

Migrants in low-skilled work

The growth of EU and non-EU
labour in low-skilled jobs and
its impact on the UK

Migration Advisory Committee

Summary Report

July 2014



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Contents

Chairman’s Foreword	1
I. Introduction	4
II. Migrants and UK workers in low-skilled work.....	6
III. Recruitment, institutions, compliance & enforcement in low-skilled sectors	17
IV. Economic and social impacts of migrants in low-skilled work	30
V. Emerging themes	37
References.....	43

Chairman's foreword

A year ago the Minister for Immigration asked the Migration Advisory Committee (MAC) to “research the growth of migrant labour, distinguishing where possible between EEA and non-EEA migrants, in low-skilled sectors of the UK economy and the factors driving this”. Our report – *Migrants in low-skilled work: the growth of EU and non-EU labour in low-skilled jobs and its impact on the UK* – is over 300 pages long and quite technical in places. Therefore, we have also produced this shorter, less technical version.

Low-skilled work accounts for 13 million jobs, two million of which (16 per cent) are held by migrants. Those jobs held by migrants are split 60:40 non-EEA: EEA. A million migrants in low-skilled jobs have come to the UK in the last decade. Half of them were from Central and Eastern Europe following enlargement.

Five themes emerge from our investigation. First, our flexible labour market has mainly served us well, but there are insufficient resources devoted to key regulatory bodies such as HMRC, which enforces the national minimum wage, and the Gangmasters Licensing Authority. Similarly, the penalties for breaching the regulations are not severe enough. There also needs to be more sharing of labour market intelligence among the agencies.

Second, the youth labour market is a concern. We do not find strong evidence that this is a consequence of the expansion of the EU in 2004. Schools presently have an incentive to boost the number of A* - C grades in GCSE exams. This may imply insufficient attention is given to those towards the bottom (and top) of the ability range. Many apprenticeships do not stretch the individual sufficiently and have too little employer input. Greater attention needs to be given to raising the awareness of, and adjusting aspirations towards, available opportunities and improving the soft skills of those at the lower end of the ability range.

Third, there needs to be greater recognition of, and support for, the local impact of immigration. The non-UK born population of England and Wales grew by 2.9 million between 2001 and 2011. Three quarters of this rise was in just a quarter of local authorities. Although we show that, nationally, the economic impact of immigration on GDP per head, productivity and prices is very modest, the economic and social impact on particular local authorities is much stronger. This includes pressure on education and health services and on the housing market and potential problems around cohesion, integration and wellbeing.

Fourth, demand for migrant labour is strongly influenced by institutions and public policies not directly related to immigration. These include, for example, labour market regulation, investment in education and training, and pay levels in some publicly funded low wage jobs. The trade-offs between immigration levels and greater or lower investment in these areas is worthy of fuller discussion.

Fifth, the 2004 EU enlargement provides lessons for both the UK and other member states for any future EU expansion. There are eight candidate or potential candidate countries. They have a combined population of over 90 million and income levels mostly of around a third to a half the EU average. Given

Migrants in low-skilled work

that differentials in income are a prime driver of migration flows, both the EU and British authorities will wish to think carefully how any future expansions are handled.

Professor Sir David Metcalf CBE

Migration into low-skilled jobs Scorecard

BENEFITS

- Benefits owners of capital e.g. important for firms in labour intensive sectors such as food manufacturing, agriculture and restaurants, who often cannot get an adequate supply of UK-born labour.
- May complement UK-born skilled workers and some unskilled local workers, enabling them to specialise in more highly paid jobs.
- Migrants are more mobile and flexible than UK-born e.g. prepared to change location, live at the workplace and do shift work. This helps grease the wheels of our flexible labour market.
- The biggest gains go to the migrants themselves. Their income in the UK is much higher than in their home country and their extended family might benefit from any remittances.

COSTS, particularly in some local areas and some sectors

- Causes overall population to rise and the composition of many local area populations to alter rapidly. This may have implications for cohesion and wellbeing but such a possibility needs further investigation.
- Congestion – pressure on health (e.g. maternity services), education (e.g. churning during school year) and transport services.
- Impact on housing market: puts pressure on private rented market; locally problems with houses of multiple occupation; modestly reduces the probability of a native getting social housing – but the main problem here is not more migrants, rather a smaller stock of social housing.
- Small negative impact on the wages of the low paid. This raises issues around compliance and enforcement of e.g. the national minimum wage. Inspection regimes are insufficiently robust and penalties too feeble. An employer can expect a visit from HMRC once every 250 years and a prosecution once in a million years.

NEUTRAL OR VERY SMALL IMPACTS

- The employment rate of UK-born working-age population was practically unchanged by the substantial inflow of EU8 migrants after 2004.
- The youth labour market (aged 16-24) remains a cause for concern but this is about aggregate demand and education and training policy rather than immigration.
- Over the period 2000-2011, migrants and natives made very similar contributions to our fiscal position, around minus £1000 per person per year. This partly reflects the post 2008 recession. Recent migrants who arrived post 2000 made a positive contribution, but pre-2000 non-EEA migrants made a large negative contribution, reflecting differences in relative age and employment rate.
- The impact on GDP per head, productivity and the price of non-tradable services like dry cleaning, hair dressing, and gardening is tiny.

Migrants in low-skilled work in the UK

I. Introduction

Our task

In May 2013, the Minister for Immigration asked the MAC to advise on the issue of low-skilled work migration, the factors driving it and the resulting economic and social impacts (Box 1). In response to this commission we have produced the full report “*Migrants in low-skilled work: the growth of EU and non-EU labour in low-skilled jobs and its impact on the UK*” alongside this shorter and less technical version.

Box 1: Government Commission to the MAC

“To consider the labour market, economic and social impacts on the UK and specifically on British workers, drawing on and updating earlier work in this area. In particular, the MAC is asked to research the growth of migrant labour, distinguishing where possible between EEA and non-EEA migrants, in low skilled sectors of the UK economy and the factors driving this.

In doing this, the research should address:

(i) The extent to which, and the reasons why, employers actively choose to recruit migrant workers and through which channels.

(ii) Why these migrant workers are attracted to coming to work in the UK, and how the UK compares with other countries in this context.

(iii) The extent to which migrant labour fills gaps in the UK domestic labour supply for low-skilled work and whether the work they find is a match for the skills they bring.

(iv) Whether there are structural or cultural issues, which inhibit the recruitment of UK-born workers, including issues such as motivations and attitudes to work. Consideration should also be given to the interaction of factors including skills, housing, education provision, the benefits system and the labour market regulation, with a view to making recommendations as to possible actions here.”

Our approach

The analysis in this report is based on a combination of desk-based research and evidence we received from corporate partners, gathered through a series of targeted activities. We ran a call for evidence in autumn 2013, and visited several local authorities across the UK. We also commissioned research from Frontier Economics, the Warwick Institute for Employment Research, and Professor Tommaso Frattini, and engaged with academics and other experts. Building on our previous work, we are also updating analyses of the impact of migration on pay and employment.

