The Impact of Recent Immigration on the London Economy

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Outline

- Our report published by City in summer pulled together information from existing secondary sources about significance of the new migration into London
- One central message was the sheer diversity of the groups involved and impossibility of generalising
- Here intend to focus very selectively on some key areas of potential policy significance in relation to:
  - pop. growth, labour market/economic potential (IG)
  - housing and public service provision (CW)
Immigration and London’s Growth

• The new immigration was directly responsible for the reversal of London’s 50 year population decline, from the late 1980s
• As such it is one of two key planks on which the Mayor’s growth-oriented London Plan rests
• Not heavily dependent on special factors (asylum seekers or A8) but broadly-based and with underlying causes (birth rate disparities and internationalisation) that won’t go away
• But, long term effects on London population are complex and not so clear, e.g.:
  – High prob. of eventual return migration among rich country migrants
  – Delayed impact on birth rates (10 years or so)
• And the question of how far immigrant demand for London housing displaces others, to other parts of the Greater South East
  – Currently estimated at 40-50%, but depends on acceptance of higher housing densities than the average resident
  – If density standards converge with those of other residents (in 10-20 years), will overseas immigration still yield overall population growth inside London?
National Growth in Migration but with distinct London elements

Gross International Migration 1985-2005 (000s)
Balancing London’s International and Domestic Flows

Net International Migration
Net Migration with Rest of UK

Components of Population Change 2001-5

<table>
<thead>
<tr>
<th></th>
<th>Natural Change (Births – Deaths)</th>
<th>Net Migration from the rest of the UK</th>
<th>Net International Migration (and other changes)</th>
<th>Total Change in Resident Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Boroughs</td>
<td>75.7</td>
<td>-137.5</td>
<td>142.8</td>
<td>81.6</td>
</tr>
<tr>
<td>Rest of Greater London</td>
<td>137.9</td>
<td>-276.6</td>
<td>191.5</td>
<td>52.0</td>
</tr>
<tr>
<td>Rest of UK</td>
<td>156.0</td>
<td>414.1</td>
<td>420.9</td>
<td>991.2</td>
</tr>
<tr>
<td>UK</td>
<td>369.6</td>
<td>0.0</td>
<td>755.2</td>
<td>1124.8</td>
</tr>
</tbody>
</table>

Sources: All figures relate to the ONS 2007 revision of the mid-year population estimate series.
Relating Migration and Employment Growth

- The other side of the vision underpinning the Plan is continuing growth of employment in the business service sector.
- Logically, international immigration might be seen as providing the elastic labour supply needed to accommodate this.
- But though this sector attracts shorter-term migrants from rich countries, its dynamics are not strongly linked to those of the more permanent flows from poorer nations.
- Despite a short upturn before the sub-prime shock, employment trends in London have actually been rather flat since 2000, though migration has stimulated extra jobs at the bottom.
- Including the boom years before, all extra London jobs appear to have accrued to the foreign born.
  - There were gains to home born London residents but only because of adjustments in commuting patterns (smaller inflows + larger out-flows).
- There is no evidence of migration having contributed to worklessness in London (or having depressed average wages).
  - Though possibly lowering participation rates across the Greater South East.
- But, there seems to be no guarantee over the longer run that migration and employment growth could not drift further apart.
Changes in Employment of Natives and Foreign-born by Workplace and Residence in London 1998-2005

<table>
<thead>
<tr>
<th></th>
<th>1997 Q4 (000s)</th>
<th>2006 Q1 (000s)</th>
<th>Change 000s and (percents)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employed London residents:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All, of which</td>
<td>3102</td>
<td>3490</td>
<td>+388 (13%)</td>
</tr>
<tr>
<td>UK-born</td>
<td>2242</td>
<td>2293</td>
<td>+51 (2%)</td>
</tr>
<tr>
<td>Non-UK-born</td>
<td>860</td>
<td>1197</td>
<td>+337 (39%)</td>
</tr>
<tr>
<td>Employed with London workplaces:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All, of which</td>
<td>3559</td>
<td>3876</td>
<td>+317 (9%)</td>
</tr>
<tr>
<td>UK-born</td>
<td>2681</td>
<td>2683</td>
<td>+2 (0%)</td>
</tr>
<tr>
<td>Non-UK-born</td>
<td>878</td>
<td>1193</td>
<td>+315 (36%)</td>
</tr>
</tbody>
</table>
Immigration and the Bottom Tier of the London Labour Market

- Position in relation to bottom quintile of jobs is different, since many *new migrants from poor countries* get channelled here when can’t access better jobs
  - about 45% in first three years (cf. 25% later and about 20% for those from high wage economies)
- Impact in London since mid-1990s has been to lower real wages in this group of jobs in London
  - margin over those in rest of UK cut from 23% to 6% -
  - implying real wages clearly below those outside London for anyone with housing costs
- Other side of the picture is that lower wage costs have boosted employment in this category of jobs within London, by c. 20%  
  - especially relevant to personal service jobs  
  - bringing growth to private consumer service employment, which NYC had experienced in 80s boom – but London had not
- Both positive and negative aspects
  - offers route into London LM for migrants with weak English etc  
  - But worsening deprivation among some of poorest Londoners
Trends in Employment Share and Wages for Jobs in the Bottom Quintile
(occupations with lowest hourly pay nationally)

