

Brexit and the UK Labour Market

Jonathan Wadsworth

**Royal Holloway College, CEP LSE,
CReAM UCL, MAC and IZA Bonn**

Forecasting the likely consequences of a UK exit from the EU is fraught with difficulties

There are so many policy options, institutional factors and their interactions that determine labour market performance that are as yet unknown and may play out in different ways,

(Eg visa quotas, residency requirements, corporate behaviour, trade agreements, reaction in other countries)

Focus instead on what did happen

Knowing where we are may be a pointer to what might happen if policy went into reverse

How economists think about the decision to migrate

Move if (perceived) benefits $>$ (perceived) costs

Compare

Benefits

Wages
Employment
Prospects

Welfare

Costs

Housing Costs
Entry Costs – Visas, Quotas, accreditation
Assimilation (language, institutions)

in home country with those elsewhere (not just UK)

The result of those decisions manifests in movement of peoples in and out of each country

Net Immigration to the UK Rising for more than 20 years

All Annual Flows

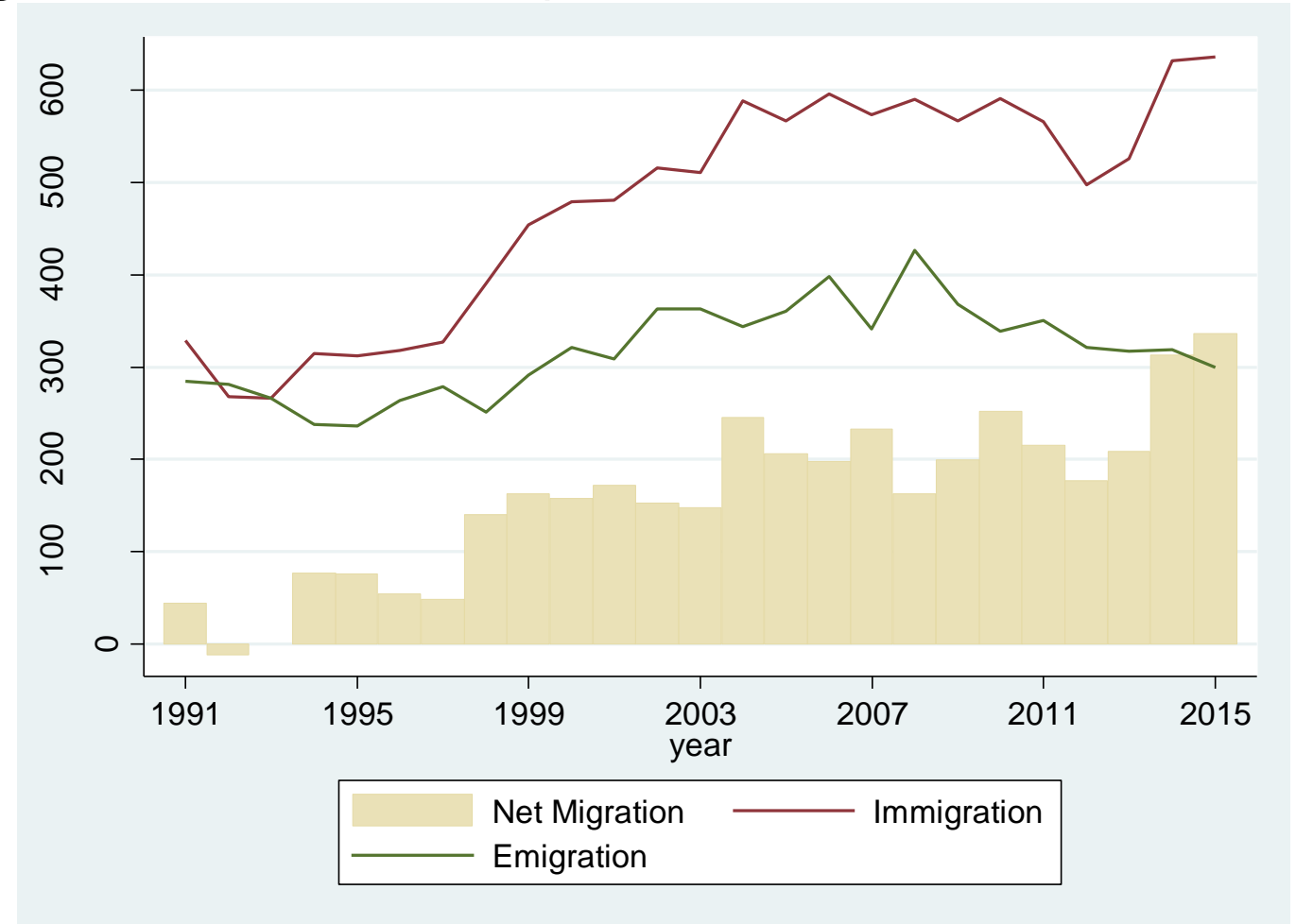
2015

Yearly Inflows 600,00

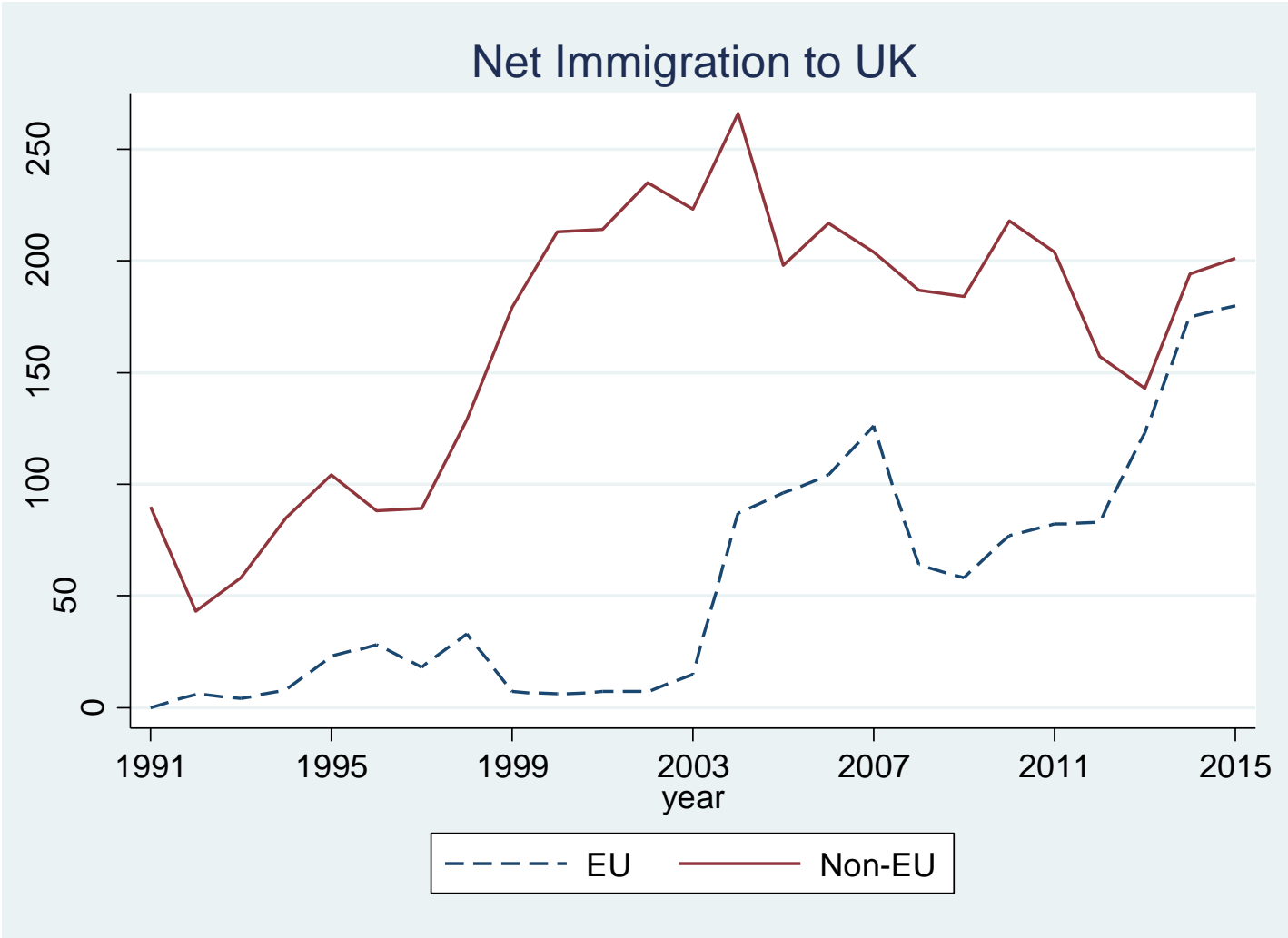
Yearly Outflows 300,000

Net Immigration
(Inflows – Outflows)
300,000

Source: LTIM [ONS](#)

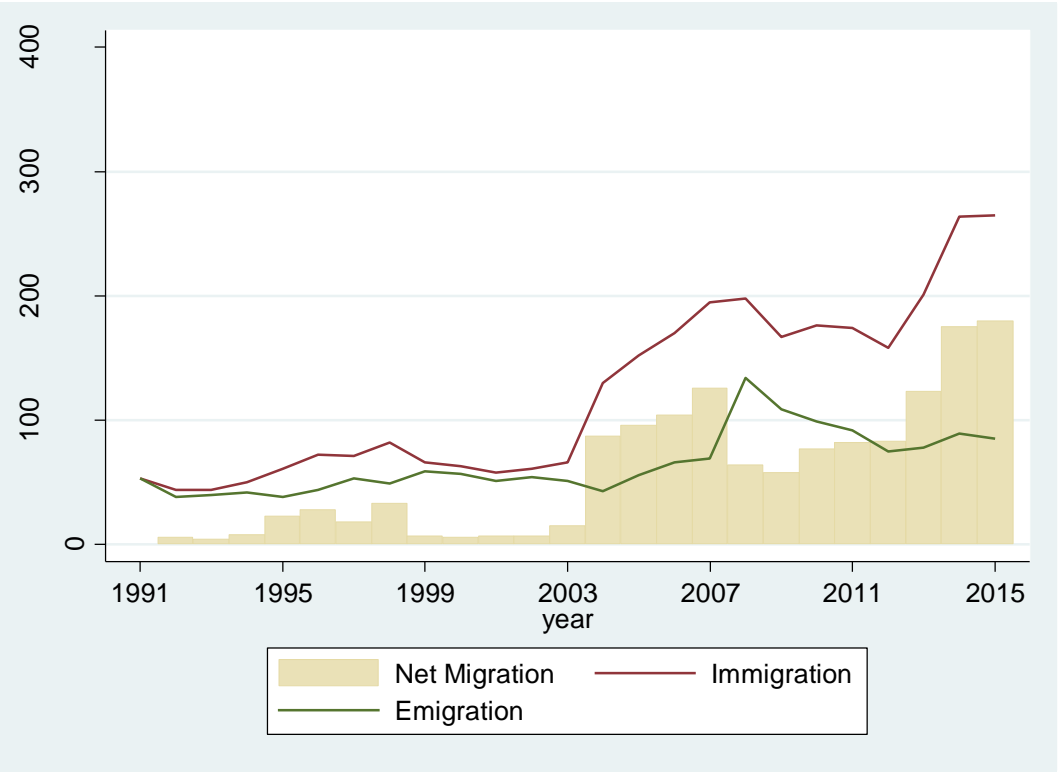


Concern over growing numbers of EU arrivals?