Box 2: Defining low-skilled work and migrants

Low-skilled work

We use mostly the Office for National Statistics (ONS) Standard Occupational Classification (SOC) skill classification, which at its broadest level categorises the following as low-skilled occupations:

- Administrative and secretarial occupations
- Caring, leisure and service occupations
- Sales and customer service occupations
- Process, plant and machine operatives
- Elementary occupations

However, we do adopt a flexible approach and make use of other definitions, when they are more suitable, during the course of this report. Since there is no single objective definition of low-skilled jobs, we have considered different existing definitions as well as different methods that could be used to define low-skilled jobs.

Migrants

Our preferred definition of migrants in this report is based on **country of birth**, particularly as we are focusing more on recent migration. However, this definition is used with some flexibility and we have used alternative definitions – e.g. foreign national (those who do not hold UK citizenship) - when appropriate.

We distinguish between those born in the:

- UK;
- EU, with a further distinction between:
 - EU member states prior to 2004 (EU15);
 - Central and Eastern European countries who joined the EU in 2004 (EU8) and 2007 (EU2);
- non-EU countries

Migrants in low-skilled work

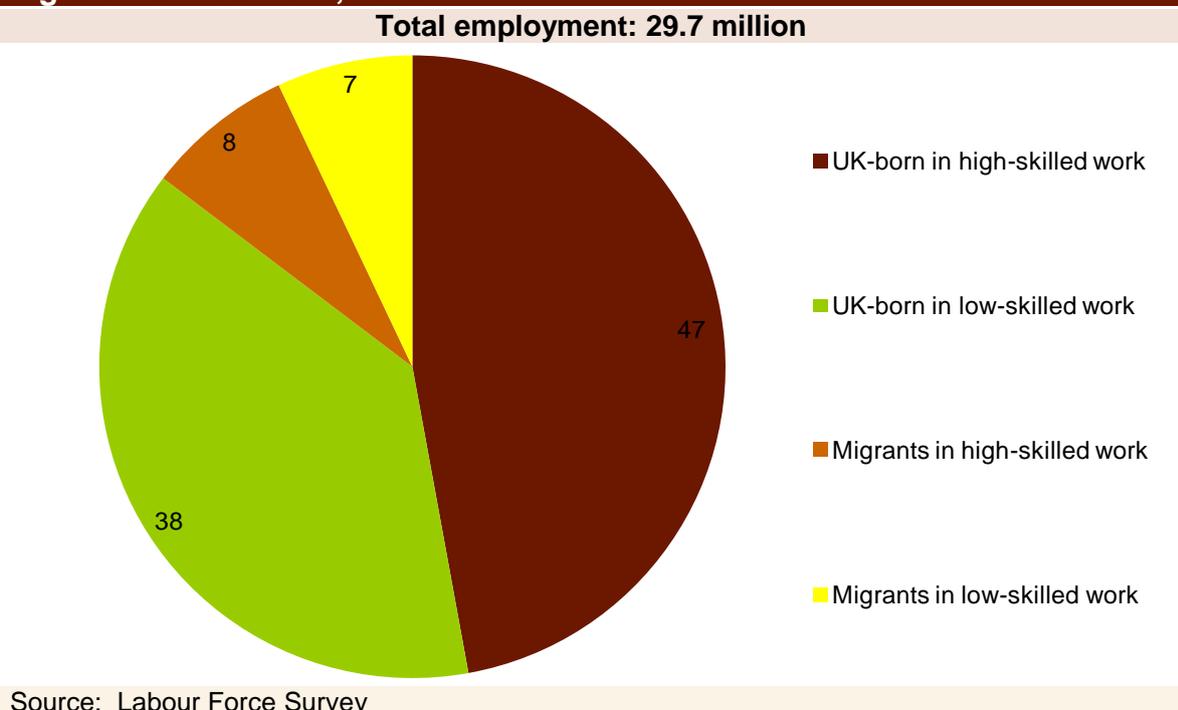
Where data are available, we present results mainly for those migrants working in low-skilled jobs only. In some cases this is not possible and we instead identify this type of migrant on the basis of those countries where migrants are more likely to be in low-skilled employment.

II. Migrants and UK workers in low-skilled jobs

In 2013 there were around 13 million people in low-skilled jobs in the UK, of which 2.1 million were foreign born.

In 2013 there were 29.7 million people aged 16 and over in employment in the UK (Figure 1). Employment in low-skilled occupations accounted for 45 per cent of this (13.4 million) and migrants accounted for approximately 16 per cent of all those in low-skilled work (2.1 million). This was slightly above their overall share of the population (12 per cent) but broadly in line with their share of all employed persons (15 per cent), regardless of skill level.

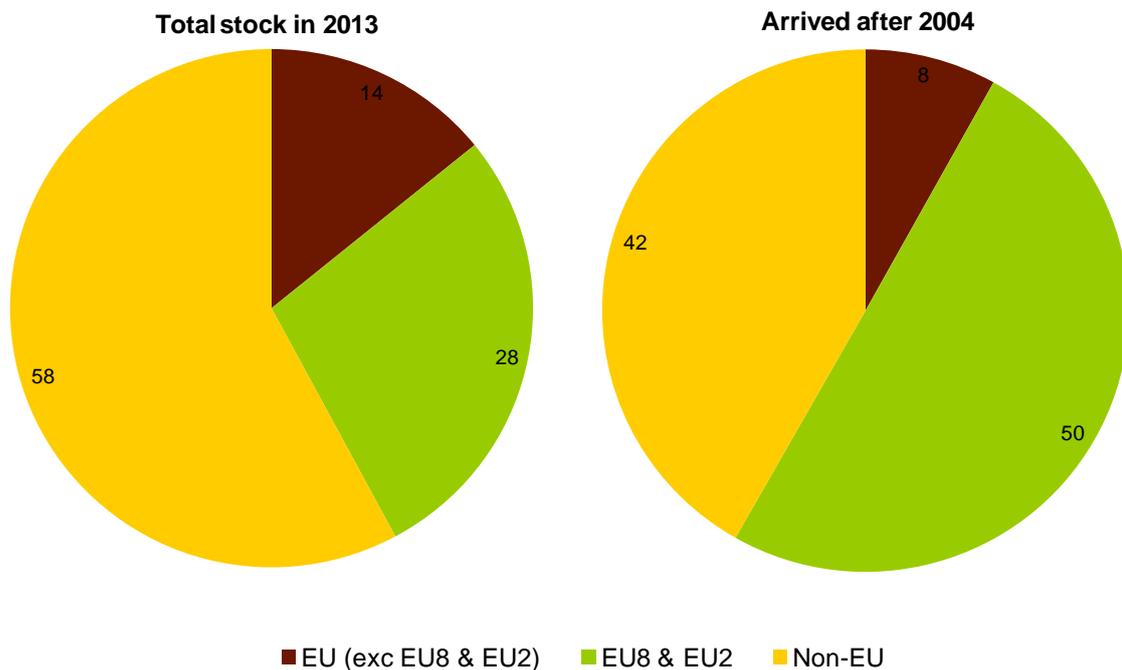
Figure 1: Percentage of total employment by country of birth and whether in high/low-skilled work, 2013



58 per cent of migrants in low-skilled work were born outside the EU.

The UK has not operated an immigration route for low-skilled labour from outside the EU since the introduction of the Points Based System in 2008. Despite this, non-EU born migrants still account for the majority of foreign-born workers in low-skilled jobs. However, the majority of these have been here longer term (Figure 2).

