How vital are further inflows of EU workers?

European Union: MW 420 €

Summary

- Long-term EU migrants now account for 7.4% of workers in the UK, up from 4.7% in 2010 and only 2.7% in 2004. (Paragraph 4)
- There is little sign of quick progression from lower-skilled work. Any changes for particular firms may be largely due to the conditions of employment offered. (Paragraph 9-11)
- While employment rates are at record levels, for the UK born population these have been mainly driven by older people working for longer and increases in part-time working and self-employment. All of the net growth in UK-born employment since 2008 has been in self-employment, whereas the great majority of the increase in EU workers has been in employee jobs. There are still 1.5 million unemployed in the UK and over a million part time workers who cannot find a full time job. (Paragraphs 12-13)
- The significance of EU workers to specific sectors depends not only on their number but also their proportion. For example, only 5% of workers in "education" and "retail" are from the EU. (Paragraphs 15-16)
- There is no sign of a net outflow of EU workers. In any case it is important to be clear that the stock of EU workers in the UK can be maintained with nil net migration since those who leave could be replaced by others without adding to net migration. (Paragraph 19)
- Complaints from some sectors may reflect a desire to continue to offer low paying jobs with poor conditions and little flexibility for workers. (Paragraph 22)
- Suggestions that raising the National Living Wage (NLW) will reduce immigration are misplaced. The NLW does not apply to workers under 25. It could, therefore, make employment of younger people from abroad even more attractive. Indeed, the latest statistics show that a considerable number of recently arriving EU nationals are under 25. (Paragraph 24)
- The true economic cost of employing migrant workers is often overlooked. The working age benefit bill for EU migrants in the UK in 2014/2015 was £4.4 billion. It may well have risen further since. In many cases, therefore, the taxpayer is subsidising low paid work for EU migrants. (Paragraph 23)
- Conclusions are at Paragraphs 25-27.

Introduction

1. As the Conservative Manifesto confirmed a commitment to bring net migration down to the tens of thousands, some continue to claim that any significant reduction in net migration will be a catastrophe for UK businesses as they will not be able to get by without further and continual large inflows of workers from around the world. Some even claim that reductions in net migration will put companies out of business.

2. This paper uses official statistics on employment in particular occupations to help examine the extent to which businesses might rely on continual net inflows of migrant workers. It also highlights evidence gaps and some of the difficulties in analysis of labour market issues.

Background

3. Migration to the UK for work is affected by a number of factors. From the EU it is largely a matter of simple supply and demand. There is a very considerable difference in pay levels between the UK and Eastern Europe that stimulates supply, and the availability of these workers at lower wages than their experience and qualifications would otherwise command stimulates demand. Free movement within the EU means that government has had no control over the high levels of migration that have resulted. Migration for work from outside the EU is controlled by government primarily through salary and skills thresholds for work permits and admission of additional workers only to specified occupations where there is a shortage.

4. Much of the growth in UK employment to record levels has resulted from increasing numbers of EU migrant workers. There are over a million more EU workers whose usual residence is in the UK than in 2010, and such migrants from elsewhere in the EU now account for 7.4% of those in employment in the UK. It must not be overlooked, however, that the EU still only accounts for around half of annual net migration and that among those working in the UK, for every two workers born in the EU there are three born outside the EU. However, this is largely a reflection of the fact that significant EU migration for work dates back only to 2004, and that some workers born outside the EU will have been in the UK for a considerable time.

5. This paper examines firstly the issue of potential churn among arrivals for lower-skilled employment in the UK, as this is often stated to be a key reason why continual net inflows are needed. It takes workers who first arrived in the UK in 2010 and subsequently, as this is when overall employer demand increased as the UK recovered from recession. Notably, during the recession, the number of workers born outside the UK remained unchanged while UK-born employment fell by almost a million from its pre-recession peak.

6. The paper secondly examines the extent to which particular sectors rely on migrant workers from the EU, bearing in mind that the focus of potential policy changes following Brexit is on new controls on the entry of EU nationals for work.