Concern over growing numbers of EU arrivals?

EU Flows



2015

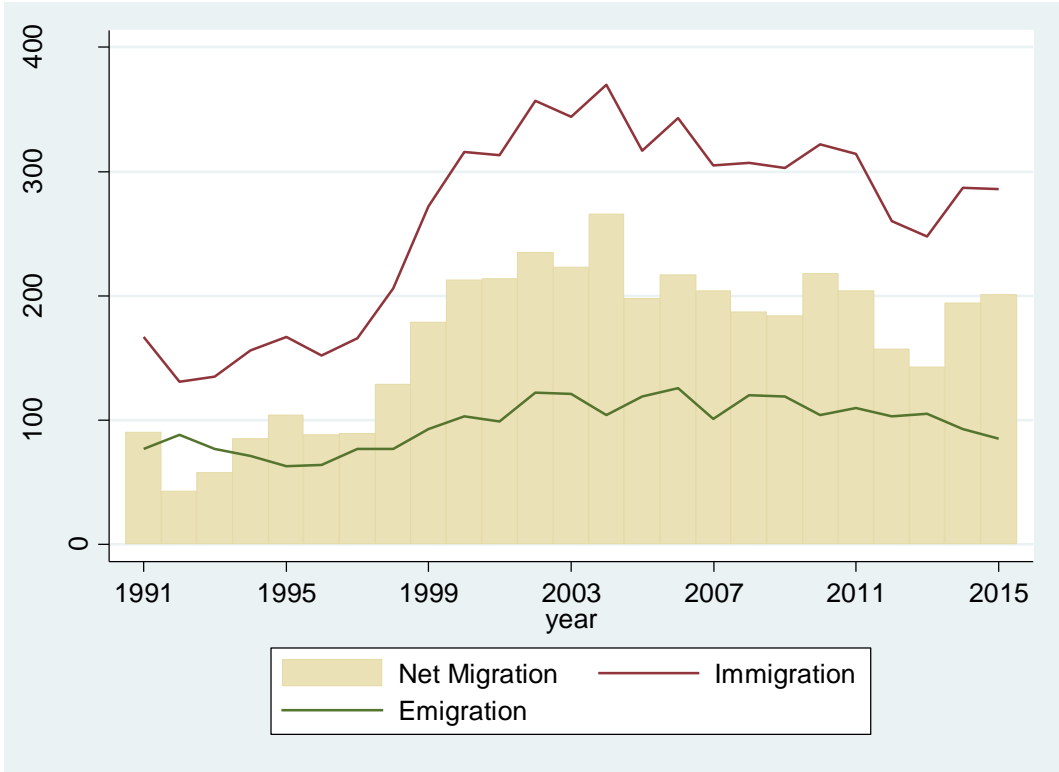
Yearly Inflows 260,00

Yearly Outflows 90,000

Net Immigration (Inflows – Outflows)

170,000

Non-EU Flows



2015

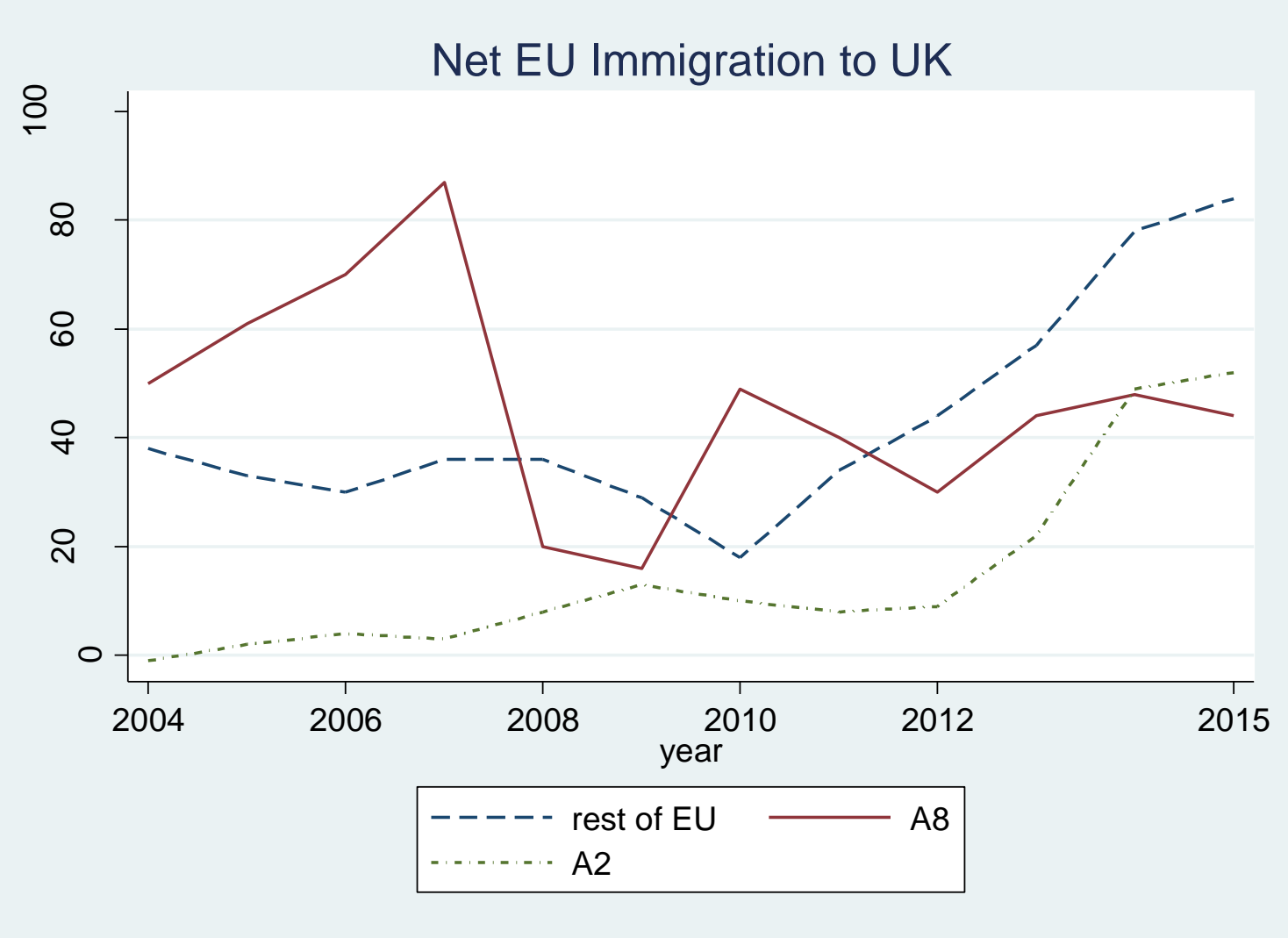
Yearly Inflows 290,00

Yearly Outflows 90,000

Net Immigration (Inflows – Outflows)