Figure 2: Migrants in low-skilled jobs by region of birth, 2013



Source: Annual Population Survey

One million migrants in low-skilled jobs in 2013 have come to the UK within the last ten years.

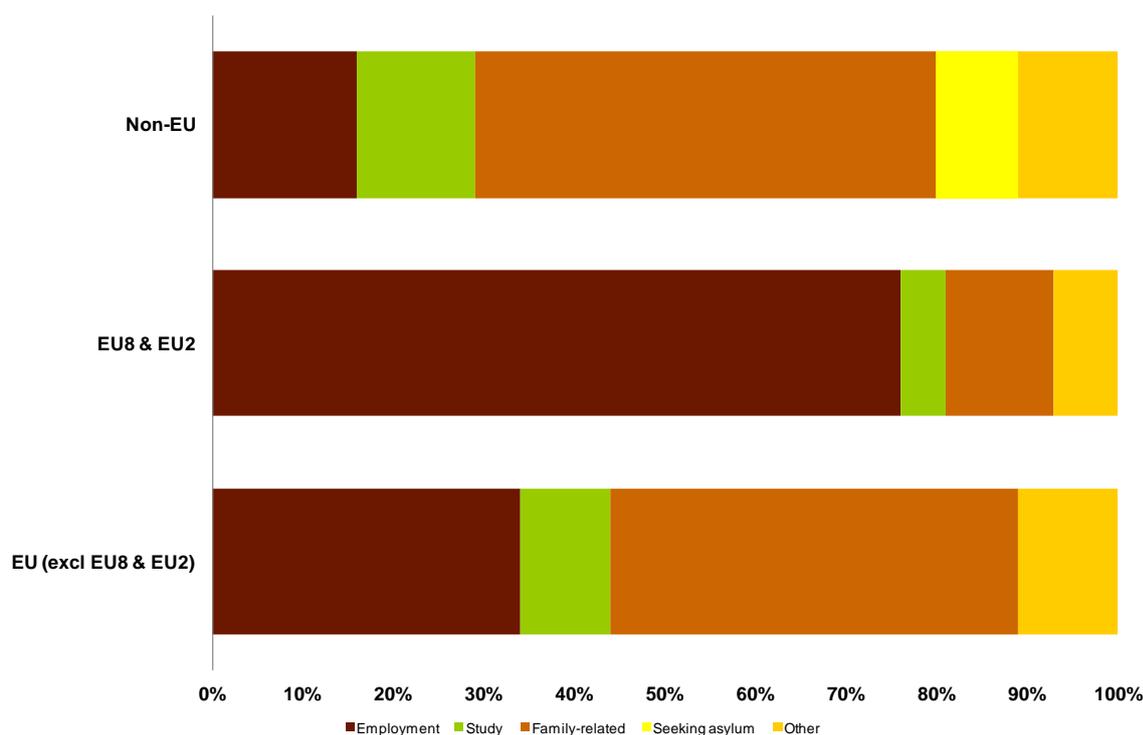
Half of all migrants in low-skilled jobs have come to the UK since 2004. Half a million have come from Central and Eastern Europe, following EU enlargement in 2004 and 2007. Over 300,000 now working in low-skilled jobs came from Poland.

Some 289,000 migrants have come since 2010 to work in low-skilled jobs. Again, around half are from the EU accession countries, but almost one in six are from the EU15 countries such as Spain, Portugal and Italy, reflecting the relatively poor economic performance of the Euro zone economies and the resulting high unemployment. Just over 100,000 came from non-EU countries.

Three-quarters of the current stock of EU8 and EU2 migrants came to the UK for work reasons, whereas three-quarters of non-EU migrants came for family-related, asylum or study reasons (Figure 3).

Migrants in low-skilled work

Figure 3: Stock of migrants in low-skilled jobs by self-reported immigration route, by region of birth, 2013



Source: Labour Force Survey

Changes to immigration policy have been a significant factor behind the rise in immigration to the UK.

Migration is driven broadly by economic reasons (relatively better employment opportunities and wages in the host country net of migration costs), along with network effects (geographical clustering of migrants based on personal ties with family and friends).

UK immigration policy is also an important determinant of migration. Migrant flows to the UK over the past 15 to 20 years have been heavily influenced by changes to UK immigration policy. A marked increase in the number of work permit visas along with a rise in numbers granted asylum and more modest increases for family and student immigration, all contributed to increase non-EU immigration by over 100,000 between the mid and late 1990s. EU enlargement in 2004 then resulted in further significant migrant flows from Central and Eastern Europe, not least because other potential destination EU15 countries (such as Germany) opened their labour markets much later. Migrant flows from Bulgaria and Romania (EU2) to the UK since 2007 have been smaller by comparison, as most EU2 migrants have gone to Spain and Italy.

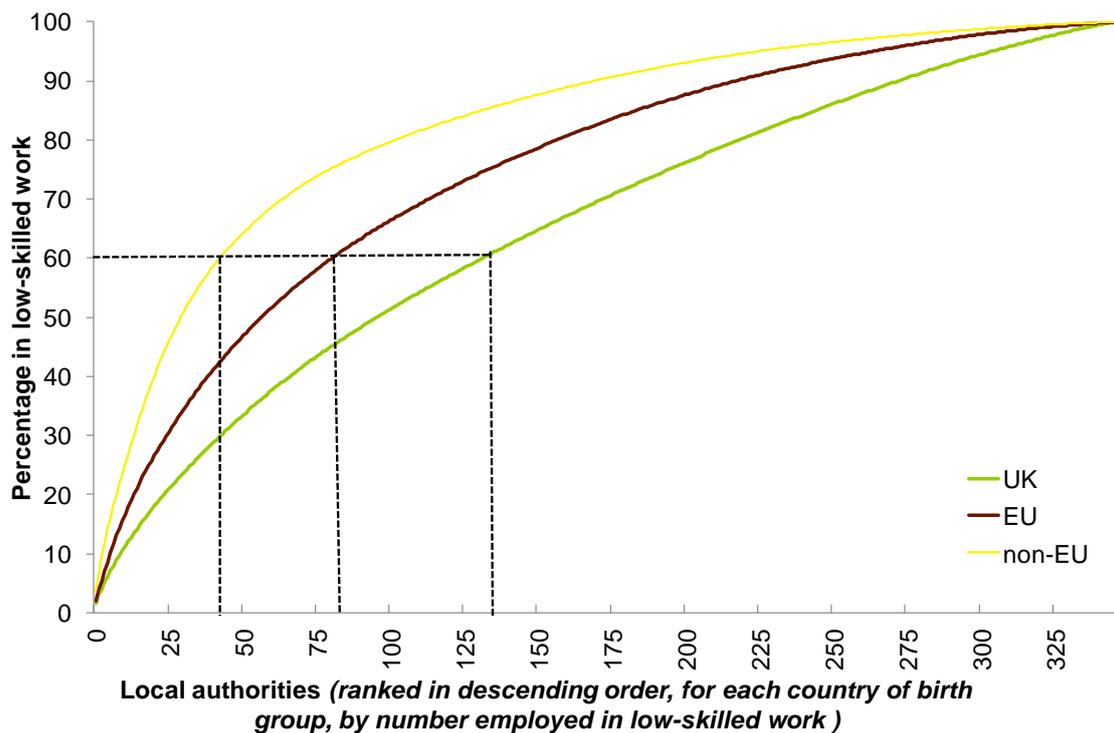
Other domestic policies play a part too. These include education and training policy, resources available for publicly funded services such as care, and labour market flexibility. Although there is much debate around migrants coming to the UK to seek benefits, there is little evidence to support the so-called *welfare magnet hypothesis* as a migration driver across EU countries.

