



Photo David Shaw, COMPAS Visual Arts Competition 2015

Brexit and the UK Labour Market

No one can predict with any degree of certainty what the labour market consequences of the UK leaving the European Union would be. There are so many policy options, institutional factors and their interactions that determine labour market performance, which may play out in different ways (visa quotas, residency requirements, corporate behaviour, trade agreements, reaction in other countries, to name but a few), that to try to anticipate every possible scenario would be heroic in the extreme.

So can anything be said? Perhaps one way is to set out the facts as we know them with regard to the position of EU-nationals living and working in the UK and the effects so far, if any, on the labour market prospects of UK nationals. Knowing what happened when EU migration to the UK increased might give a hint as to what could happen if EU immigration turned into forced emigration.

Every year, for the last 10 years or so, net migration from the EU has averaged 100,000 individuals. In the last few years inflows have risen noticeably above this average. The result of these inflows, and those from earlier years, is that there are (in 2015) around 3.3 million EU-nationals living in the UK, of which around 2.7 million are aged 16+ and 2 million are in work.¹ Two million is around 6% of all employed. EU-nationals also comprise 5% of all unemployed and 3% of the (non-student) inactive including retirees. So, because EU migrants are younger and the majority are in work, EU immigrants “pay their way”, i.e. they generate more in taxes than they receive in welfare benefits - more so than the UK-born population or non-EU nationals (see Dustmann and Frattini 2014).

1. The focus is on EU-nationals (self-defined) rather than country of birth, since any decision to restrict entry would presumably be based on nationality and not country of birth.

While some 30% of employed EU-nationals are Polish, the nationalities of the rest are quite evenly spread across the other 26 member countries. Over ¾ of these EU-nationals had been resident for more than four years. This may become relevant if EU-nationals were made to apply for leave to remain after five years in work. Another issue that may well be relevant in the near future is the numbers claiming welfare benefits. Data on benefit recipients by nationality are hard to come by. Equally, the rules on claiming apply to households, not individuals. The Labour Force Survey (LFS) asks individuals to list the types of benefits they receive, but this is known to underestimate the true total. According to the LFS some 10% of employed tax credit claimants are EU nationals.²

EU-Nationals in work are quite evenly spread throughout the country (outside London), occupations and industries, with a notable exception in manufact-

uring. Around 30% of those working in the food manufacturing sector are, currently, EU-nationals, most of whom are engaged in elementary processing work.

2. House of Commons (2014) gives HMRC estimates that 8% of 2014 in work tax credit households were EU families – though this figure can include (an unknown) number of households with a mix of UK and EU nationals. A similar EU proportion holds among single claimants.

EU-nationals by industry

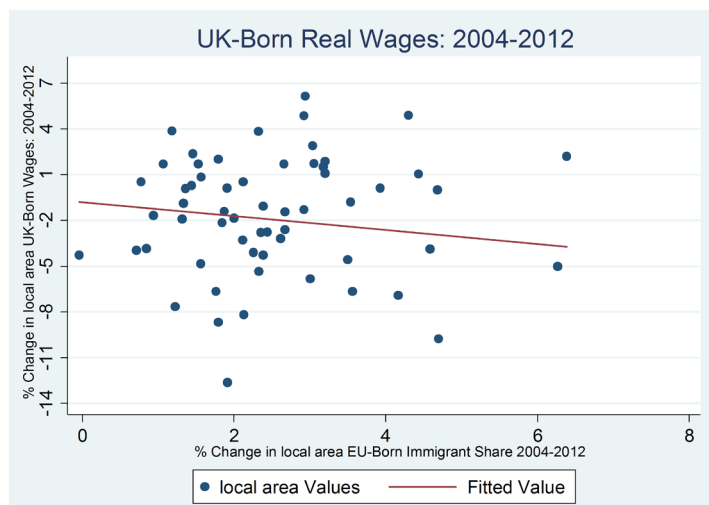
Industry	EU workforce	% share in industry	Non-EU immigrant workforce	% share in industry
Agriculture	20,000	5.4	10,000	3.3
Energy	20,000	4.3	30,000	5.2
Manufacturing	310,000	10.4	210,000	10.4
Construction	160,000	7.1	120,000	5.5
Retail, hospitality	440,000	7.7	640,000	11.1
Transport	210,000	7.4	400,000	14.1
Finance	340,000	6.4	560,000	10.6
Public admin.	380,000	4.1	960,000	10.4
Other services	90,000	4.8	160,000	8.6
Total	2.0 million	6.3	3.1 million	10.0