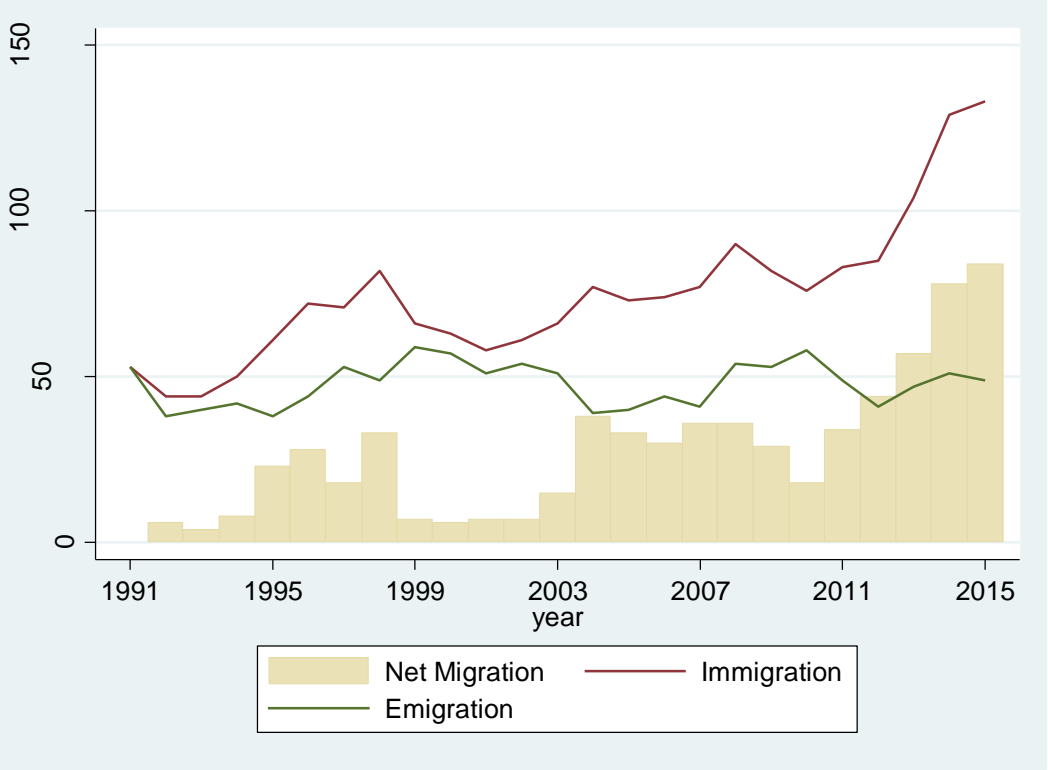
200,000

More EU 15 than A8 with some recent A2



More EU 15 than A8 with some recent A2

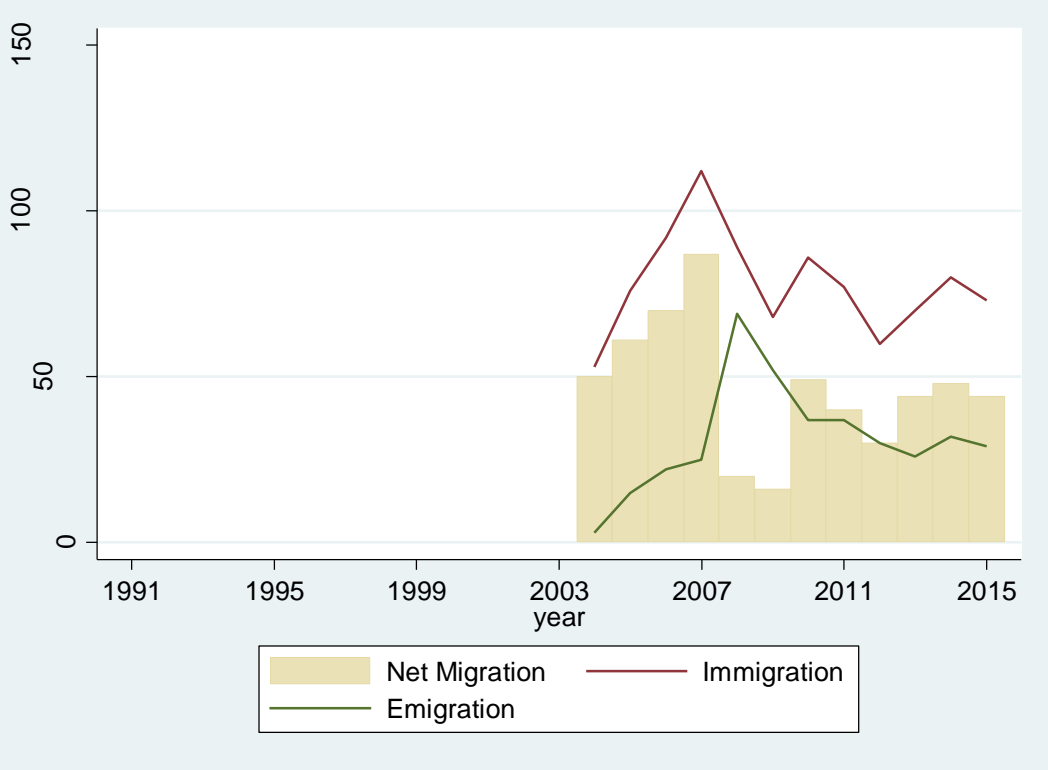
EU 15 Flows



2015
Yearly Inflows 130,00
Yearly Outflows 50,000

Net Immigration (Inflows – Outflows)
170,000

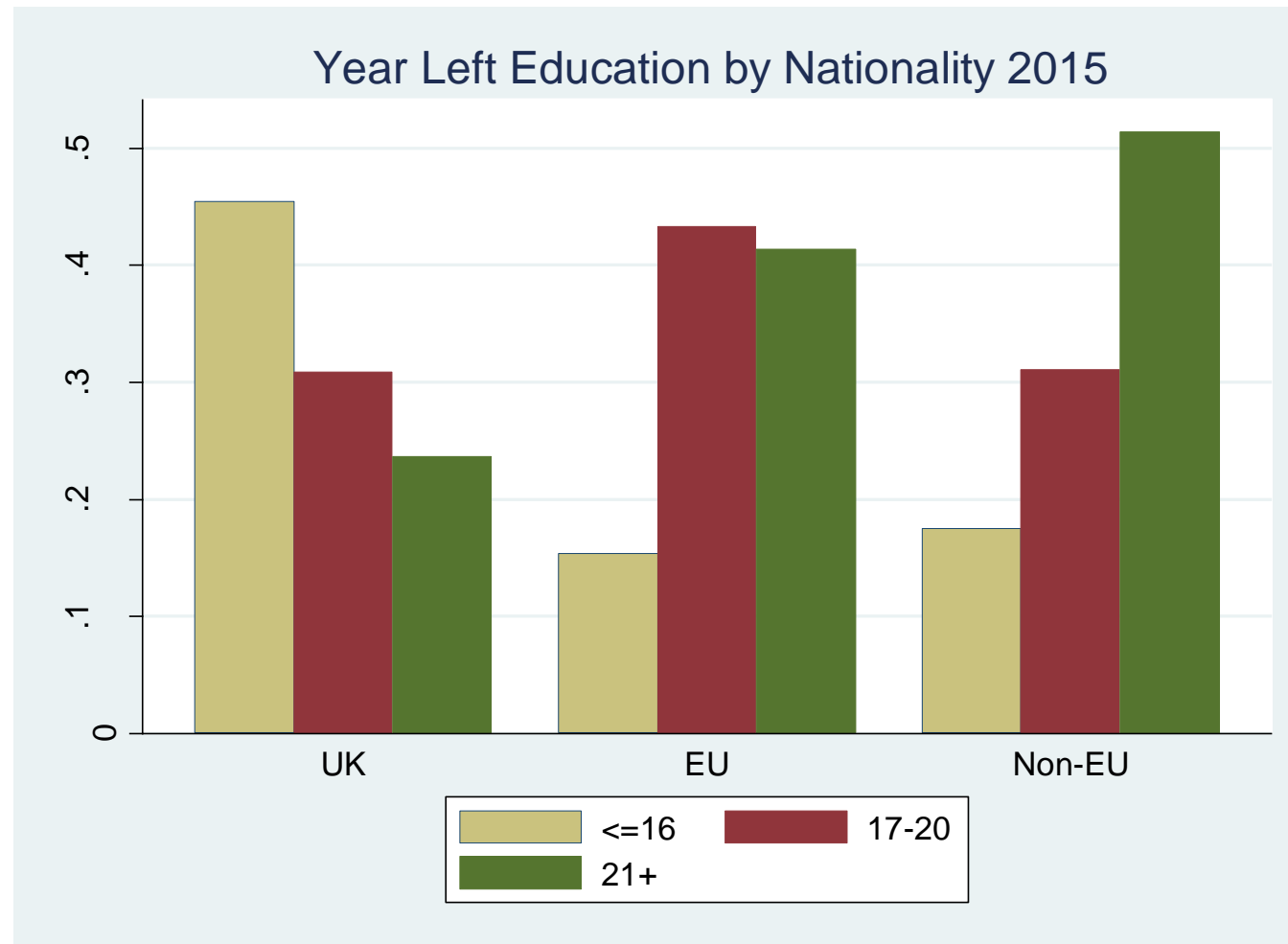
A8 Flows



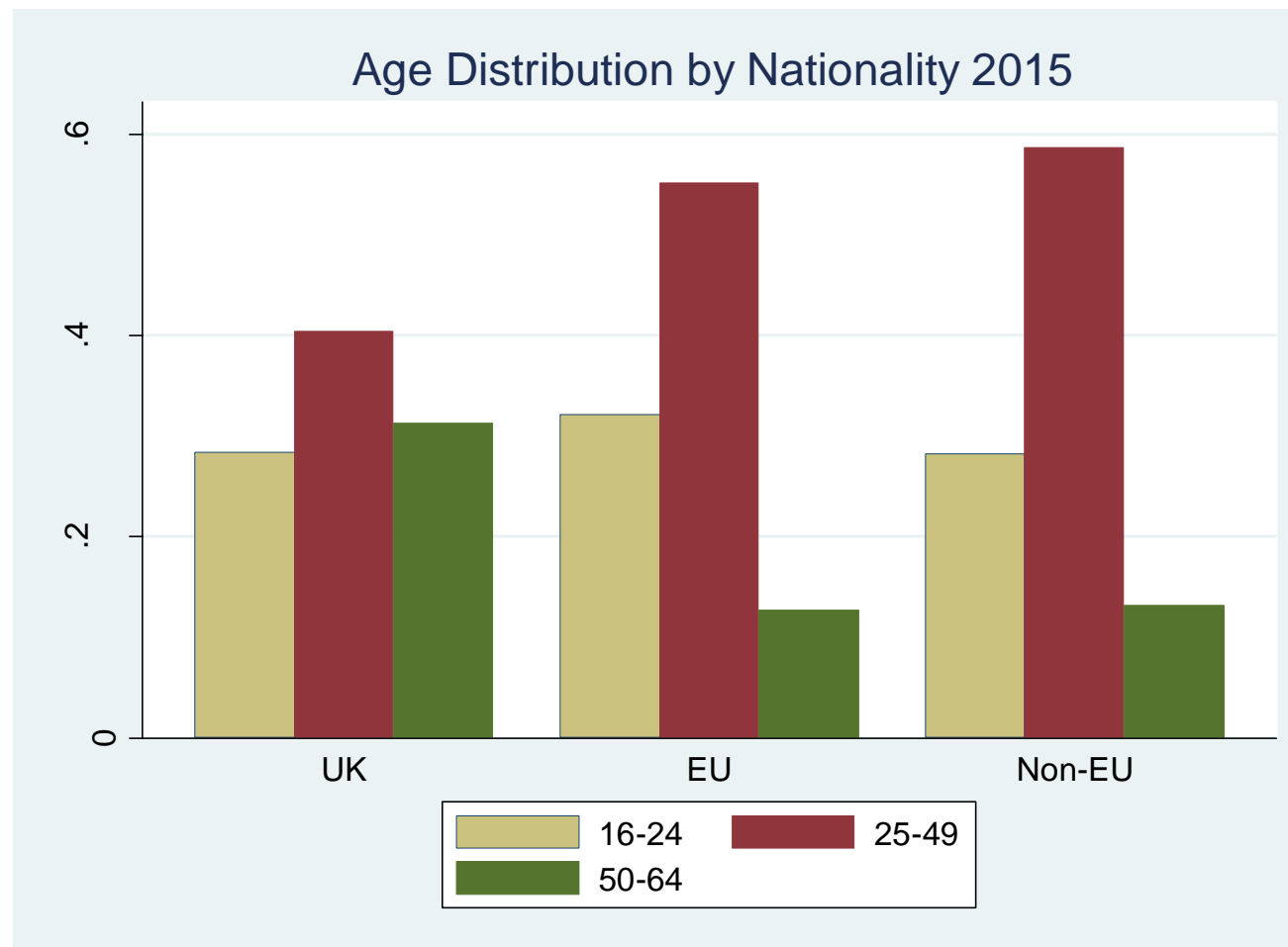
2015
Yearly Inflows 70,00
Yearly Outflows 30,000