Migrants working in low-skilled jobs are concentrated in a relatively small number of local authorities, implying that there are large parts of England and Wales where competition between UK-born and migrant workers will be either very small or almost non-existent.

Sixty per cent of non-EU migrants in low-skilled work are concentrated in just 12 per cent (43 out of the 348) of local authorities in England and Wales (Figure 4). Non-EU migrants are mostly located in London, as well as in a small number of local authorities outside of London. These are usually in areas with a longer history of migration.

EU migrants working in low-skilled occupations are more geographically dispersed than non-EU migrants. But EU migrants are still more concentrated than equivalent UK-born workers, as 60 per cent of EU-born migrants are concentrated in around a quarter of local areas in England and Wales. Again, many are in London, but areas such as Lincolnshire, Cambridgeshire and Northamptonshire have seen a rapid increase in EU migration since 2001.

Figure 4: Cumulative proportion of low-skill employment by local area, by country of birth, 2011



Notes: Data are based on all usual residents aged 16 and over in employment. The horizontal axis represents the 348 local authorities in England and Wales, arranged in descending order of the numbers, by region of birth, in low-skilled work. The vertical axis then shows the cumulative share of all those in low-skilled work, by region of birth. As an illustration we show the number of local authorities where 60 per cent of each region of birth group in low-skilled work are located. Source: Office for National Statistics (2014b). England and Wales Census of Population, 2011

Migrants in low-skilled work

The UK-born population working in low-skilled jobs are more evenly spread across all local authorities than migrants. When considering the impacts of migration there is a need to think about it more in local rather than national terms.

Labour market

There is not a fixed number of jobs in the economy: since the early 1970s UK employment has increased by over 5 million persons. But as the working age population has grown by a similar proportion, the *employment rate* has remained relatively stable at around 70 to 75 per cent. In other words, as the population grows (due to the UK as well as the foreign-born) so too, broadly speaking, does the number of people in work.

What has changed are the nature of jobs being done and the people who are doing them. The number of people in low-skilled jobs in 2013 was very similar to the number in low-skilled jobs in 1997. By contrast the numbers of both UK-born and migrants employed in high-skilled occupations increased over the same period (Table 1).

Table 1: Employment levels and shares by skill group

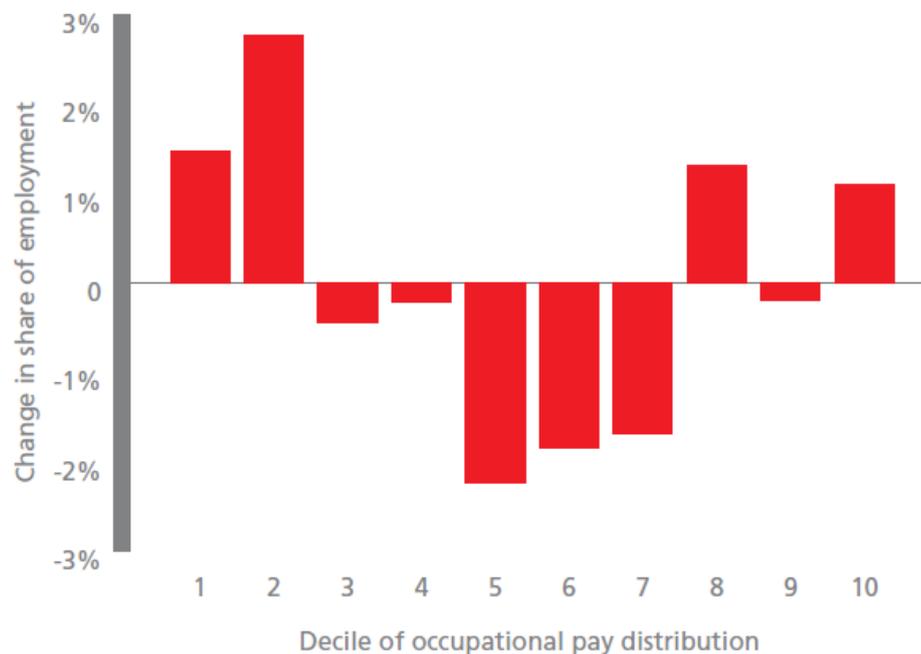
Skill group	Country of birth	1997		2013	
		Level (000s)	Share (%)	Level (000s)	Share (%)
High-skilled	UK	12,000	92	14,000	86
	Non-UK	1,000	8	2,300	14
	Total	13,000	100	16,300	100
Low-skilled	UK	12,500	93	11,400	84
	Non-UK	1,000	7	2,100	16
	Total	13,500	100	13,400	100

Source: Labour Force Survey

Over the last 20 years, there have been changes in the composition of employment among occupations. One of the main aspects of these changes has been the alteration in “middle-jobs” or *hollowing out*.

Hollowing out refers to changes in the distribution of jobs between two points in time, based on the wage distribution at the initial point. Recent analysis for the period 2002 to 2010 shows that the occupational structure has changed markedly. There has been rapid growth in high wage occupations, such as managers and professionals, but also strong growth in low wage occupations such as retail assistants and care workers. But the employment share in middle-income occupations (such as clerical and manufacturing) has fallen significantly (Manning, 2013) (see Figure 5).

Figure 5: Job polarisation in Britain, 2002 to 2010



Source: Manning (2013)

Changes in occupational employment by country of birth

For almost all occupations, there was an increase in the employment of migrants since 1997. In some low-skilled occupations, for example, elementary service and administration occupations, this increase was of similar size to the decrease in employment of the UK-born in these occupations. Different migrant groups were responsible for the increases in different occupations. Non-EU migrants accounted for most of the increase in migrant employment in caring, leisure and other service occupations, whereas EU8 and EU2 migrants accounted for the majority of the increase in process, plant and machine operatives.

Between 1997 and 2013, the numbers working in low-skilled occupations remained roughly the same. A 1.1 million decrease in UK born employment was offset by a 1.1 million increase in migrant employment...

...but this should not be interpreted as migrants displacing UK-born workers on a one-for-one basis. A 2 million increase in employment of UK-born in high skilled jobs more than offset this.

Between 1997 and 2013, total employment increased by approximately 3.3 million. All of the increase in aggregate total employment was due to an expansion of high-skilled occupations. Employment in low-skilled occupations as a whole was virtually stable between 1997 and 2013.