Source: analysis by Ioannis Kaplanis of NES microdata
Migrants’ Capacities and their Employment

• Recent migrants from all kinds of origin have levels of education above those of the average London worker
  – comparable with those of British-born of similar ages
  – a pool of talent for use in a city with the jobs that need it
• But, even after settling-in period those from poor countries have:
  – clearly lower employment rates (except for Poles)
    • about half associated with racial and religious mix
    • i.e. broader patterns of disadvantage (+life choices) among res. pop.
  – and 30% lower earnings (for given years of education)
    • about a third associated with ethnicity x gender
    • in this case difference for (recently arrived) Poles is larger
• On the face of it, the London economy is not making as good use as it could of this group of migrants
  – those most likely to remain in the London labour-force over long run
Economic Activity of 25-44 year olds Among London Immigrant Groups

<table>
<thead>
<tr>
<th>Status</th>
<th>Non-Migrant</th>
<th>Migrant 0-3 years</th>
<th>Migrant &gt;3 years</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rich Countries</td>
<td>Asylum Countries</td>
<td>Other Poor Countries</td>
</tr>
<tr>
<td>Employed</td>
<td>80%</td>
<td>75%</td>
<td>26%</td>
</tr>
<tr>
<td>Seeking Work</td>
<td>5%</td>
<td>8%</td>
<td>20%</td>
</tr>
<tr>
<td>Other wanting work</td>
<td>4%</td>
<td>4%</td>
<td>7%</td>
</tr>
<tr>
<td>Not wanting work</td>
<td>10%</td>
<td>13%</td>
<td>47%</td>
</tr>
</tbody>
</table>
Main Potential Contributions of Immigration to the London Economy

- A more elastic labour supply
- Specific types of labour in short supply
  - Highly skilled labour
    - To compensate for short-fall in home supply
    - To fill specialist niches
  - To fill jobs rejected by domestic workers
    - Facilitating upward mobility of natives
  - Entrepreneurship
- Facilitating trade relations with migrants’ home countries
- Benefits from cultural diversity
  - Contributing to supply of exotic products/services
    - Increasing attraction to tourists and mobile ‘talent’
  - Stimulating product or process innovation
What We Do and Don’t Know About These

- US studies suggest that immigration and increased diversity can make important contributions to productivity, innovation and entrepreneurship
  - across cities increases in the foreign-born population are strongly linked to both higher wages and higher rents, i.e. productivity (Ottaviano and Peri)
  - entrepreneurship and self-employment have been strongly associated with (at least some) migrant groups
  - Studies of patenting and of venture-capital funded high-tech start-ups both suggest strong links between technological innovation and immigrants/immigration – including graduate student migration
- But, we lack similar evidence for UK as yet
- And two comparative studies of migrants to London/UK vs. NYC/US – of East European Jews a century ago and West Indians post WW2 – show much greater evidence of entrepreneurship in US context
  - perhaps because culturally more valued there
- So, cannot assume that these effects automatically follow:
  - May need nurturing – but also monitoring / study (to see where and how they have most potential)
What impact do migrants have on housing?

New migrants form fewer households than their local counterparts. They also consume less housing taking account of incomes and household type. Moreover, they are far more likely to live in privately rented accommodation - where on average densities are higher. However, over time housing demands tend towards those of the indigenous population - so the overall impact on housing demand depends on how long migrants stay in the country - if there is significant turnover their demands remain lower; if they stay their demands are very similar to the average.
Do migrants adversely affect the housing market?

House prices have been rising far more rapidly than in the rest of the country – but this is not just because of migrants – it is also the outcome of increasing incomes and investment, including foreign investment.

Although much of the increased demand from migrants goes into the private rented sector, rents have not been rising very rapidly especially in the East and South East of the capital.

This is in part the outcome of increasing supply from Buy to Let and other investors. It also probably reflects higher densities and perhaps lower quality – but there is no detailed evidence on this except at the very bottom of the market.
Do migrants impose on the social sector?

New migrant households are rarely eligible for social housing
Migrant households who came to London more than 3 years ago from asylum and other poor countries are disproportionately in the social sector

The needs of poorer migrant households are expected to increase over the next decade – to the point where one GLA estimate suggests that up to 70% of identified needs for additional social housing will come from migrants

Competition for housing is seen as one of the most important areas of tension between established households and new entrants whether they be from abroad or elsewhere in the country
Do migrants put large demands on public services?

The majority of international inmigrants – especially those who stay relatively short periods – use relatively fewer public services than indigenous households.

There are however additional pressures from the more vulnerable groups - and the costs of public services in London have increased as a result.

Central government often does not fully underwrite the costs of these additional services – putting further pressure on local authorities and on social cohesion. This situation could worsen if there is a long term mismatch between financial resources and spending needs.
Implications

Migrants are more cost effective in their use of housing and services – but increasing population, increasing diversity and increasing turnover all put pressure on scarce resources.

Worsening services and competition for housing, increase tensions between established households and those moving into an area.

Can either the market or public provision of services adjust to cope with increasing demands?

If not what does that imply for the makeup of London’s population and the health of the economy?