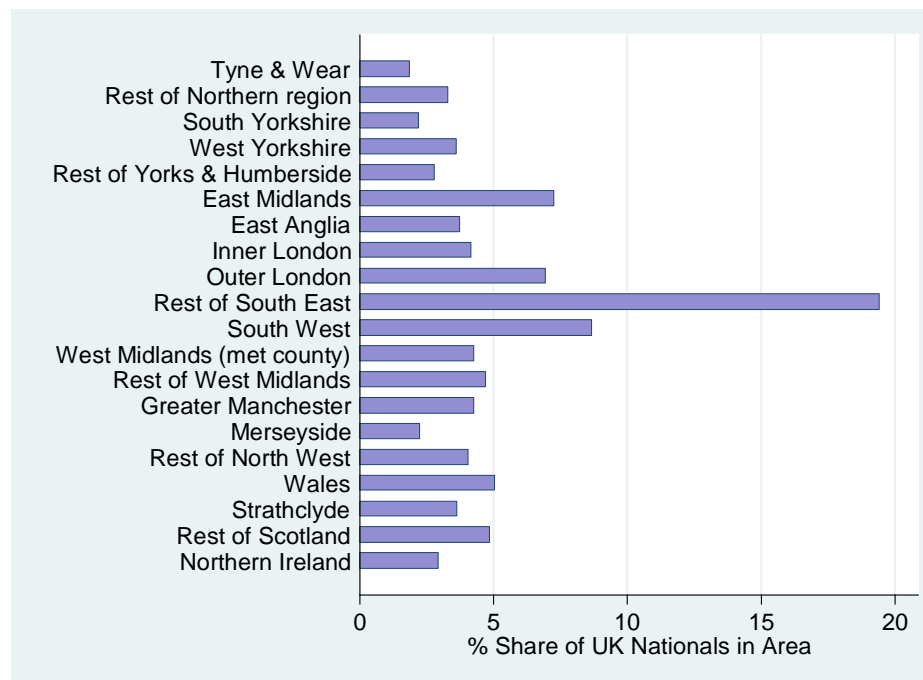
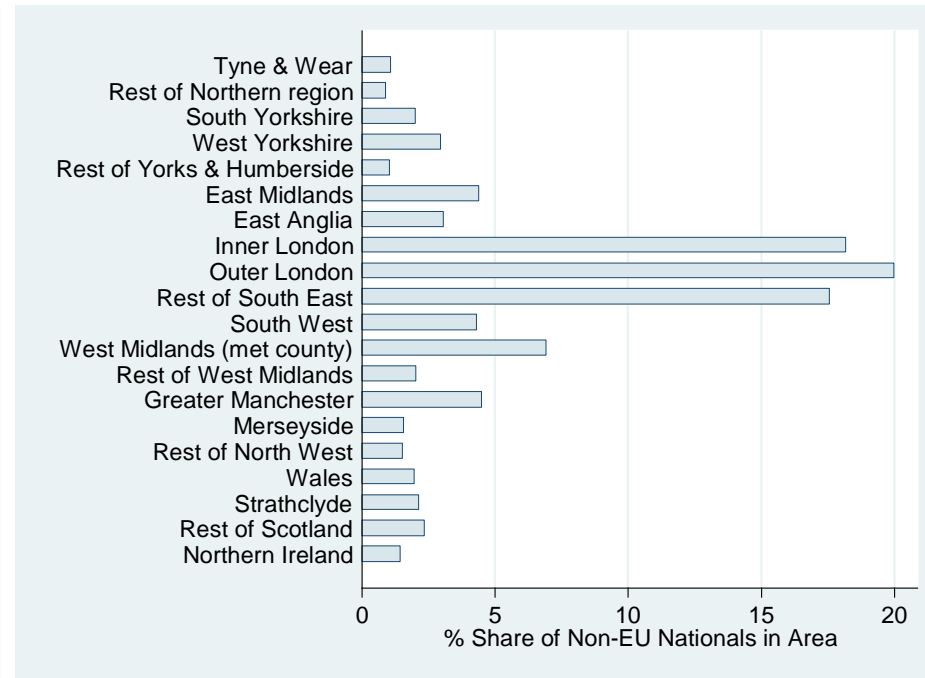
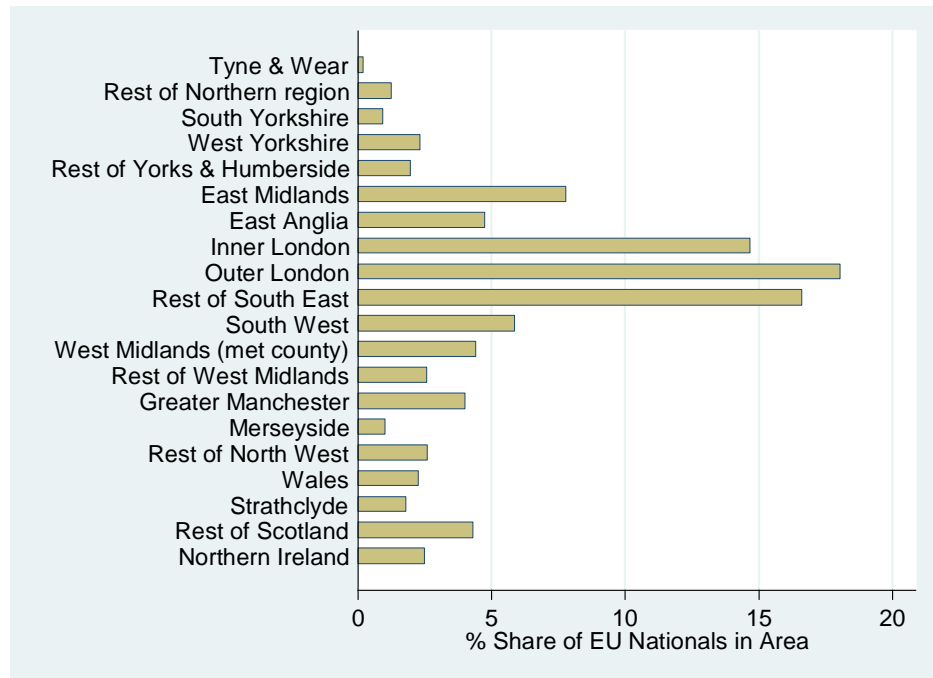
Net Immigration (Inflows – Outflows)
40,000

EU-nationals more educated than UK nationals
(and non—EU nationals more so – visa system)



EU-nationals younger than UK nationals
(and non—EU nationals more so – visa system)



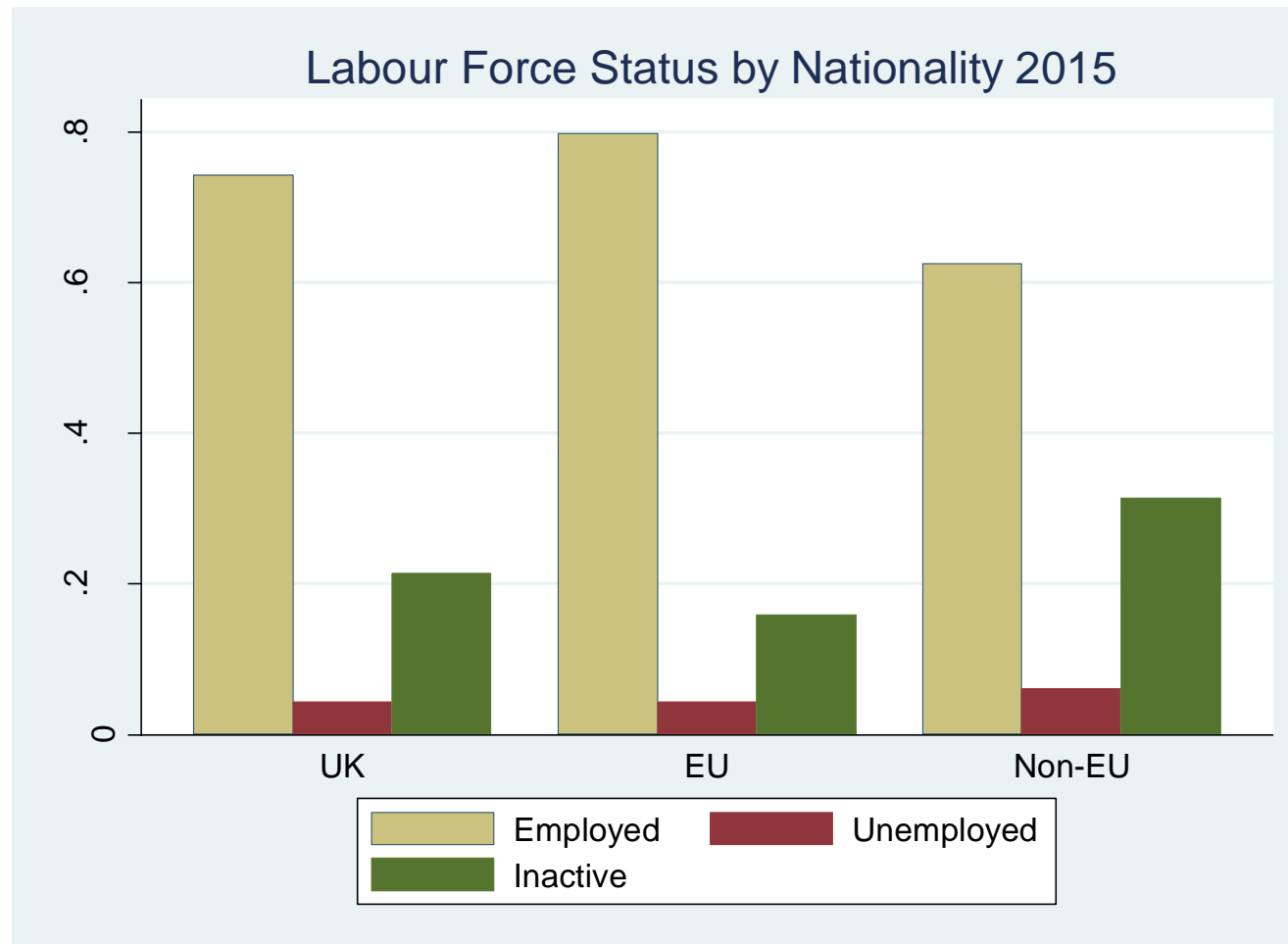


Geographic dispersion of EU migrants similar to that of other migrants - more concentrated on London & South-East