Around a third of the overall employment increase (almost 1.1 million) was accounted for by UK-born workers. This was because employment of UK-born in

Migrants in low-skilled work

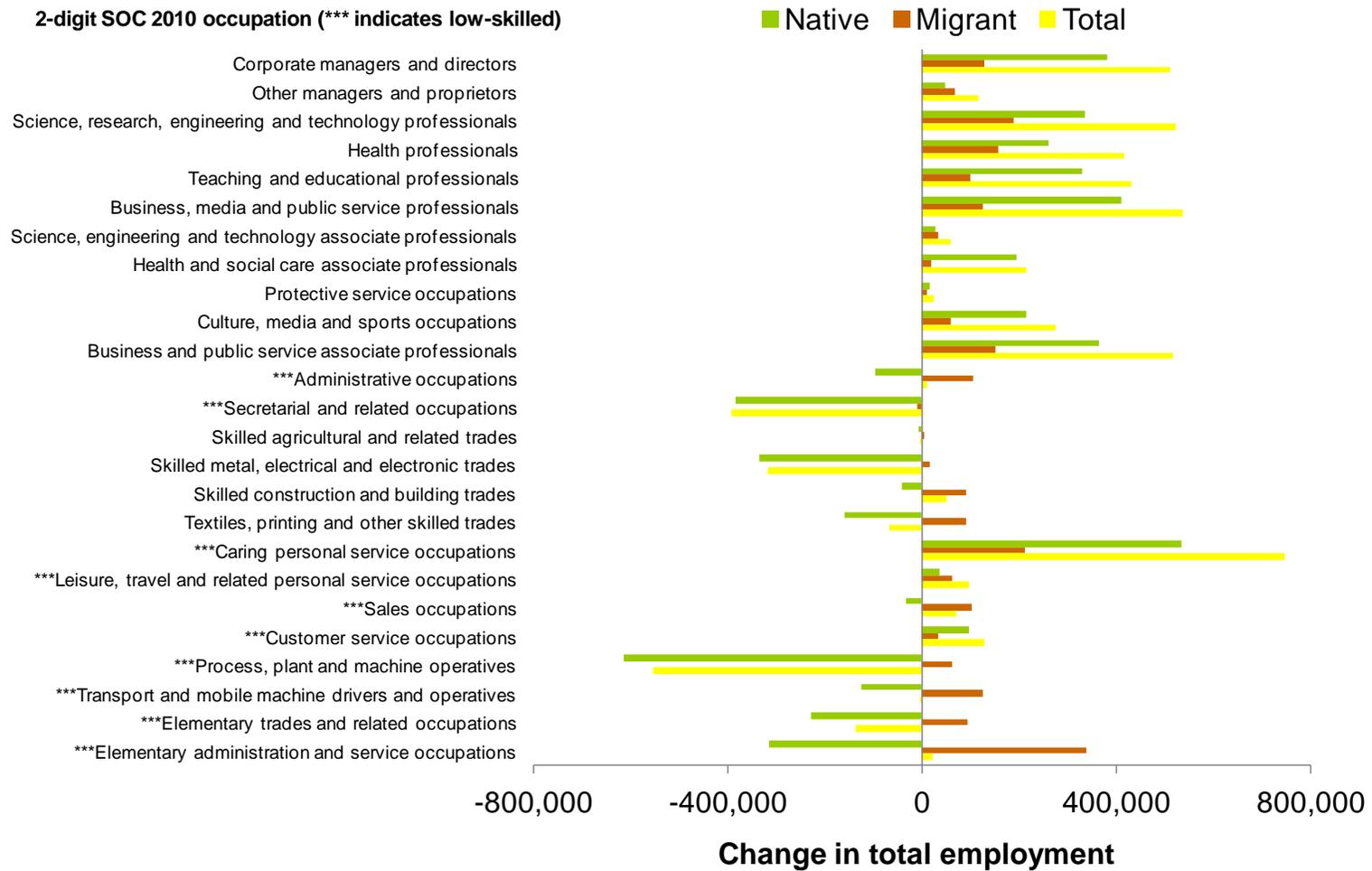
high skilled work increased by 2 million, which more than offset the 1.1 million decline in UK born employment in low skilled work. Migrant employment increased by 1.1 million in low skilled occupations and by 1.3 million in high skilled work.

Within low skilled employment the key changes by occupation were (Figure 6):

- Employment in *process, plant and machine operatives* occupations decreased by 550,000, the largest decrease for any 2-digit occupation. This was entirely due to a decrease in UK-born employment, as migrant employment increased slightly.
- Employment in *caring and personal service* occupations increased by 750,000, the largest increase for any low-skilled occupation. Almost three-quarters of this was due to increased employment of UK born workers.
- Employment in *elementary administration and service occupations* remained approximately the same, but masked a decrease of 320,000 in UK-born workers and an increase of 340,000 in foreign-born workers.

Migrants in low-skilled work

Figure 6: Change in total employment by occupation and country of birth, 1997 to 2013

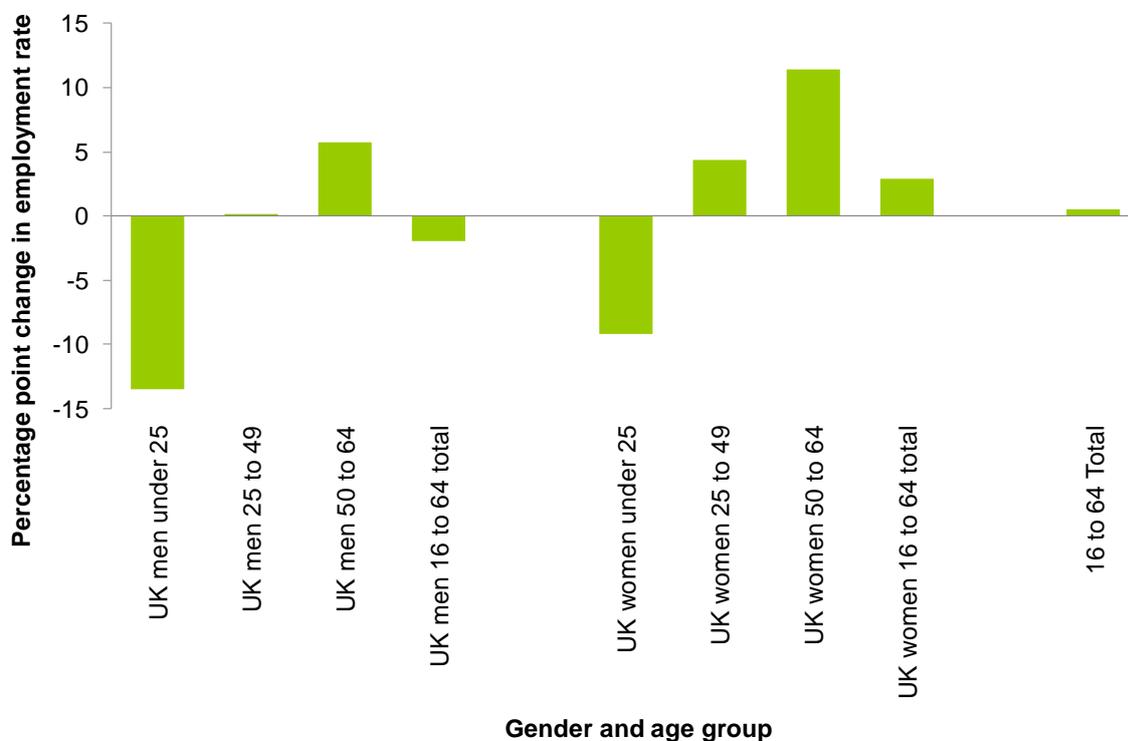


Source: Labour Force Survey

Migrants in low-skilled work

Employment rates for most UK-born age groups have been largely unchanged over the period 1997-2013.

