat.

Since the wider uncertainty in both the research examining the size of that effect, and in the overall size of immigration flows over the next several years, policy makers shouldn't bet on the migration system itself playing a large role in driving up the country's productivity levels.⁴⁴

Disruption in the migrant labour supply is unlikely to drive up pay and conditions for UK-born workers over the longer term

Given the Prime Minister's aim of transitioning the UK towards a high-wage, high-productivity economy, there may be some optimism that a migrant-induced labour supply pinch in lower-paid and lower-productivity sectors would drive up wages in these industries for good. And yet, this is unlikely to occur: the evidence suggests migration has little effect on domestic workers' wages in aggregate (i.e. migrants have a small 'batting average' impact on average wages, given they form a minority of workers). There is some research which suggests that they have a small – negative – effect in terms of driving down average wages for lower-skilled workers, including those who are foreign born. (The evidence also suggests that migration has a smaller impact on higher-skilled workers' wage, but the directionality of that very small difference differs between research.)

⁴⁴ For further discussion on how immigration has a limited impact on most areas of the economy, see: J Wadsworth, [CEP election analysis: Immigration](#), Centre for Economic Performance, London School of Economics, November 2019.

For example, Nickell and Saleheen found that a 10 percentage point increase in the share of migrants working in semi/unskilled service occupations on average reduces average wages in those jobs (among both migrant and domestic workers) by 1.9 per cent, with the compositional effect (i.e. that there is a higher share of immigrants, being paid lower rates, in those occupations) accounting for only 0.5 percentage points of the reduction.⁴⁵ However, the impact that immigration had on wages towards the bottom end of the wage distribution would have been significantly outweighed by rising wages at the bottom of the wage distribution, inter alia because of the introduction and successive increases in the minimum and National Living Wage. Updated research conducted for the 2018 MAC report found that a 1 percentage point increase in the EU-born working-age population ratio is associated with a 0.8 per cent decrease in UK-born workers' wages at the 5th percentile, rising linearly to a 0.2 per cent reduction at the 25th percentile, a 0.2 per cent rise at the 50th percentile and a 0.5 per cent increase at the 95th percentile (however these estimates only relate to wages in the short run, which the authors conclude is likely to fade with time).⁴⁶

Since it seems that the arrival of migrant workers, even in lower-paid sectors, did not have a large impact on domestic workers' wages, it's unlikely that a fall in migrant workers in lower-paid sectors would drive up wages in those same industries over the longer-term, especially once firms get used to their new environment, and supply chain shocks driven by the combined effects of Brexit and the pandemic begin to ease.

Instead, firms faced with a labour supply crunch face three distinct, albeit related, options: they can invest in labour-saving technology, they can raise wages (and ultimately, prices), or they can simply opt to produce less. In practice, the decisions firms make will be driven by the sector they operate in, and could in the end result in lower levels of consumer demand and therefore the firm producing less. The eventual outcome for firms/sectors will be closely shaped by whether they compete with producers abroad, or whether they produce non-tradeable goods.

Where a tradeable sector is dominated by labour intensive occupations and does not have any scope for labour-saving technology to be implemented (for example, some agricultural picking), firms may have to raise their advertised wages in order to attract workers, which will ultimately result in higher prices for consumers and – particularly if consumers can purchase that same product from abroad for cheaper – lower levels of production. In tradeable sectors that do have scope for labour-saving technology (for example, some forms of lower-productivity manufacturing) the implementation of

⁴⁵ S Nickell & J Saleheen, [The impact of immigration on occupational wages: evidence from Britain](#), Bank of England Working Paper No. 574, December 2015.

⁴⁶ Migration Advisory Committee, [EEA migration in the UK: final report](#), September 2018.

said technology will drive up productivity and shouldn't necessarily raise prices, but employment would fall given that it has been substituted by capital.

Where a non-tradeable sector is dominated by labour intensive roles that cannot be replaced with labour-saving technology (for example, plumbing, cleaning or taxi driving) it's likely that wages will rise –because of a need to raise wages to attract local workers. But so too will prices, and, where demand for the services is elastic (for example, domestic cleaners), production will fall instead. And finally, where a non-tradeable sector is based on roles that can be replaced with labour-saving technology (a car wash, for example) we'd again expect to see an increase in productivity and little effect on average prices– but again employment would fall.

Ultimately, there are few potential scenarios where a shortage of migrant workers will drive up wages without, over the longer term, reducing production (and thus the number of people employed or the number of hours they work) over the long-term. The evidence cited above suggests that the overall effects on wages will be small. Consistent with this, Box 3 sets out evidence from the impact of a reduction in migrant farm workers upon domestic wages in the US during the 1960s, which found that where labour saving technology could be adopted it was (and production continued without domestic wages changing) and where it could not be adopted, production fell and wages for remaining domestic workers were unchanged.