Analysis

The persistence of new arrivals in low-skilled occupations

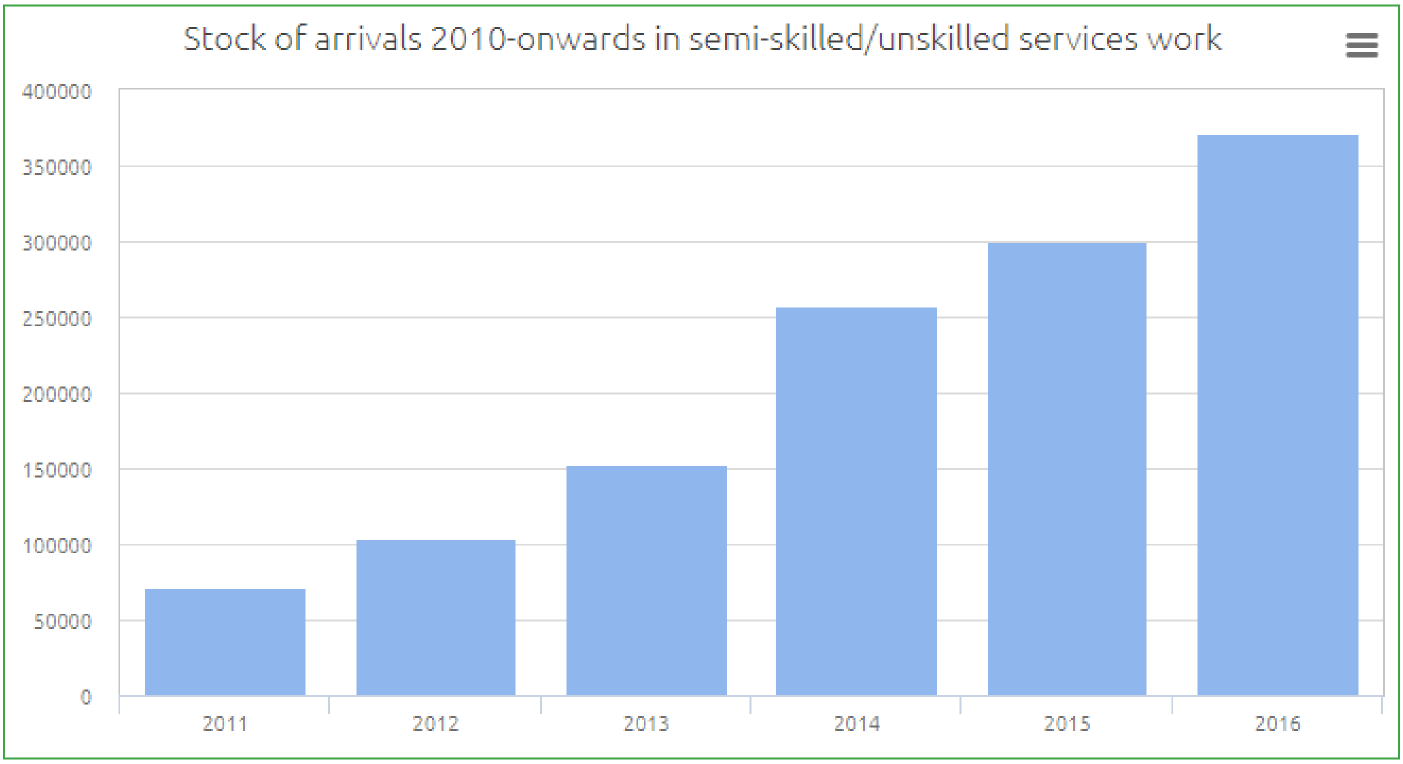
7. From 2010 to 2016 there has not been any drop in the numbers of migrant workers in the UK by any of the arrival cohorts from 2010 onwards. That is, in 2016 there were no fewer migrant workers who first arrived in the UK in 2010 than there were in 2011, no fewer who arrived in 2011 than there were in 2012, and so on. This suggests that new arrivals are consistently adding to the existing stock rather than being needed to make up for continual departures from the UK.