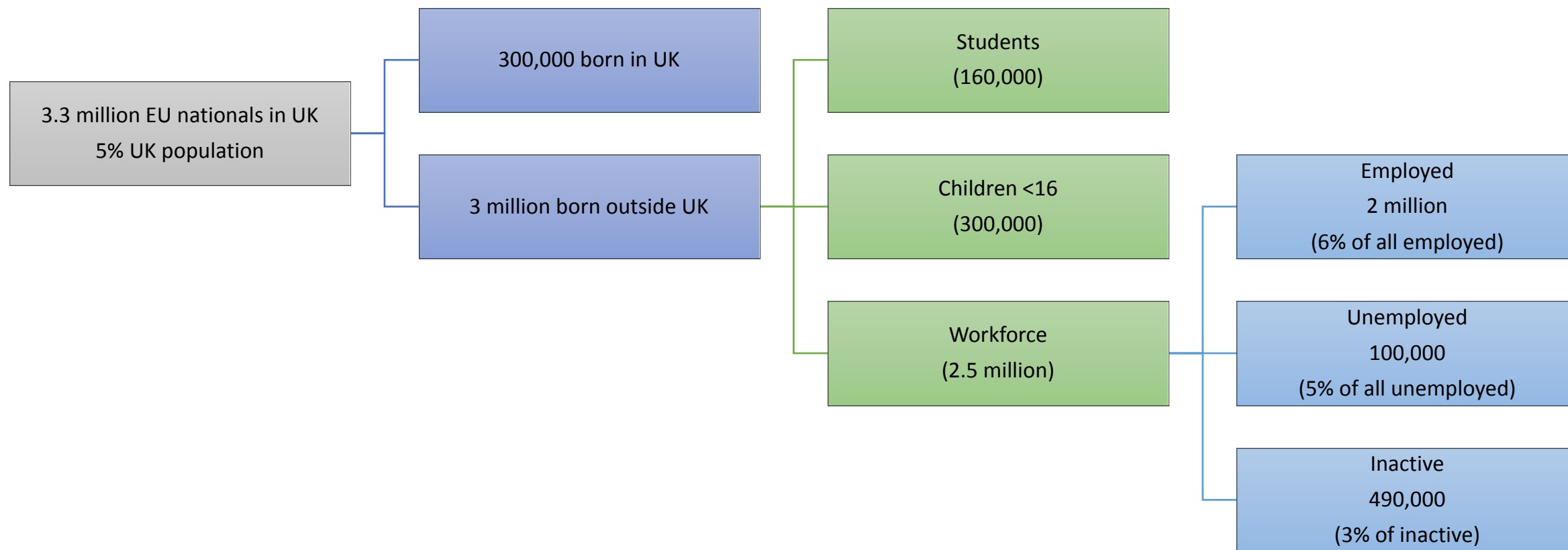
In contrast to geographic distribution of UK nationals

EU-nationals more likely to be in work than UK nationals
- and as likely to be unemployed

(and non-EU nationals less likely – but this is partly age and partly gender driven)

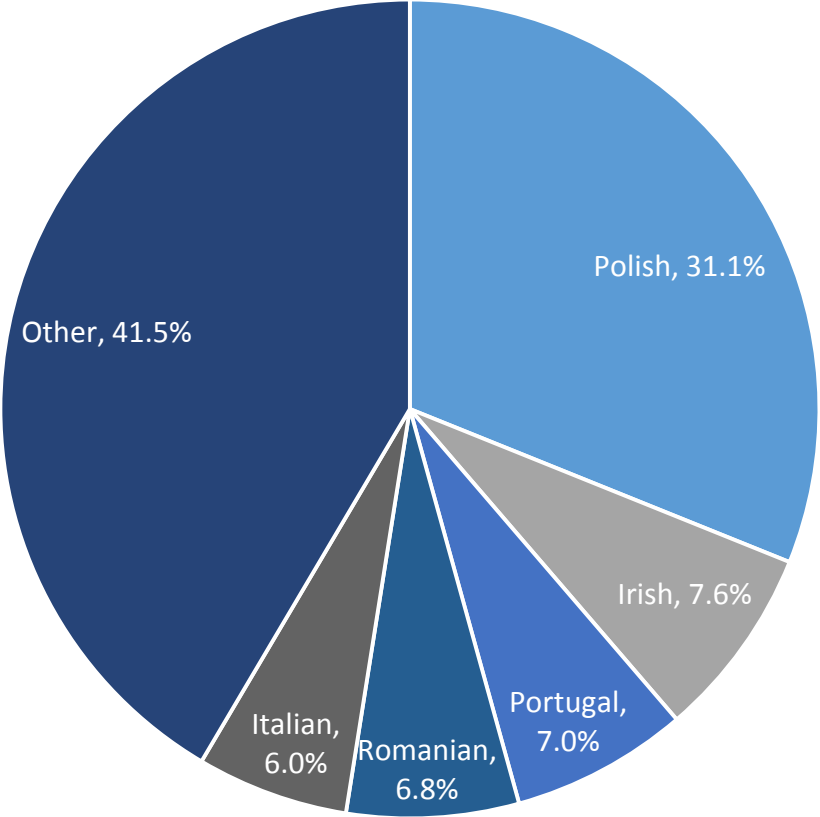


EU-Nationals living in the UK (2015 q3)

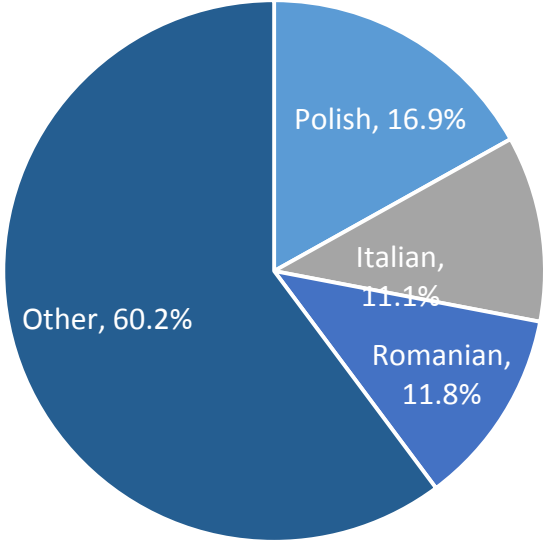


Source: LFS author calculations

EU Employed by Nationality: Total 3.1 million



EU Unemployed by Nationality: Total =100,000



http://www.cream-migration.org/files/FiscalEJ.pdf

The Centre for Economic Perfo... Download Data - SN: 7842 Release Edition Reference Tabl... cream-migration.org

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Summary Results

	Panel (a): 1995–2011		
	Natives	EEA	Non-EEA
<i>(1) Overall net fiscal contributions (£million, 2011 equivalent)</i>			
Average effect	–591,494	4,425	–117,961
Marginal effect	–673,581	28,170	–59,618
<i>(2) Ratio of real revenues to real expenditures</i>			
Average effect	0.928	1.018	0.846
Marginal effect	0.919	1.137	0.912
<i>(3) Revenues/expenditures ratio, relative to natives</i>			
Average effect	1.000	1.098	0.912
Marginal effect	1.000	1.237	0.992
<i>(4) Educational savings (£million, 2011 equivalent)</i>			
Native-equivalent		13,923	35,162
Actual education		17,711	42,749

	Panel (b): 2001–11			
	Natives	Recent A10	Recent other EEA	Recent non-EEA
<i>(1) Overall net fiscal contributions (£million, 2011 equivalent)</i>				
Average effect	–616,529	4,961	15,255	5,207
Marginal effect	–679,109	10,494	18,236	20,502
<i>(2) Ratio of real revenues to real expenditures</i>				

Downloading (491.66 KB of 499.50 KB) : http://www.cream-migration.org/files/FiscalEJ.pdf

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Net result is that EU nationals seem to be net contributors

- Pay more in taxes than receive in benefits

- Unlike UK nationals

Source: Dustmann & Frattini (2014)

In-Work benefit claims?

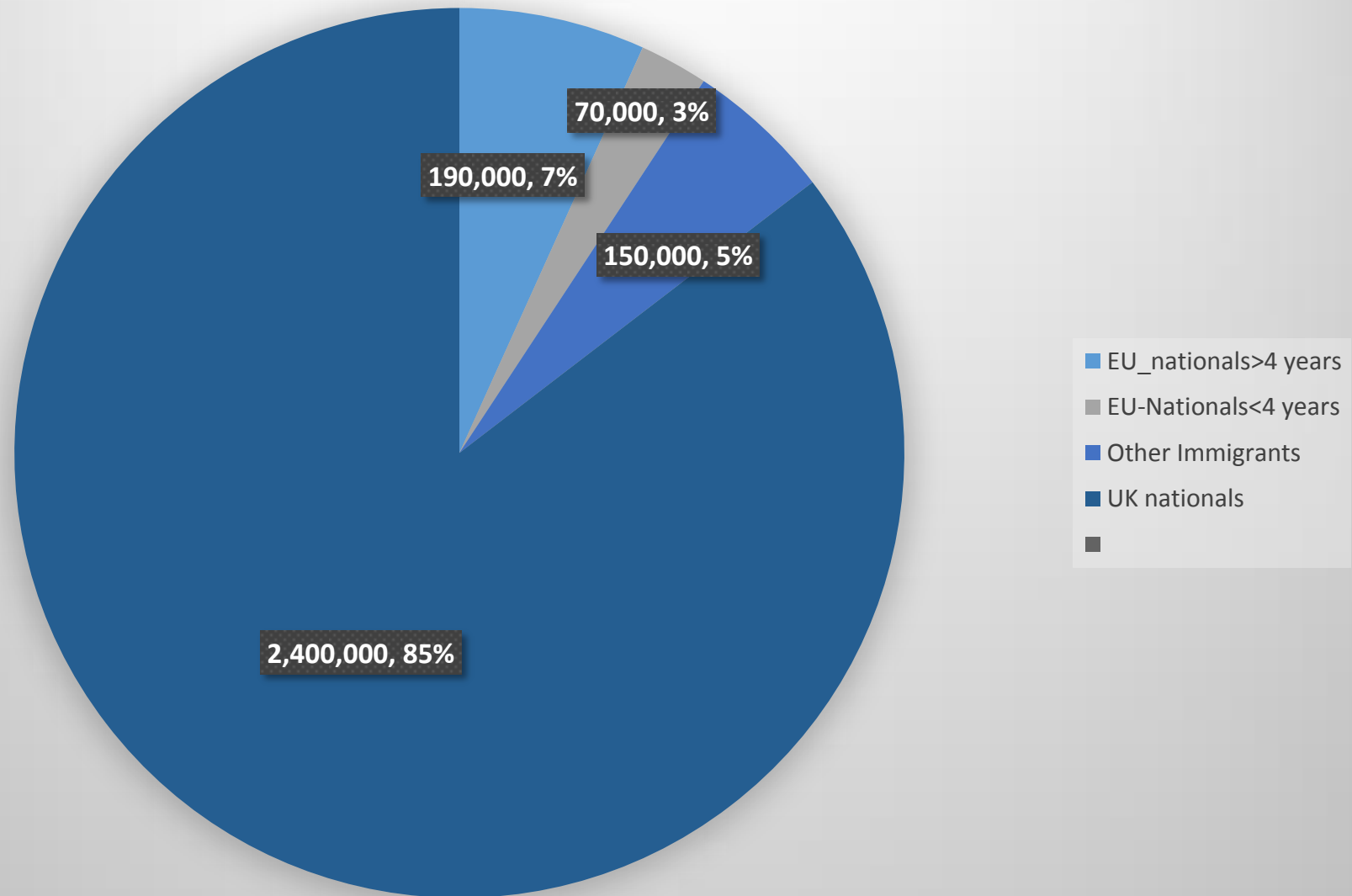
Table 4b: Nationality at NINo registration: families receiving Child Tax Credit (CTC) and/or Working Tax Credit (WTC) as of March 2013, by world area of origin, UK

