

THE LABOUR MARKET EFFECTS OF IMMIGRATION

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Immigration has become one of the most important topics of popular debate in the UK. While the balance of public opinion is to reduce immigration, the numbers migrating to Britain has increased sharply over the last decade. Recent years have also seen a series of changes in immigration policy which have been accompanied by a heightened interest in research findings that can help to guide policy in the future. The papers in this Feature address some of the key economic issues. Do immigrants reduce wages and employment rates for non-immigrant workers? And what are the adjustment mechanisms through which immigrant labour is absorbed into the economy? How do immigrants perform in the UK labour market and how and why do they suffer disadvantage in the competition for jobs? There is a large empirical literature that debates these questions for the US and other traditional countries of immigration. For Britain, the literature is smaller and has not progressed as far. The articles in this Feature aim to advance the discussion, first with an examination of recent findings for the US, and then with three studies that address some of the same issues for the UK.

To put the UK evidence into context, the first article is an assessment for the US by one of the leading US economists on the economics of migration. David Card investigates the impact of migration on US wages and employment, as well as the various mechanisms that may lead to adjustment. He also addresses the performance of immigrants in the US economy. Here he takes a slightly more general stand than much of the literature by considering the intergenerational adaptation of immigrants. His conclusions on employment and wage impact are in line with much of the previous literature: although immigration has strong effects on relative supplies of different skill groups, local labour market outcomes for low skilled natives are not much affected by these relative supply shocks. The evidence suggests that this is due to adjustment within industries, rather than across industries, to skill-group specific relative supply shocks. Card also argues that the evidence is not suggestive of displacement effects of native workers from one locality to another, an argument that is often used to account for small wage effects in studies based on local labour market analysis. Finally, Card's analysis on immigrant assimilation supports the view that first generation immigrants do not on average catch up with natives in terms of economic performance, but shows a strong educational progress of second generation immigrants, where most catch up with children of natives. His paper provides an overall positive assessment of the new migration into the US.

These issues remain controversial in the US. Borjas (2003) argues that the negative wage effects from immigration can be observed at the national level. There is disagreement about how local labour markets adjust to immigration and

therefore whether (and how much) immigration should matter for the economy as a whole. Some cross-country evidence for Europe indicates that if immigration has negative effects on employment then these are greater the less flexible is the labour market (Angrist and Kugler, 2003). Differences between host countries in the immigrants they receive and in the structure of their labour markets means that the answers for one country may not simply be applied to another. Hence the impact of immigration for the UK must be analysed on UK data rather than being inferred from the results for other countries.

The effects of immigration on wage and employment outcomes for UK regions is assessed for the first time in the article by Dustmann, Fabbri and Preston. The article commences by discussing implications of economic theory for employment and wages, with two key messages: first, labour market effects may occur only if the skill composition of immigrant labour differs from that of the native work force. Second, if the economy has sufficient scope to adjust to increased migration by changing output mix, no effects should be expected in the long run. The article discusses the various problems empirical economists face when trying to identify wage and employment effects empirically, and suggests and implements solutions. The empirical analysis is based on the UK Labour Force Survey. In comparison to the US, the skill composition of older as well as recent immigrants to the UK resembles, on average, that of the native population. This suggests that immigration may have had little effect on the overall skill distribution of the workforce. The empirical analysis finds no evidence that immigration has effects on employment, participation, unemployment, or wages at the aggregate level. There is some evidence that effects are different for different educational groups.

Studies that investigate the effects of migration on employment and wages may underestimate the effects, argues the third article by Tim Hatton and Massimiliano Tani. If natives move out of regions or localities in response to large inflows of immigrants then the wage and employment effects of immigration will not be observed at the local level, but they may still be important for the economy as a whole. For the US, Borjas (2003) believes that this is an important mechanism to disperse effects across the economy, while Card (2001, and contribution to this Feature) finds little evidence for this. Hatton and Tani address this issue for the UK using directly observed flow data from the International Passenger Survey and the National Health Service Register for 11 UK regions from 1982 to 2000. Across all 11 UK regions they find that immigration flows into a region are negatively, but often insignificantly, associated with net inward migration from other regions. Nevertheless these results are compatible with the hypothesis that the labour market effects of immigration are spread beyond the gateway cities and regions.

Onward migration may be part of the story, but it is important to establish how effectively immigrants compete for jobs with the native-born. If competition from immigrants is weak then there is less need to look for other channels of adjustment. The article by Paul Frijters, Michael Shields and Steve Wheatley Price compares the methods of job search used by immigrants and their effectiveness with that of native-born workers. Evidence from the Labour Force Survey indicates that immigrants rely slightly less on formal methods than do native workers, but the differences are small. Analysis of unemployment durations produces three

main results. The first is that informal job search methods are just as effective as formal methods of application through job centres. The second is that differences in labour market characteristics and in the choice of search methods cannot explain the lower job finding hazard for immigrants. The third is that non-white immigrants have lower job finding probabilities across all search methods. These results suggest that immigrants, particularly recent immigrants, have smaller effects on the labour market than their numbers imply although competition increases over time as the immigrants assimilate.

The papers in this Feature address some key questions, but they suggest even more issues that need to be addressed by future research. Do the wage and employment effects of immigration differ between the short run and the long run? And how does immigration alter the skill composition of the labour force in the short run and the long run? How important are changes in either the technology within industries (as suggested by Card's analysis), or changes in the output structure across industries as adjustment mechanisms? Is inter-regional mobility in response to immigration due to crowding out in the labour market or is it a more direct effect driven by other forces? Why are immigrants and ethnic minorities less successful at finding employment than the native-born whites? And what can be done to enhance the effectiveness of their job search? These issues are intriguing on their own account but they are also of direct interest to policy makers. The sooner we can find answers to them the better.

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