8. The fact that there appears to be no diminution in the overall numbers in work of each cohort does not necessarily indicate that more workers have not been needed. If new arrivals are restricted in the type of job they get because of language skills, lack of work experience in the UK or unfamiliarity with the UK labour market, then a high degree of churn might be expected in such jobs as they will move on to more congenial or better-paying jobs when they find their feet in the UK. Some employers indeed say that this is so, and make it the key reason why more new migrants are constantly required.

9. However, there does not appear to be anything other than anecdotal evidence to support this. If this was the case, then one would expect to see earlier arrival cohorts moving up the occupational ladder as they gain more experience and move on to better jobs. The official labour market statistics do not suggest this has been occurring to any significant degree. The number of recently arrived workers in semi-skilled and unskilled roles has increased significantly in both production and services sectors, with 650,000 workers in these sectors in 2016 having first arrived from 2010 onwards.

Figure 1. Stock of arrivals 2010-onwards in semi-skilled/unskilled production work

Figure 2. Stock of arrivals 2010-onwards in semi-skilled/unskilled services work



10. In both sectors, there is little sign of any significant movement out of this kind of work over time that might be expected by reason of career progression.

Figure 3. Workers in semi-skilled/unskilled production work: by year of first arrival to the UK

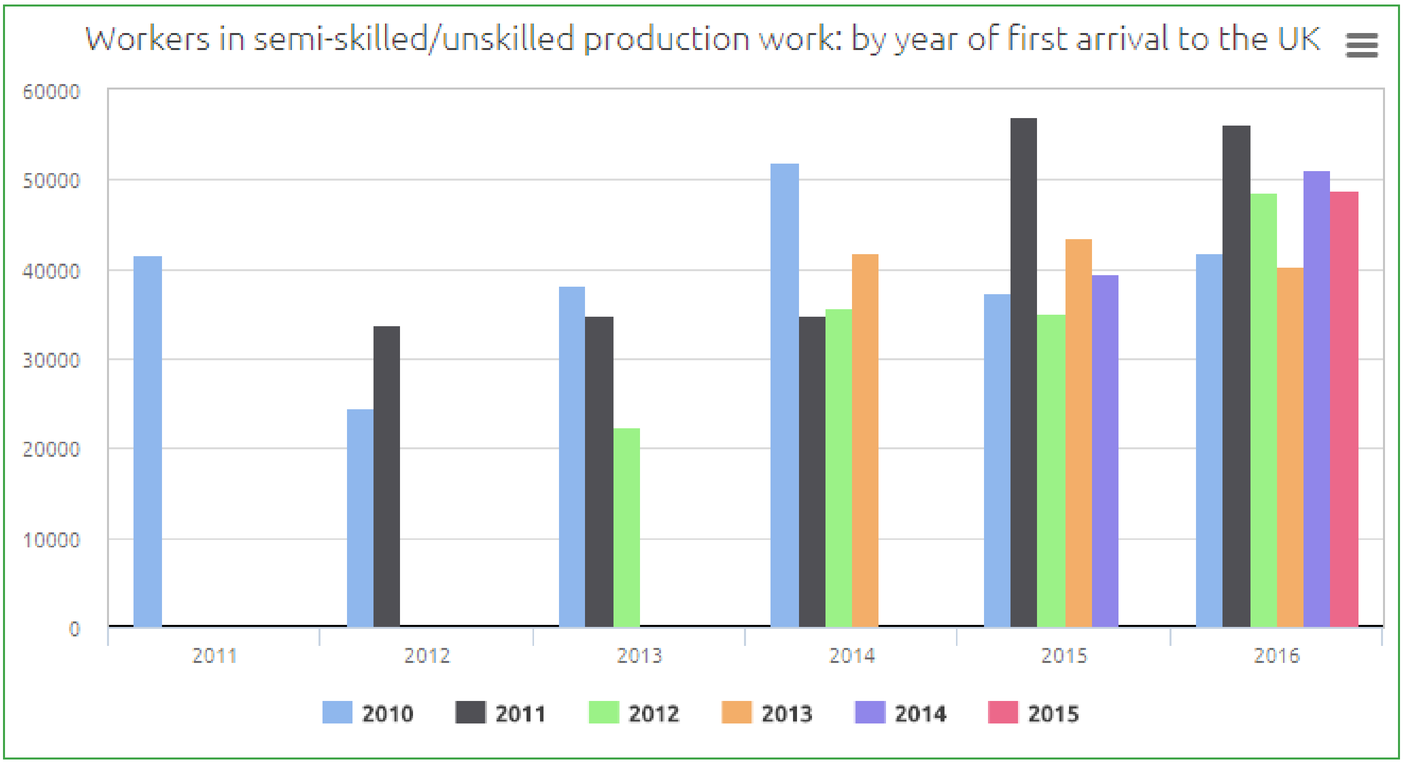
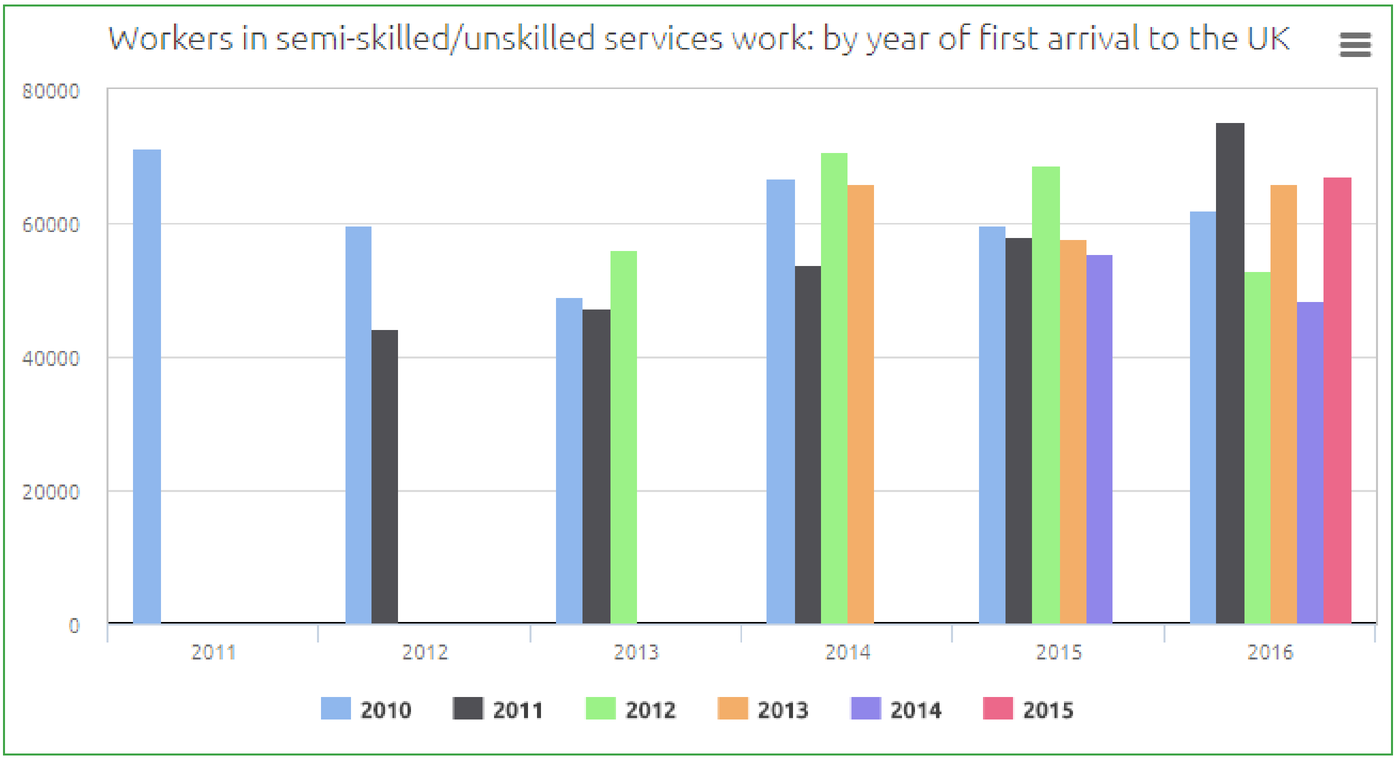