Figure 7: Percentage point change in employment rates for UK-born men and women aged 16 to 64 by broad age, 1997 to 2013



Source: Labour Force Survey

Over the period, the employment rate for the UK-born working-age population as a whole was largely unaffected (Figure 7), increasing by half a percentage point. This relatively small change was due to two main factors:

- the expansion of employment in high-skilled jobs resulted in an extra 2 million UK-born workers in these jobs; and
- the shifts in demographics and participation rates for the UK born working-age population.

However, there were significant changes in the composition of UK-born employment and working-age population. Population and employment increased for those aged 50 to 64, along with their participation rate resulting in higher employment rates over the period 1997 to 2013. Among the prime-age working population, that is those aged 25 to 49, the relatively small change in employment rates (a 2.3 percentage point increase overall between 1997 and 2013) disguised significant changes in employment and population: total employment fell by 900,000, but largely because the population aged 25 to 49 itself fell by almost 1.6 million.

Total population for those aged under 25 grew by around 600,000 but employment fell by almost 400,000. Employment rates for younger men fell by over 13 percentage points and for younger women by nine percentage points.

Around two-thirds of the decline in employment rates was due to a fall in labour force participation.

Young people in the labour market

Although youth employment rates fell significantly this was mainly due to increased participation in full-time education.

There is little evidence to support the idea that the recent deterioration in the youth labour market was a direct consequence of increased competition for (mainly low-skilled) jobs following the inflow of migrant workers, especially after 2004. But there remains justifiable concern about the number of young people who are not in education, employment or training – the so-called NEETs.

In 2013, of the 7.2 million people in the UK aged 16 to 24, three million were in full-time education (FTE), and 4.2 million were not in FTE. Most (2.9 million) of those not in FTE were in work (Table 2). This leaves 1.3 million who are neither in FTE nor are working (0.6 million were unemployed and 0.7 million were economically inactive). As some of these will be in part-time education, it is estimated that around one million are classified as NEET (ONS). It is this group of 16 to 24 year olds which should be the focus of concern when considering the outcomes of young people in the labour market.

Table 2: Decomposition of 16 to 24 year old population (millions), 2013

Total Population	Full-time education (FTE) status		Labour market status	
7.2	In FTE	3.0	Employed	0.8
			Unemployed	0.3
			Inactive	1.9
	Not in FTE	4.2	Employed	2.9
			Unemployed	0.6
			Inactive	0.7

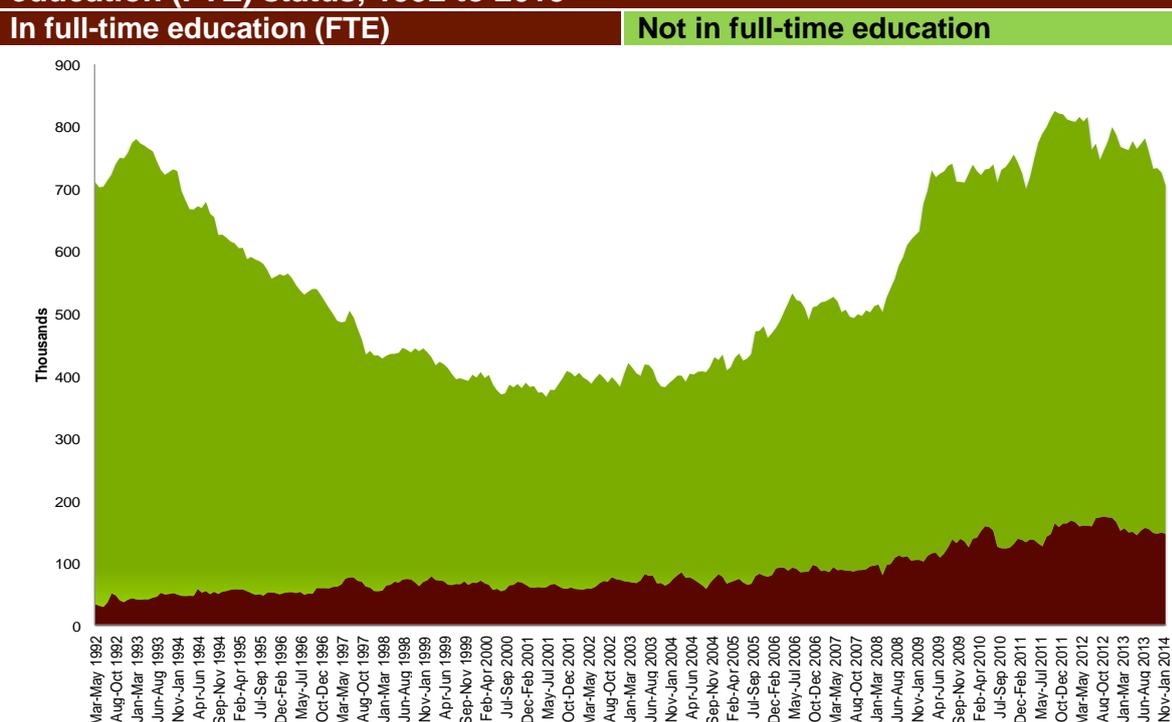
Source: Office for National Statistics (2014c)

For those aged 16 to 17, although their unemployment rate is relatively high (of the order of 35 per cent) , a far greater proportion of this age group is in full-time education – more than eight out of ten 16 to 17 year olds in 2013, up from six in ten 20 years ago. Unemployment for those not in FTE is less than 40,000, half the level it was before the recession in 2008. The unemployment-population ratio for this group is therefore at its lowest level since 1992.

For the 18 to 24 age group, the proportion that is in FTE has doubled to 31 per cent over the past 20 years. For those not in FTE, the majority (over 70 per cent) are in work. However, there remain 700,000 unemployed young people aged 18 to 24, almost the same as in 1992. Trends in youth unemployment seem to be more of a cyclical phenomenon, as it fell markedly in the period between the recessions of the early 1990s and 2008 (Figure 8).

Migrants in low-skilled work

Figure 8: Trends in unemployment for 18 to 24 year olds by full-time education (FTE) status, 1992 to 2013



Source: Office for National Statistics (2014a)

According to evidence we received from the Department for Education (DfE), around a third of NEETs are either out of scope (e.g. gap year students) or have an identifiable barrier to work such as a disability or child care responsibilities. This leaves around 600,000 with no identifiable barrier.

Just 1 in 40 young people who achieve five or more General Certificates of Secondary Education (GCSEs) at A*-C at school are NEET at age 17. This compares with one in six who obtained fewer GCSEs.

Along with aggregate demand, academic attainment, work experience and soft skills all play a role in determining a young person's access to employment and training opportunities. Basic qualifications, especially English and Maths, are important for their employment prospects. Evidence from Wolf (2011) and the Organisation for Economic Co-operation and Development (OECD)'s adult skills survey (2013) suggest that the skills of young people in these areas are placing them at a disadvantage in today's labour market. DfE told us that prior educational attainment is the most important predictor of whether a young person becomes NEET.

Unless more thought and resources go into education and training policies for the less academically gifted young adults, the country must expect employers to continue to look to well qualified migrants. Do we UK residents wish to make such investments or not?