Effects on UK-Born

Many people worry about rising immigration because they think it results in competition for jobs and downward pressure on wages. This thinking tends to neglect the fact that rising immigration raises demand (for food, clothes etc.) and so it is not a given that employment or wages of UK nationals will fall. That said, estimating the causal effects of rising EU immigration is not an easy task. Any estimate is likely to be an average that conceals losses and gains for some. The two graphs below are therefore merely suggestive of the likely link between EU immigration and unemployment and wage rates of UK-born workers.

The graphs show the change in the unemployment rate for UK-born workers against the change in the EU-national population share in each of 60 UK local labour market areas over the period 2004 to 2012 – the period in which unemployment rose from its lowest point to its highest point for twenty years, and a period in which we might expect any adverse effects to emerge. Looking at the change over time conceals many features of the local labour market which could also explain unemployment performance. There are other factors that could also change over time, so the graphs are simply illustrative. Looking at the first graph, it is hard to say that unemployment of UK-born workers grew any faster in areas that experienced more EU immigration. Similarly, there

is little association with real wage growth. Wages of UK-born workers grew – or rather, on average fell – over this period at much the same rates in areas with lots of EU immigration as in areas where the rate of EU immigration was lower.

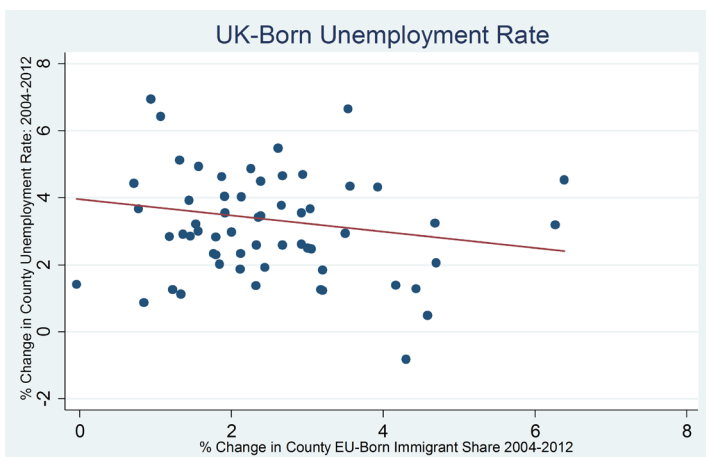


So what is to be made of this? There is little evidence of large adverse labour market effects on the UK-born population caused by rising EU immigration. Nor is there much evidence of large gains. Leaving the EU might attenuate population growth (and hence GDP), but the effects on the labour market are not that easy to predict without more details on the type of institutions and regulations that would emerge in the wake of a UK exit.

References

- Dustmann, C. and Frattini, T. “The Fiscal Effects of Immigration to the UK.” *The Economic Journal* 124 (2014): F593-F643.
- House of Commons (2014) “Statistics on migrants and benefits”, House of Commons Note Standard <http://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN06955>

About the speaker: Jonathan Wadsworth is Senior Research Fellow at Royal Holloway College and the Centre for Economic Performance, LSE



Thumbnail: Marek Olszewski, COMPAS Visual Arts Competition 2015

COMPAS Breakfast Briefings present topical, cutting edge research on migration and migration related issues. This research is made accessible every month to an audience of policy makers and other research users.