Figure 4. Workers in semi-skilled/unskilled services work: by year of first arrival to the UK



11. There also seems to be little change in the numbers of migrant workers over time in specific occupations or occupational groups and certainly no evidence of a decline. The implication is that there is no need for considerable replacement at a sector level. It seems more likely that if particular employers find that new arrivals move on quickly and need constant replenishment that is because at the firm level they are not matching better terms and conditions offered by other employers in the same sector for similar work. For example, a large part of the high staff turnover in the care sector appears to be explained by workers moving from one company to another rather than leaving the sector altogether or leaving the UK. The remedy for such employers is in ensuring a better employment offer rather than exploiting the availability of a constant flow of new arrivals.

The changing nature of work by sector and employment type

12. Employment of the UK-born is now higher than its pre-recession peak, but there has been considerable shifting of work between sectors. Table 1 below compares the number of workers by industry sector in early 2008 with early 2017. Sectors where the numbers of UK-born workers have shrunk considerably have seen quite large increases in EU workers, suggesting a degree of substitution.

Table 1:

Changing numbers in work by sector	UK-born	EU-born
Professional, scientific, technical	436,269	118,376
Education	417,900	45,516
Accommodation and food services	326,108	134,316
Health and social work	299,301	90,340
Admin and support services	241,558	66,371
Other service activities	189,531	32,716
Information technology/communications	86,030	34,699
Real estate	80,233	3,724
Utilities	45,727	10,974
Arts, entertainment, recreation	31,461	17,534
Agriculture, forestry, fishing	28,031	12,050
Mining and quarrying	-14,548	4,115
Finance and insurance	-143,306	24,595
Public admin and defence	-166,465	8,348
Transport and storage	-180,407	66,797
Wholesale, retail, and repair of vehicles	-348,543	179,996
Construction	-365,894	85,047
Manufacturing	-566,152	140,604
Total	396,834	1,076,118

(ONS Labour Force Survey Apr-Jun 2008 and Apr-Jun 2017)

13. As the UK-born employment rate is also now at record levels, it might be thought that everyone in the UK who wants a job must have one, and that migrant workers are simply filling the gaps in a tight labour market in response to employer needs. However, it is well known that much of the return to ‘full’ employment since the recession has been due to growth in part-time and self-employment. The latest available data for the second quarter of 2017 shows that the number of UK-born workers with employee jobs is actually lower than it was in the same period in 2008, despite more UK-born people working, whereas the number of EU-born workers in such jobs is very much higher.

Table 2:

	Employee		**Self-employed**	
	Full-time	**Part-time**	**Full-time**	**Part-time**
UK-born	-137,928	100,979	175,572	334,804
EU-born	663,355	196,875	164,300	52,349

(ONS Labour Force Survey 2008 and 2017)

14. This is potentially an important matter. The data are at least suggestive that high levels of EU migration have had a negative impact on the availability of employee jobs for the UK-born, and thus on the stability of work and security of earnings. There are still more than 1.5 million unemployed in the UK, and over a million part-time workers who want but cannot find a full-time job (ONS Labour Market Statistics, August 2017).

Employment levels and proportions of EU workers

15. A more detailed breakdown of work by industry division shows that over 80% of EU workers are working in fewer than 30 divisions. The second column of the table below shows the number of EU workers in these industry divisions. However, numbers alone are not necessarily an indication of the extent to which business relies on EU workers, the proportion of workers who are from the EU needing to be taken into account. On this basis, three of the five largest-employing industry divisions would be near the bottom of the list with barely 1 in 20 workers in Retail Trade, Education and Human Health Activities being from the EU. On the other hand, nearly 1 in 3 workers in Food Manufacture and 1 in 5 in Accommodation are from the EU. Food and Beverage Services sit in a middling position with 1 in 10 from the EU.