Thousands of families and percentages												
	Total tax credit caseload, <u>March 2013</u>		of whom:									
			out-of-work families on CTC		in-work families on tax credits		of whom: in-work families receiving:		WTC only (no children)			
	number	% of total	number	% of total	number	% of total	WTC and CTC	% of total	CTC only	% of total	number	% of total
All families: total	4,705.1	100.0	1,442.4	100.0	3,262.8	100.0	1,853.4	100.0	850.4	100.0	559.0	100.0
of whom: world area of origin												
UK	3,989.1	84.8	1,252.8	86.9	2,736.3	83.9	1,521.7	82.1	738.5	86.8	476.1	85.2
non-UK (a)	715.9	15.2	189.5	13.1	526.3	16.1	331.7	17.9	111.8	13.1	82.8	14.8
non-UK: EU	302.3	6.4	50.1	3.5	252.2	7.7	143.4	7.7	51.7	6.1	57.1	10.2
non-UK: other	413.5	8.8	139.4	9.7	274.1	8.4	188.3	10.2	60.1	7.1	25.7	4.6
Singles: total	2,587.2	100.0	1,028.3	100.0	1,558.9	100.0	1,017.6	100.0	138.3	100.0	403.0	100.0
of whom: world area of origin												
UK	2,283.4	88.3	919.4	89.4	1,364.0	87.5	899.4	88.4	124.6	90.0	340.0	84.3
non-UK (a)	304.0	11.7	108.9	10.6	195.1	12.5	118.2	11.6	13.8	10.0	63.1	15.7
non-UK: EU	157.6	6.1	30.7	3.0	115.7	7.4	62.9	6.2	4.5	3.3	48.3	12.0
non-UK: other	146.4	5.7	78.2	7.6	79.4	5.1	55.3	5.4	9.3	6.7	14.8	3.7
Couples: total	2,117.9	100.0	414.1	100.0	1,703.8	100.0	835.8	100.0	712.0	100.0	156.0	100.0
of whom: world area of origin												
UK	1,705.8	80.5	333.4	80.5	1,372.4	80.5	622.3	74.5	613.9	86.2	136.2	87.3
non-UK (a)	412.1	19.5	80.7	19.5	331.4	19.5	213.5	25.5	98.0	13.8	19.9	12.7
non-UK: EU	156.0	7.4	19.4	4.7	136.6	8.0	80.5	9.6	47.2	6.6	8.9	5.7
non-UK: other	256.1	12.1	61.3	14.8	194.8	11.4	133	15.9	50.8	7.1	11.0	7.0

Sources: M O'Connor (Jul 2014) *Tax Credits and migrant families*, data obtained from HM Revenue and Customs via Freedom of Information requests, HC Deb 1 May 2014 vol 579 cc799-800W | PQ 190311

Note (a): Families are assigned to 'non-UK' if the sole adult in a single claim or either adult in a joint claim is identified by a NINo issued to them when they were not a UK national.

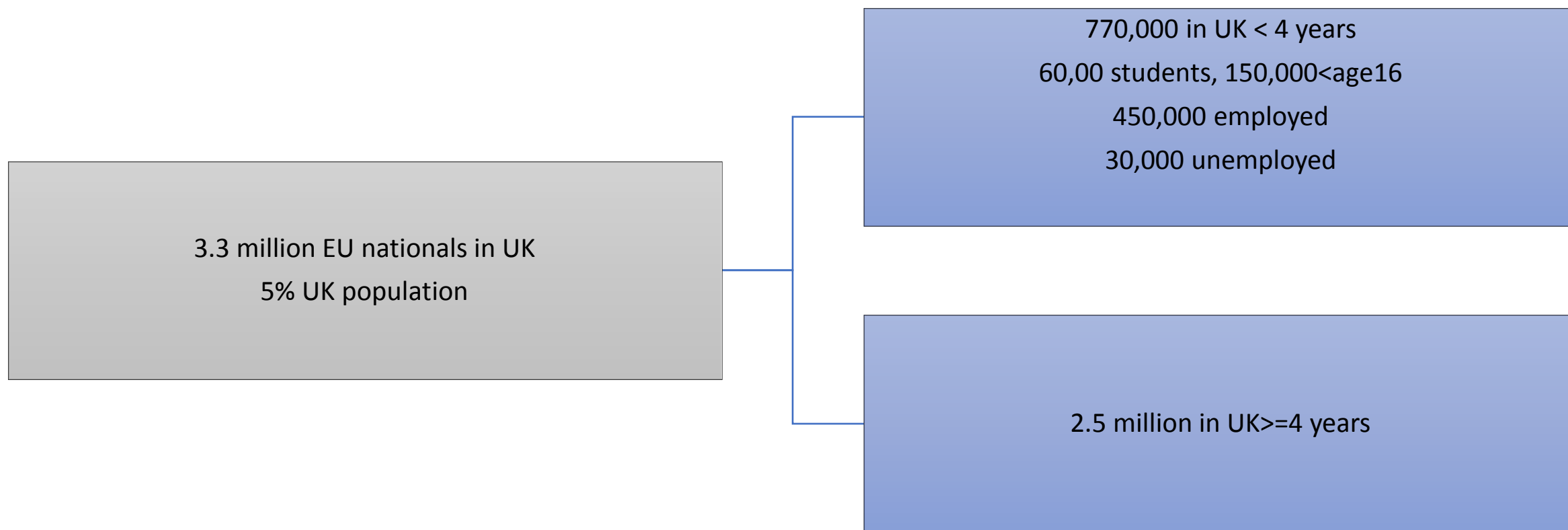
Employed Tax Credit Claimants 2015 : 2.8 million (LFS estimates)



Notes: Advisory only. LFS known to underestimate numbers in receipt of benefits

Eligible for Residency?

EU-Nationals living in the UK by Years in UK (2015 q3)



Source: LFS author calculations

Approx $\frac{3}{4}$ EU-nationals may be eligible for residency

What are EU- nationals doing?

Occupation	EU workforce	% Share in Occupation	Non-EU immigrant workforce	% Share in Occupation	EU-Nationals and Non-EU by Occupation
Managers	110,000	3.0	320,000	9.9	
Professionals	310,000	5.0	800,000	12.9	
Associate Professionals	210,000	5.0	340,000	8.1	
Administrative	150,000	4.4	270,000	8.0	
Skilled Trades	240,000	7.1	230,000	6.9	
Caring & Leisure	170,000	5.9	340,000	11.8	
Sales	90,000	3.6	200,000	8.5	
Processing	240,000	12.2	220,000	11.1	
Elementary	460,000	13.1	380,000	10.9	
Total	2.0 million	6.3	3.1 million	10.0	

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	Food Manufacturing 32%, Domestic Help, 17%
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	

Source: LFS 2015,
numbers rounded

Any evidence that immigration affects wage and employment prospects of UK- born?

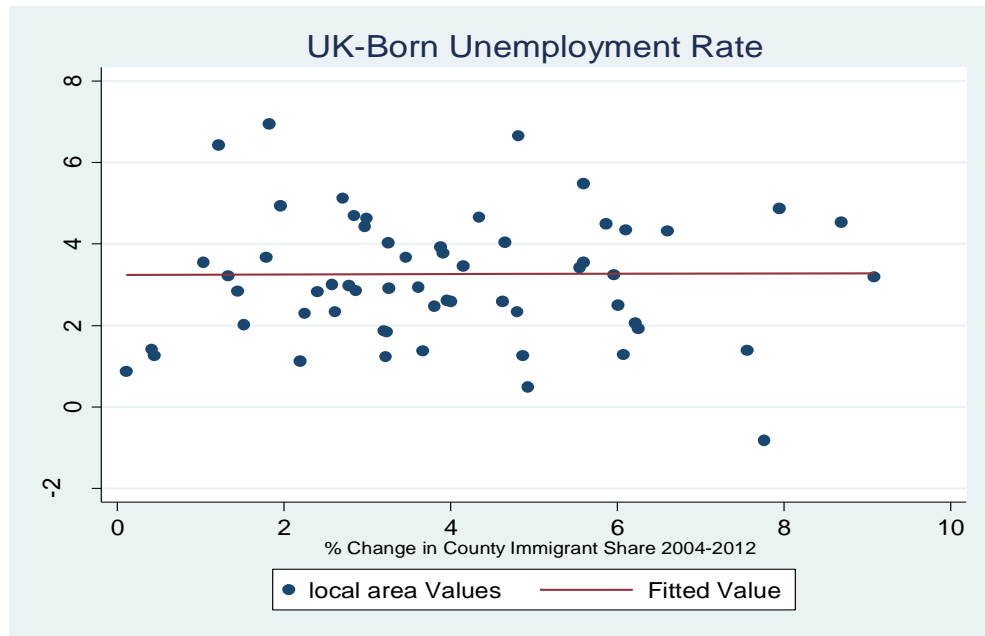
Many people worry about rising immigration because they think this means competition for jobs and puts downward pressure on wages.

This 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.