III. Recruitment, institutions, compliance & enforcement in low-skilled sectors

Have some employers developed a preference for recruiting migrants over UK workers?

Employer demand for labour is often expressed in terms of skills needs or skills shortages. Although commonly used in academic and policy debates, the term skills has become very vague. It is important to recognise that, in practice, skills can refer to a wide range of qualifications, competencies and attributes.

Respondents to our call for evidence also highlighted the types of skills and qualities they look for when recruiting for low-skilled jobs. Although most of them emphasised that they do not intentionally target migrant workers, many suggested that migrant workers were meeting their requirements, while British workers either do not or would not apply for the job in the first place.

Employers reported to us that one of the major issues with UK workers applying for low-skilled jobs was the lack of basic numeracy and literacy skills. Migrants, especially newly-arrived migrants, may be prepared to accept jobs whose skills requirement are below their actual skills and qualifications, perhaps because their English language skills are not yet fully developed.

Data from the LFS confirm that migrant workers in low-skilled jobs may be over-qualified for their current position. The proportion of migrant workers in low-skilled jobs who left full-time education at age 21 or above is higher than for UK workers. Around one-third of non-EU and EU8 and EU2 workers in low-skilled jobs left full-time education at age 21 or above (Table 3). This compares with 10 per cent of UK workers in low-skilled jobs.

Table 3: Percentages of low-skilled workers by age at which left full-time education, by country of birth, 2013

Age at which left full-time education	UK	EU (excluding EU8 & EU2)	EU8 & EU2	Non-EU
<16	11	12	4	11
16 to 20	73	61	62	54
21+	10	24	32	32
Still in FT education	6	3	2	3

Source: Labour Force Survey

Employers' requirements of workers can include formal qualifications, but also other attributes and characteristics - soft skills. Soft skills include flexibility, reliability, team-working, continuous-improvement, but also confidence.

Employers told us that migrant workers, particularly those from Central and Eastern Europe, possess and display better soft skills than British workers.

Migrants in low-skilled work

Some employers perceive migrants to have a better work ethic, which can encapsulate a range of factors related to employers' specific needs and job requirements. When the work on offer is temporary, or seasonal, or unpleasant and with unsociable hours, some employers reported to us that UK workers were seen as less reliable than migrants, unable to sustain the pace of work required, less willing to work unsociable shifts, and had very high attrition rates. Research found that the migrants' supposed better work ethic was most commonly mentioned by employers in low-skilled sectors such as agriculture, food processing, social care and hospitality. Some researchers have identified the belief among employers that migrants are less likely to be trade union members as an explanation for attributing to migrants a better work ethic. Others have highlighted the migrants' willingness to live on-site or work long-hours or anti-social shifts.

Migrant workers are more mobile and more willing to be accommodated on site, when required, than the UK workforce, which tends to be tied to particular geographical locations. This is particularly the case among UK-born low-skilled workers.

What is the role of labour providers, including recruiting agencies, in influencing employers' recruitment decisions for work in low-skilled occupations?

Migrants in low-skilled work, particularly from EU8 and EU2 countries, are more likely than UK workers to have found work through agencies and to be over-represented among agency workers.

Labour providers, which include recruitment and private employment agencies and gangmasters, play a pivotal role at multiple stages in the migration process and in shaping migration geographies both in the UK and abroad. Those based in the sending countries can operate in three different ways:

- in partnership with an agency based in the UK;
- as part of an international agency with offices also based in the UK; and
- by providing labour directly to UK-based employers.

Recent research shows that gangmasters and recruiting agencies are engaged by employers not only to find workers with the appropriate skill set but are also charged with selecting motivated workers who fit with an employer's "national and racialised" stereotype.

Labour providers also provide migrant workers with other services such as information, assistance, and logistical support. It is mostly through these additional services that unscrupulous labour providers and employers may exploit migrants.

How are employers' recruitment decisions and practices influenced by institutions and public policies?

The relevant institutions and policies that impact on employers' recruitment decisions and practices are wide-ranging and include labour market regulations (such as the level and enforcement of the minimum wage), welfare policies, education and training, housing policies, and the regulation of recruitment agencies. Employers do not make their recruitment decisions in a vacuum and the institutional and policy framework can play an important role in influencing and shaping employer demand for labour in general and for migrant workers in particular.

The growth of immigration to the UK for the purpose of work has followed deregulation of the UK labour market, with less collective bargaining and a major decline in the influence of trade unions, towards a more flexible and individualised regime.

The availability of migrant workers combined with the low level of labour market regulations has enabled some employers to maximize the advantages to them and, at the same time, allowed migrants to acquire a significant place in the UK labour market, particularly in low-skilled sectors.

Public policies have an impact on the availability and willingness of UK workers to take low-skilled work. For example, many partners we met blamed the welfare system for eroding the work ethic of claimants by not giving them an incentive to work. The complexity and risks associated with signing off benefits did not encourage claimants to take up temporary or seasonal work.

The housing market also plays an important role in shaping internal labour mobility and regional labour markets. Lack of portability of social housing entitlements, and limited availability of social housing impact on internal labour mobility, and on the willingness of UK workers to accept low-skilled work.

In publicly funded sectors, such as the care sector, lack of investment can create an increased demand for migrant workers. Employers in this sector told us that shortages of social care workers and care assistants are largely due to low wages and poor working conditions. Most social care in the UK is publicly funded but provided by the private sector and voluntary organisations. Constraints in local authority budgets have resulted in under-investment in the sector. This has impacted on the wages that care providers are able to offer. This reduces the numbers of British workers willing to work in the sector, and having fewer workers increases the pressure on those who do work in the sector.

Compliance and Enforcement

Enforcement of labour standards, including statutory rights, employment contracts and health and safety norms, is particularly relevant to labour migration. Migrant workers may have greater need of an effective enforcement mechanism as they may be unaware of their rights and/or they may have insufficient English

Migrants in low-skilled work

language skills to seek effective redress. The halving of collective bargaining coverage since 1980 also makes the enforcement of labour market regulations much more problematic.

Labour standards enforcement is currently divided between several agencies in the UK.

The UK has a number of different bodies and agencies with responsibility for enforcing the UK's employment regulations. It is the role of these bodies to prevent contraventions of rules and regulations including such matters as unpaid wages, denial of contract, unfair dismissal, and excessive working hours. They include:

- HMRC monitors compliance with and enforces the national minimum wage. It has the power to investigate individual workers' complaints and, where there is a perceived high risk, can extend investigations to the whole of the workforce.
- Health and Safety Executive (HSE) monitors workers' health, safety and illness and their working time.
- The Gangmasters Licensing Authority (GLA) regulates labour providers or gangmasters who provide workers to the agriculture, forestry, horticulture, shellfish-gathering, food processing and packaging sectors.
- Employment Agencies Standards Inspectorate (EASI) is responsible for investigating complaints about employment agencies and employment businesses. Most of EASI's resources were transferred in 2013 to the national minimum wage inspectorate in HMRC.

Enforcement of the National Minimum Wage

The Low Pay Commission (LPC) estimates that there were 1.3 million minimum wage jobs in 2013, approximately 5.1 per cent of all jobs in the UK economy. Of these 1.3 million jobs, three-quarters were in low-paying sectors, based on the LPC definition of a low-paid worker. Half of minimum wage jobs are in the hospitality, retail or cleaning sectors and minimum wage jobs accounted for a relatively high proportion (around 20 to 30 per cent) of total jobs in the hospitality, cleaning and hairdressing sectors.