Table 3:

Industry division in main job (2 digits)	Total EU workers	A10	EU14
47 Retail trade, except vehicles	159,036	3.3%	2.2%
85 Education	156,315	1.2%	3.5%
56 Food and beverage service activities	145,106	6.3%	4.8%
86 Human health activities	128,366	2.4%	3.3%
41 Construction of buildings	112,796	10.2%	2.8%
10 Manufacture of food products	108,348	28.1%	4.3%
46 Wholesale trade, except vehicles	84,286	7.6%	3.6%
81 Services to buildings and landscape	78,130	8.8%	3.5%
55 Accommodation	76,881	14.0%	5.7%
43 Specialised construction activities	73,935	5.3%	1.5%
87 Residential care activities	64,189	4.9%	2.1%
52 Warehousing & support for transport	63,373	15.8%	1.8%
62 Computer programming and consultancy	61,381	3.6%	5.8%
84 Public admin, defence, social sec	52,157	0.5%	2.3%
64 Financial ex insurance and pension	45,588	2.1%	5.7%
88 Social work without accommodation	40,787	1.5%	2.7%
71 Architectural and engineering	40,514	2.7%	4.5%
53 Postal and courier activities	38,803	8.0%	3.1%
49 Land transport inc via pipelines	36,614	3.4%	1.2%
66 Auxiliary to financial and insurance	34,733	1.0%	6.7%

70 Head offices; management consultancy	30,675	2.6%	3.8%
45 Wholesale retail trade repair vehcls	28,305	4.6%	0.9%
74 Other prof, scientific and technical	27,363	5.2%	4.0%
96 Other personal service activities	27,041	3.8%	2.2%
42 Civil engineering	26,579	4.2%	2.9%
28 Manuf of machinery n.e.c.	26,163	6.9%	2.1%
69 Legal and accounting activities	24,937	1.4%	3.1%
01 Crop, animal production, hunting	24,761	6.0%	2.0%
93 Sports, amusement, recreation	24,357	2.5%	2.6%

Reliance on EU workers

16. Reliance on EU workers by particular industries will arise from a combination of the two factors: the number working in the industry and the proportion they form of those working in the industry. Where either is small, it is hard to see the industry properly described as relying on EU workers. If the number is small there should in practice be no real difficulty in meeting any future increasing demand even where at present they form a relatively high proportion of the workers in the specific industry, for example in Waste Collection, Treatment and Disposal the number of EU workers is barely 1/20th of one per cent of the total UK workforce (or 1% of the unemployed). Where the proportion is small as in Retail Trade, then in practice the industry should be able to address any restriction on future supply of more EU workers through efficiencies, offering more hours to part-time workers etc.

The need for more new workers from the EU

17. However, as these figures above represent the stock of EU workers who are in the UK now they are not themselves any indication that more workers are required even in sectors that rely on these workers. In principle there are two reasons why more new arrivals from the EU might be required. Firstly, to meet employer needs for more workers as they expand. Secondly, to replace any diminution in the stock as workers leave the UK.

18. As to employer need, the Bank of England's regular Agents Reports show businesses' employment intentions declining sharply from June 2015 onwards - well before the referendum and when there will have been no reason to expect a Leave vote or any change in the UK's relationship with the EU. The forecast of the Office of Budget Responsibility of an increase of 800,000 in the number of workers from abroad over the next five years in their March 2016 Economic and Fiscal Outlook was not an estimate of likely need, but simply an extrapolation of previous trend. This forecast also saw the unemployment rate barely changed in 2020, suggesting that even if employers were to create significant numbers of new employment opportunities, they would continue to take advantage of the availability of workers from abroad rather than seek to mobilise the pool of unused or under-used labour already in the UK.