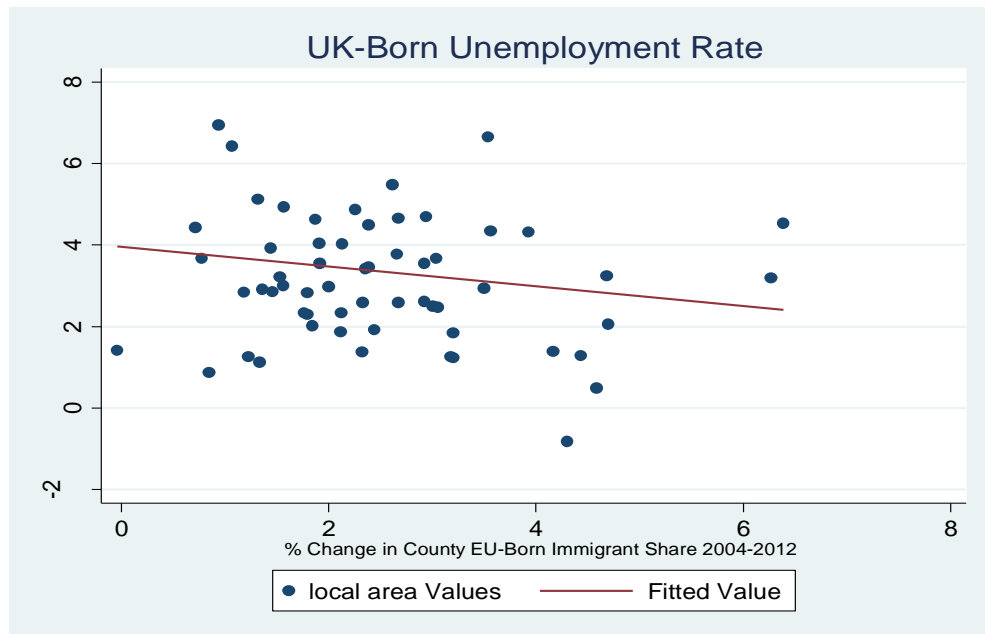
Any estimate is also likely to be an average that conceals losses and gains for some.

The graphs below are therefore just suggestive of the likely link between EU immigration and the unemployment and wage rates of UK-born workers.



Graph compares change in unemployment rates for UK-born 2004-2012 with Change in **immigrant** share in each “county” over same period

Red line suggests little association between unemployment rates and pace of immigration



Graph compares change in unemployment rates for UK-born 2004-2012 with Change in **EU-Born** immigrant share in each “county” over same period

If anything red line suggests **statistically significant negative** association
ie uk-born unemployment rates rose least in areas with lots of EU-immigration

Now do same for the recovery period

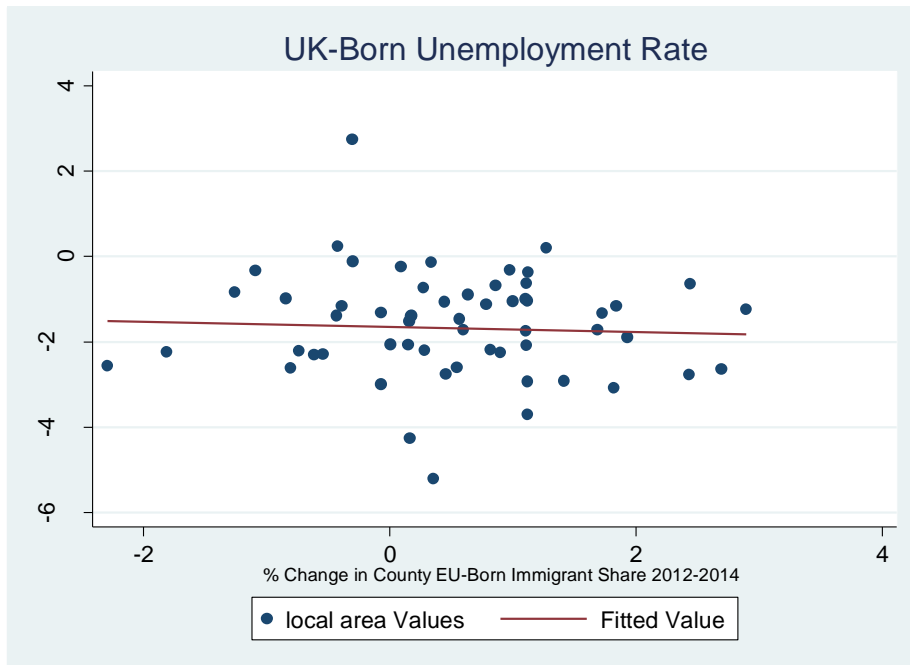
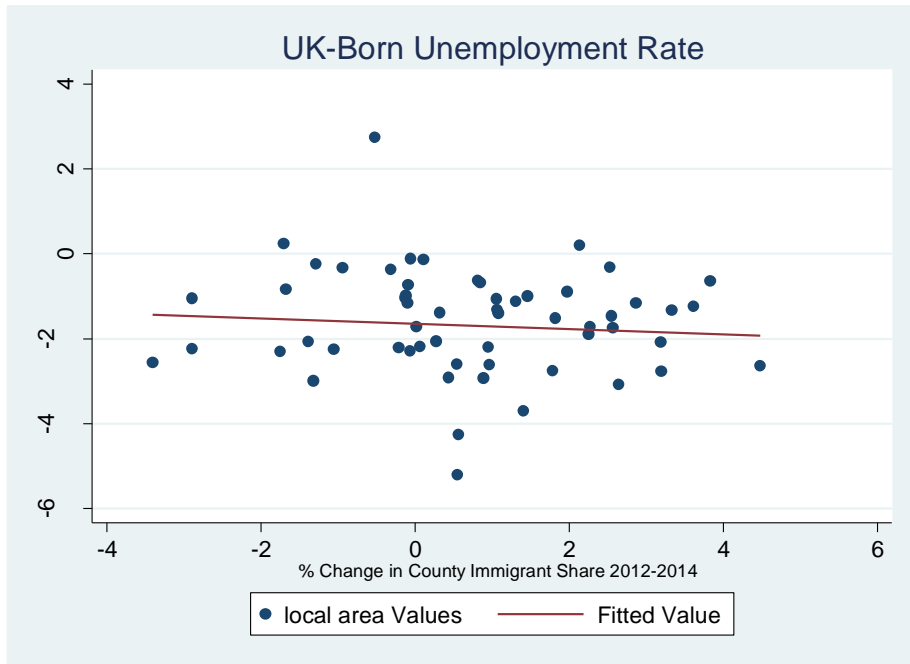
Graph now compares change in unemployment rates for UK-born 2012-2014 with Change in immigrant share in each “county” over same period

Red line suggests little association in upturn

(a negative slope would now mean unemp. rates *fell* more in areas with larger growth in immigration share)

Graph compares change in unemployment rates for UK-born 2012-2014 with Change in EU-Born immigrant share in each “county” over same period

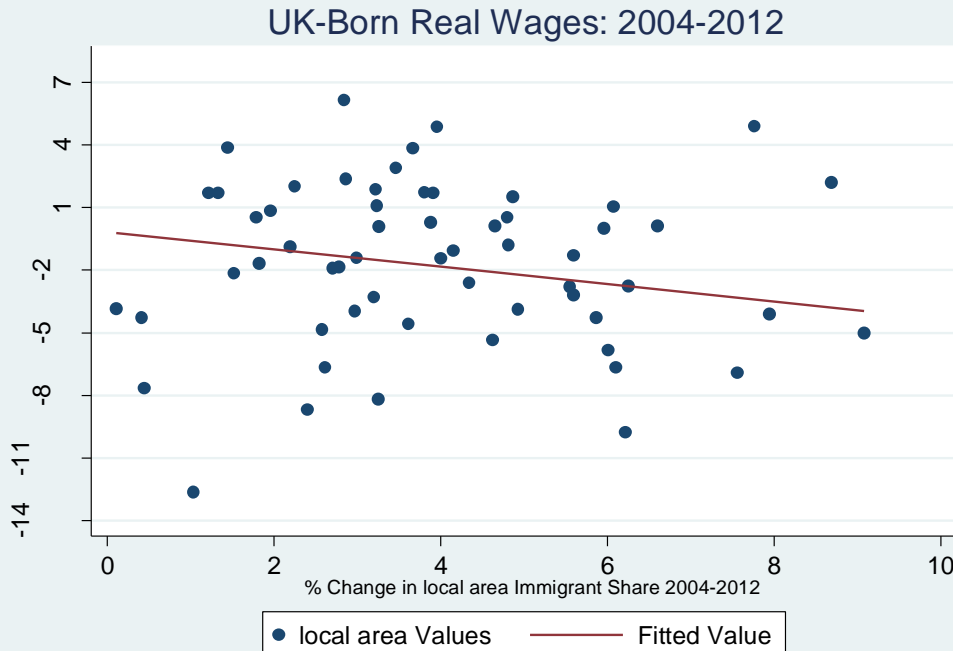
Red line again suggests little association in upturn



Now do same for **real wages**

Graph compares % change in real wage rates for UK-born 2004-2012 with change in immigrant share in each “county” over same period

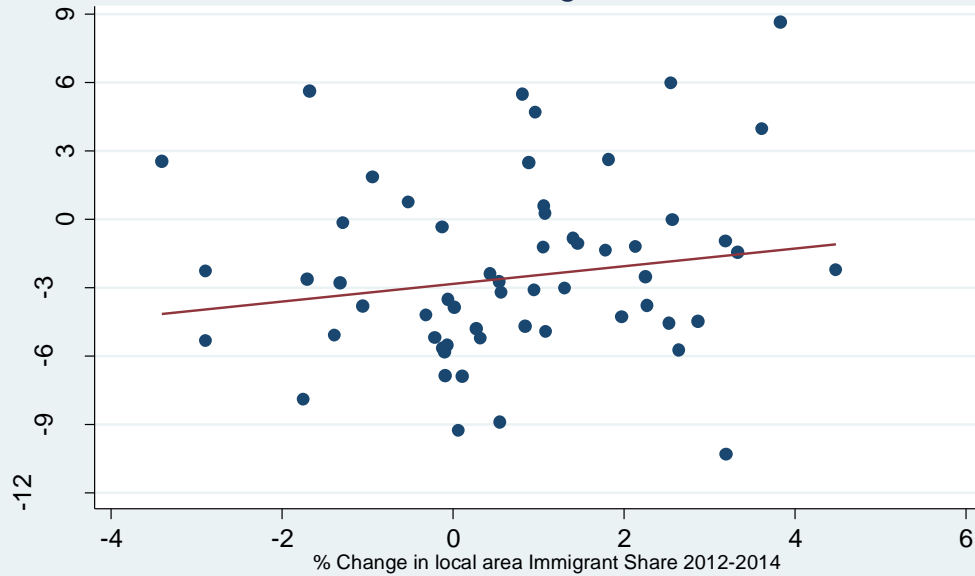
Red line suggests **statistically insignificant - though negative** - association between wage rates and pace of immigration