BOX 3: The effect of a migrant labour shortage upon production and domestic wages in 1960s US farms

During 1962-1964 the US federal government eliminated the 'Bracero' programmes, a series of bilateral agreements with Mexico that resulted in roughly 500,000 seasonal agricultural workers coming to the US each year (equivalent to 11 per cent of the seasonal farm workforce in 1964). Clemens et. al found no effect on employment or real wages for domestic workers in states exposed to the sharp shortage of foreign farm labour.⁴⁷

They did however, find that with crops where farming could be automated, there was an adoption of pre-existing technology that didn't occur in other crops. For example, tomato harvesting machines, which doubled productivity per workers but were slow to catch on, were rapidly adopted in California farms (which had been exposed to the shortage) but not in Ohio farms (which hadn't). Where mechanisation options didn't exist, e.g. in asparagus,

⁴⁷ M Clemens, E Lewis & H Postel, [Immigration Restrictions as Active Labor Market Policy: Evidence from the Mexican Bracero Exclusion](#), American Economic Review, 108(6), June 2021.

strawberries, etc., farms in exposed states simply produced less.

San takes a similar approach (comparing developments in states with more or less exposure to the supply shock) but focuses on whether the labour supply shock drove up the development of new technologies.

⁴⁸ They find that in the most labour-intensive tasks this was indeed the case, and that innovation was likely to focus more on labour saving, than on labour augmenting, technologies. They also find that profits (using farm values as a proxy) did not increase, which could be down to the costs of innovation balancing out savings

from labour. In sum the evidence (in this specific example) is that a sharp reduction in lower-skilled labour could result lower levels of production, or where possible, mechanisation and/or innovation.

The combined pieces of research suggest that where migrant labour fell substantially and labour-saving technology was applicable, capital was substituted for labour and productivity rose. Where migrant labour fell and labour-saving technology wasn't applicable, production fell. In neither case did the Bracero exclusion raise employment or wages for domestic workers.

The new regime may complement a strategy for a high-skill, high-wage, high-productivity economy, but it won't deliver it alone

The difficult choices faced by firms reflect the trade-offs policy makers will have to confront after the effects of reduced labour supply to migrant reliant sectors begins to bite

In some cases, the risk of particular sectors being forced to produce less will be a challenge to policy makers, and policy makers will need to decide where that is and is not an acceptable trade-off to make for lower levels of migration. For example, whether a decline in domestic farming and food manufacturing (and its implications for food security) is an acceptable price to pay for lower levels of lower-paid migration. Policy makers may decide that, for some sectors, the trade-offs from reduced labour supply are too big to bear, and will make exceptions to the rule. The Seasonal Agricultural Workers Scheme, and the potential for policy makers to allow it to grow over some years, is one example. The recent decision to offer temporary visas to HGV drivers in order to reduce supply chain pressures is another example of policy makers flexing migration rules to respond to domestic pressures.

⁴⁸ S San, Labor Supply and Directed Technical Change: Evidence from the Termination of the Bracero Program in 1964, *American Economic Journal: Applied Economics*, Forthcoming.

Though they are sometimes deemed critical, concessions ultimately favour some sectors over others; and they reduce the potential for firms to either train up domestic workers for skilled shortage roles, or to invest in productivity-enhancing technology. Policy makers can be alive to these trade-offs, shifting migration regulations in line with a desired strategy, including in order to respond to economic change.⁴⁹

The new work-related migration regime is designed to complement a high-wage, high-productivity economic model, but on its own can't drive the country in that direction

In the immediate term, these changes will have reduced the number of lower-skilled migrants moving into the country compared to the pre-EU referendum period (bearing in mind that many migrants who go on to work in lower-skilled occupations will enter the UK on a non-work-related route) and, over a longer period, will likely reduce the share of migrant workers in the UK working in these occupations. The reduction in lower-skilled migrant labour will force difficult decisions for a number of lower-paid sectors and policy makers to face trade-offs between desired migration levels and issues like food security and health. However, the overall shift away from a system that allowed lower-skilled, work-related migration is unlikely to drive up wages and productivity in those affected sectors.

By encouraging (and for non-EU workers, liberalising) access to higher-skilled roles in the UK labour market, the Government has explicitly set out an aim to drive up activity in higher-paid, higher-skilled sectors. As this note has shown, migration can shape the size and composition of the UK labour force. To that end, the new work-related migration regime, wherein work-related migration levels are likely to be somewhat smaller than before the UK voted to leave the EU, but the composition of migrants somewhat higher-skilled, can play some role in turning the dial to a higher-skilled, higher-wage economy. Although the transition may cause sharp shocks for a small number of sectors in the short-term, and render the UK somewhat less able to flex in response to economic change over the medium term, its aggregate effects over the longer-term appear smaller. In other words, migration can help but certainly not change the course of a country's economic model.

Policy makers wanting to shift the UK towards a high-skill, high-wage, high-productivity sectors have lots to grapple with: they need to come to a view on industrial policy in order to understand which sectors can, and are likely to, drive economic growth; they will need to make decisions on trade strategy, in order to decide which goods are better to be produced at home and imported from abroad. And as a result, they will have to develop

⁴⁹ For a more detailed discussion of the factors policy makers might consider when making these decisions, see: A Manning, [UK labour shortages and immigration: looking at the evidence](#), LSE Business Review, September 2021; A Manning, [Return of the guest worker: guest or servant?](#), LSE Business Review, October 2021.

clear priorities on domestic policy: how to grow the country's human capital stock and speed up human capital accumulation, how to boost innovation and foster job and regional mobility. In other words, migration policy complements, but it certainly doesn't drive, the course of a country's economic model. In order to navigate the UK towards a high-wage, high-skill economy by 2030 the country will need a clear economic strategy, not just a migration strategy.

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