19. As to diminution in stock, the general picture for arrivals since 2010 is drawn above. The data for workers from Eastern Europe shows that the number of Eastern European workers who arrived in each year post-recession remained stable year-on-year or even increased. There have been anecdotal stories in the press about individuals planning to leave the UK since the referendum and the most recent data has

shown an increase in the number of EU8 nationals leaving the UK over the year to March 2017 to a record number since 2008 of 48,000. However, this was more than matched by the same number of new arrivals from these countries, meaning no lower stock. It can easily be overlooked that the stock of any group of migrant workers in the UK can be maintained with nil net migration for that group. Not only was the stock of EUA8 thus maintained, but there were over 40,000 more arrivals than departures from the EUA2, and over 75,000 more arrivals than departures from the rest of the EU.

The impact of short-term and seasonal workers

20. Notwithstanding the above, there is a gap in the evidence about the extent to which employers rely on workers who do not appear in the official employment statistics. As the Labour Force Survey by design does not cover individuals who are not usually resident in the UK or those living in communal establishments, it will not identify any person working in the UK only over the short term. While some statistics are published on short-term migration to the UK from the International Passenger Survey these are based on stated intentions on arrival in the UK, and there are no official statistics on how many of these people are in the UK at any one time or what activities they are undertaking.

21. Statistical releases by HMRC state that in 2014/15, 2.87 million EEA nationals had an income tax record, whereas the number of 'usually resident' European workers in the LFS was only 1.88 million. This could suggest a significant number of EU workers in the UK who are not observed in the official labour market statistics. The number in the UK at any one time (and thus the number of jobs employers rely on them to fill) should not be taken to be the difference between these two numbers though, as if a single job were filled by individuals working successively for three months at a time, there would be income tax records for four people, but only one person at a time would be working in the UK, and they would be relied upon to fill only one job. However, these unobserved numbers present still occupy accommodation in the UK, visit the doctor or hospital if they fall ill or have an accident

Reliability of representations

22. There have been a number of headline-grabbing reports from some sectors about their need for more workers from the EU, in particular food producers, the care sector, and the hospitality sector. Looking behind the headlines, most of what these sectors appear to be asking for is the opportunity to continue to offer low-paying jobs with poor conditions and little flexibility for workers.

23. While some commentators have suggested that the planned increases in the National Living Wage to £9 an hour will significantly reduce any impact of the availability of migrant workers on wages, as the NLW does not apply to those aged under 25, it could in fact make the employment of younger people from abroad even more attractive than at present. Notably, statistics from the Department of Work and Pensions show that a considerable number of new National Insurance numbers issued to EU nationals are to people in the 20-24 year old age group who do not have to be paid NLW. This shows clearly that the solution lies in making work in these critical sectors more attractive to British workers rather than encouraging further immigration into low-paid work.

Subsidy of EU workers in the UK

24. It is often overlooked that the true economic cost of employing migrant workers is not borne just by their employers, as low-earning work is subsidised by welfare payments. The working-age benefit bill for EU migrants in the UK was £4.4bn in 2014/15, or £12 m a day, according to figures released by HMRC and DWP. That was 10% more than the previous year and it is likely to have increased since then as the number recorded as working in the UK has further increased, including large numbers from Romania and Bulgaria following the final lifting of transitional controls. If welfare spending has increased pro rata, it might now be well over £5bn. Thus the calls to government to allow continued inflows of EU migrants to low-paid work are as much calls for taxpayers to provide further subsidy for their employment.

Conclusions

25. There is little evidence of "churn" among workers from Eastern Europe. There is no evidence of any significant outflow of EU workers. Indeed most of those who have arrived since 2008 appear still to be here, and net inflows continue. In any case, even zero net migration would allow the existing stock of workers to be maintained at its current level; those replacing departing workers would not add to net migration.

26. The significance of EU workers to particular sectors depends not only on their number but also on their proportion in the sector; this is often low. Where the proportion is high, the actual numbers involved can be quite small.

27. Some claims might reflect a desire by employers to continue to offer low pay, poor conditions and little flexibility. It is relevant that some employers are, in effect, being subsidised by the taxpayer. The working age benefit bill for EU migrants in the UK in 2014/15 was £4.4 billion, or £12 million a day, and is likely to be higher now. It follows that each claim of the necessity of continued large net inflows of EU workers should be carefully evaluated.

5th October 2017