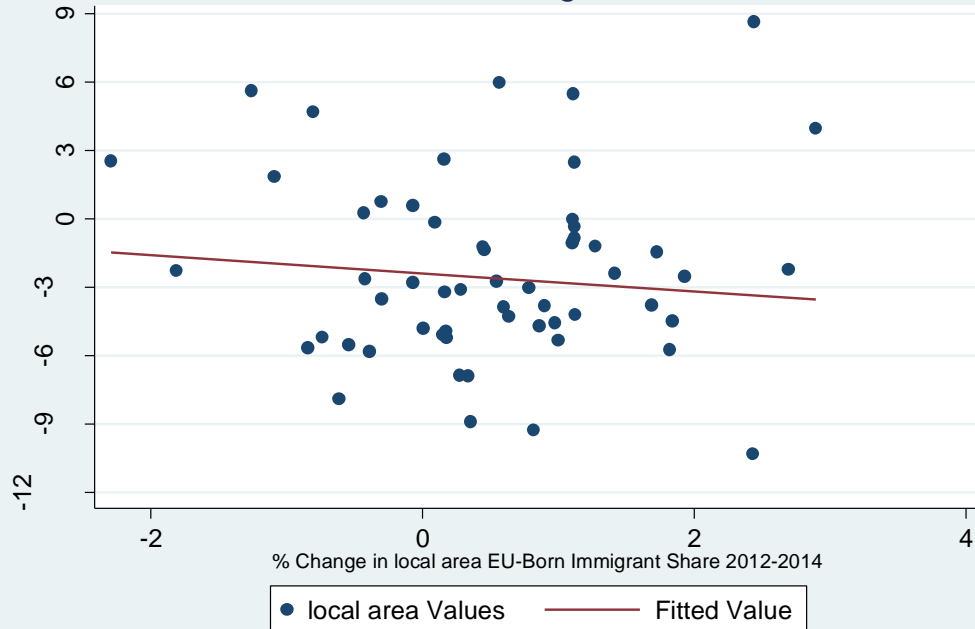
Graph compares change in unemployment rates for UK-born 2004-2012 with Change in EU-Born immigrant share in each “county” over same period

Again **statistically insignificant negative** association with EU rates of immigration

UK-Born Real Wages: 2012-2014



UK-Born Real Wages: 2012-2014



Now do same for **real wages in the upturn**

Graph compares % change in real wage rates for UK-born 2012-2014 with change in immigrant share in each “county” over same period

Red line now suggests **statistically insignificant positive** association between wage rates and pace of immigration

ie wage rates for UK-born grew most in areas where immigration grew most

Graph compares change in unemployment rates for UK-born 2004-2012 with Change in EU-Born immigrant share in each “county” over same period

Again little **statistically insignificant – negative** - association with EU rates of immigration

So what are we to conclude?

Little evidence of large adverse labour market effects on the UK-born population of rising EU immigration.

Nor is there much evidence of large gains.

Leaving the EU might attenuate population growth (and hence GDP), but would not make much difference to the welfare bill (net of tax revenues)

but the effects on the labour market are just not that easy to divine without more details on the type of institutions and regulations that would emerge in the wake of a UK exit.

Appendix

Rules on UK Citizenship

Children born in the UK to citizens of the European Economic Area may be British citizens depending on when they were born. Children born:

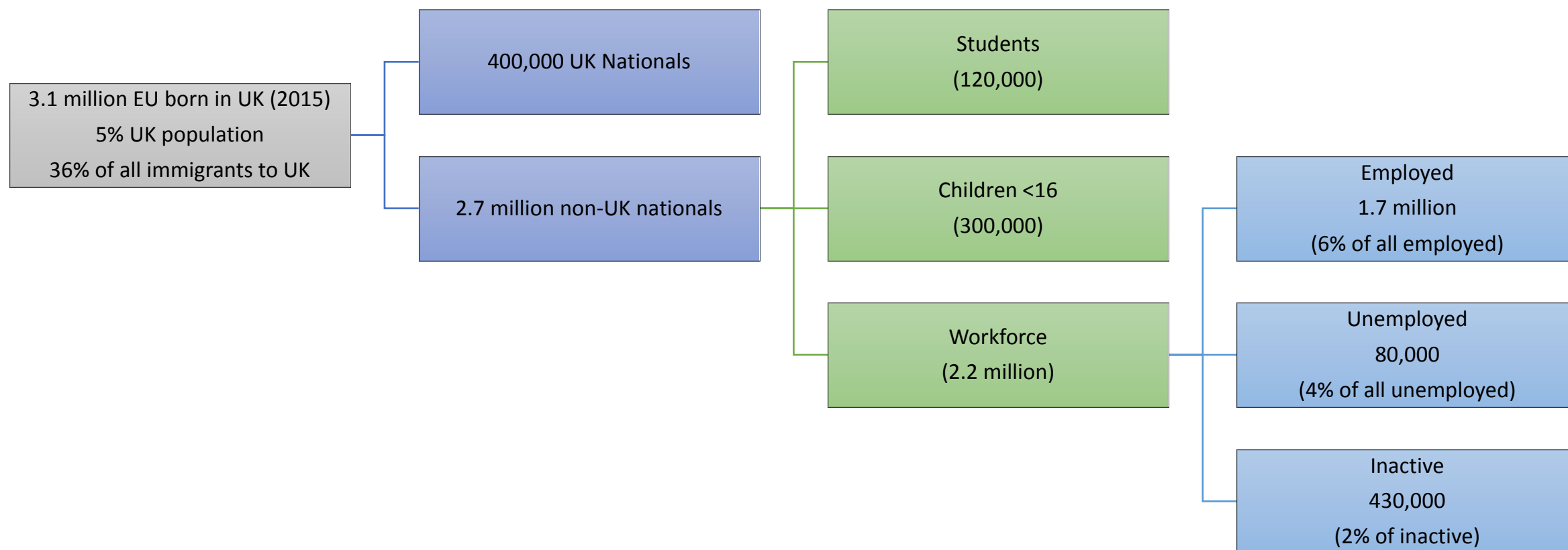
From 1 January 1983 to 2 October 2000 will be British citizens if either parent was living in the UK at the time;

From 2 October 2000 to 29 April 2006 will only be British citizens if at least one parent had obtained indefinite leave to remain or the unconditional right to permanent residence in the UK prior to the birth;

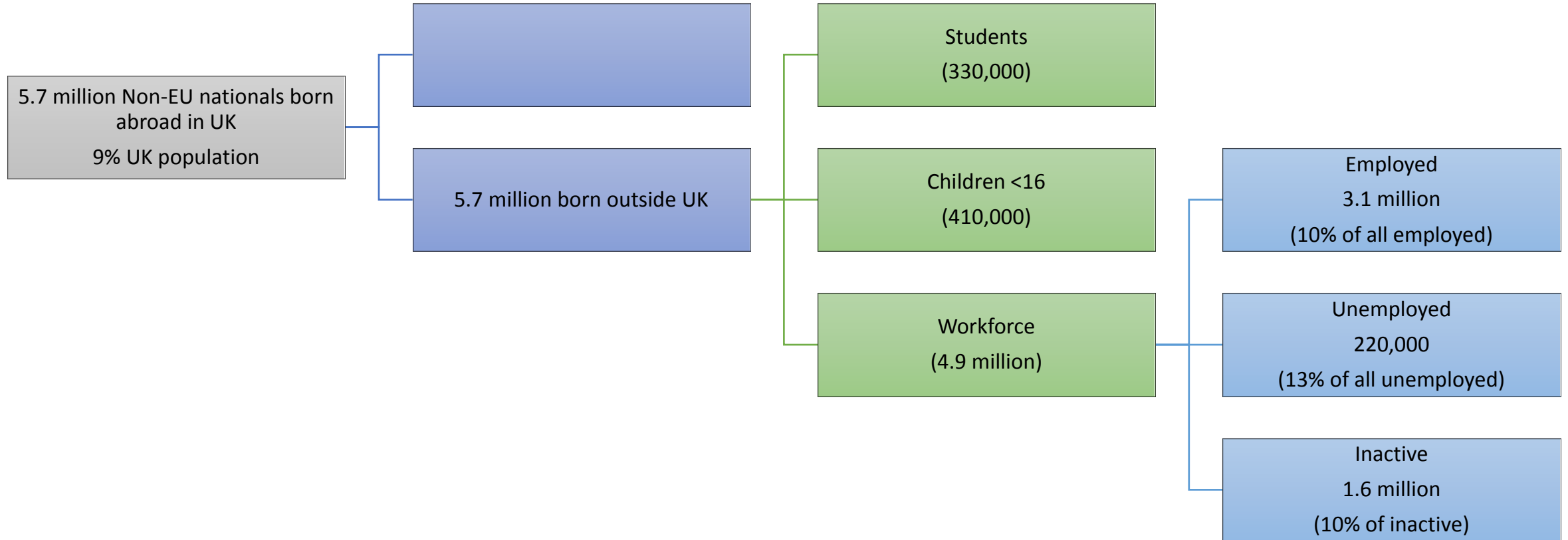
On or after 30 April 2006 will be British citizens if at least one parent lived in the UK continuously for five years pursuant to their rights under European law prior to the birth

The LFS 2015 suggests that there are 500,000 individuals born in the UK who are EU rather than British citizens

EU-Born Individuals living in the UK (2015)



Non-EU-Nationals living in the UK (2015 q3)



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IF ((AGE<70)
OR (WRKING=1) Paid work in ref. Week
OR (JBAWAY= 1) Has a job/business but away from it in ref. Week
OR (OWNBUS=1) Unpaid work for own business in ref. Week
OR (RELBUS=1)) Unpaid work for a relative's business in ref. Week

BENFTS UK
EQ
In the week ending Sunday the [date], were you claiming any State Benefits or Tax Credits (including State Pension, Allowances, Child Benefit or National Insurance Credits)?
EUROSTAT
1 yes
2 no
ONS ✓ GOV ✓ SPL ✓ EUL ✓
APPLIES IF RESPONDENT DID PAID OR UNPAID WORK OR IS AGED BETWEEN 16 AND 69 (for definitive routing please see SITBEN above)

TPBN13 UK
EQ
Were you receiving any of these state benefits in your own right, that is, where you were the named recipient?...
CODE ALL THAT APPLY
1 Universal credit?
2 Housing or Council Tax Reduction?
3 Tax credits?
4 Income support?
5 Job seeker's allowance (including National Insurance Credits)?
6 Sickness or disability benefits (including Personal Independence Payment or Employment and Support Allowance)?
7 Child benefit?
8 Pension benefits (including state pension or pension credit)?
9 Carer's allowance?
10 (Spontaneous only) Other?
ONS ✓ GOV ✓ SPL ✓ EUL ✓
APPLIES IF RESPONDENT IS CLAIMING BENEFITS IF (Benfts=1)

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Geographic dispersion of EU migrants similar to that of other migrants