If an employer is found to be non-compliant, i.e. not paying the relevant NMW, three penalties can apply.

First, arrears of wages are identified. From 1999 to 2013, £45 million in arrears for over 200,000 workers were identified, equivalent to £225 per worker, which is a non-trivial sum for a minimum wage worker. However, we understand that "identified" does not automatically mean "paid". In fact, many employers declare themselves to be bankrupt in order to avoid paying these arrears (often to resume business under an alternative identity soon afterwards).

Second, an underpaying employer has to pay a fine, or penalty, for non-compliance. In 2012/13, 708 employers received such penalties totalling £777,000. We believe an average penalty per employer of just over £1,000 provides little incentive to obey the law. That said, we note that the maximum penalty has recently been increased from £5,000 to £20,000 for every underpaid worker – recognition that the previous fine was inadequate.

Third, the Department for Business, Innovation and Skills (BIS), in their response to our call for evidence, states that, “*the Government operates a policy of selective and exemplary criminal investigations to bolster our overall national minimum wage compliance and enforcement strategy*”. BIS told us that “*the focus of HMRC investigators must...be on cases where prosecution will do most to promote compliance with the law*”. HMRC told us that only the most severe cases are prosecuted. They said that it is more worthwhile for them to go down the civil route rather than the prosecution route, and even then, many employers disappear and employees move to self-employed status. This latter move is, we were told, very difficult to challenge as it is the employer’s responsibility to define employment status. HMRC also said that it is very difficult to prosecute labour providers as they may not have any assets.

Is enforcement of the legislation effective?

On average, an employer faces the possibility of prosecution under the NMW legislation once in a million years! We believe that such a likelihood of prosecution seems unlikely to promote compliance with the law.

In the thirteen years following the introduction of the NMW in 1999, HMRC carried out about 65,000 employer interventions or visits, equivalent to 5,000 per year. There are around 1.2 million employers in the UK and, therefore, at that annual rate of visits, without targeted, risk-based visits, it would take almost 250 years to inspect every employer. Even though the risk-based approach used by HMRC raises the likelihood of a visit for potential non-compliant firms, such small probabilities hardly provide a strong incentive to comply.

Similarly, in the seven years from 2007 to 2013, nine employers were prosecuted for non-compliance with the NMW legislation, which is equivalent to 1.3 prosecutions per year.

We received evidence and saw for ourselves how the lack of effective enforcement impacts on the ground. Most often this is because some employers feel they do not have to comply with the relevant legislation. For instance, we heard how employment agencies and employment businesses are excessively charging migrant workers for their services. Agencies also offer migrant workers loans and the workers are told that such loans must be repaid through a salary-deduction scheme. Typically, workers were unaware of the payment terms at the outset. This results in migrants being charged at a level similar to or sometimes even higher than those of moneylenders. These loans tie the workers to the agents preventing them from easily moving jobs.

Migrants in low-skilled work

Although there are inevitably frustrations associated with enforcement action and the ensuing legal action, it is also worth bearing in mind that the enforcement agencies can point to a number of success stories (see Box 3).

Box 3 Case study: GLA upholding labour standards through licence monitoring

On 5 March 2014, the GLA labelled DJ Houghton Ltd the ‘worst UK gangmaster ever’ for their ‘prolonged and disgraceful’ exploitation of workers. After lengthy efforts to clear its name, the gangmaster finally withdrew its appeal against the decision to revoke its license dating back to October 2012.

At that time, 29 Lithuanian men were found to have been ‘treated like slaves’ when put to work as chicken catchers by DJ Houghton Ltd, which provided migrant workers to Noble Foods, one of the UK’s largest processors of eggs and chickens.

The men gave evidence detailing: physical and mental control through beatings and the use of dogs to intimidate; excessive recruitment fees; wage deductions and withheld wages; poor and cramped living conditions; confinement in a transit van for days without washing or toilet facilities; movement around the UK from job to job, paid only for the time that they were working; and a lack of health and safety equipment or training.

Upon uncovering this exploitation, the GLA immediately revoked DJ Houghton’s license for failing 18 separate GLA Licensing Standards, including: 2.2 Paying wages in accordance with National Minimum Wage; 3.1 Physical and mental threats to workers; 3.3 Withholding wages; and 4.1 Quality of accommodation.

Source: Robinson (2014)

A significant proportion of the evidence we received told us that enforcement action did serve to punish a number of employers found to be in breach of or not complying with the relevant legislation. But the temptation for employers to avoid costly compliance, and the rewards to them for doing so, were such as to not act as a sufficient brake on those willing to take a chance. In looking at the influence of legislation on how employers and recruitment agencies engage with migrant labour, recent research found that unscrupulous activity surrounding payment of overtime, income taxes, National Insurance contributions, holiday pay and adherence to health and safety and other legislation was commonplace in the food production and processing sectors. Perhaps the major retailers should devote even more care to ensuring their supply chain meets their demanding ethical standards.

These factors served to create incentives for some organisations to cut corners in order to reduce their costs.

Legitimate labour providers reported that competing with providers who were cutting corners was very difficult because they could offer labour to employers at reduced rates.

Many labour providers criticised employers for being complicit in this type of unscrupulous activity because the employer would be aware that the only reason the provider could supply workers so cheaply was because it was cutting corners. In these situations employers were said to not ask questions because they did not want to know the answers.

The Forced Labour Monitoring Group (FLMG) told us that, in the sectors under the GLA umbrella, migrants are recruited by labour providers (both in their home country and within the UK) and employers, because migrants represent a more obedient source of low-wage labour. This can lead to exploitation and in extreme cases forced labour.

The FLMG also explained that a lack of English language skills and unfamiliarity with the UK regulatory frameworks can create barriers to migrant workers reporting incidents of exploitation.

Research we commissioned suggests that there was a general acceptance from employers of the need for some regulation of employment. However, employers believe the implementation of legislation needs to avoid becoming steeped in burdensome red tape or being too costly. Employers said they had concerns about how they would go about enforcing legislation and monitoring compliance. Warwick IER (2013) said *“The majority of employers who commented on legislation expressed concerns about whether it would require them to provide additional monitoring or other data and the time this would take to collect; they certainly did not want extra “red tape”.*

This tension between our flexible labour market and possible exploitation of migrants and British low-skilled workers needs to be addressed. The flexible labour market should be buttressed by thorough and sustained enforcement of minimum labour standards.

Exploitation of migrants in low-skilled jobs

We were struck on our visits around the country by the amount of concern that was expressed by virtually everyone we spoke to about the exploitation of migrants in low-skilled jobs. We also received evidence from the TUC raising their concern about the lack of protection through enforcement for those in low-skilled occupations.

On a number of our visits to places which had experienced relatively high levels of migrants arriving, such as Southampton, we were told that migrant workers are more likely to be exploited than resident workers as they are not aware of their rights and are afraid they may be sacked/evicted/deported if they complain. We heard that there were many incidences of private landlords exploiting agency workers. It was felt that agricultural workers were especially vulnerable to exploitation as they are isolated because they live on farms.

Patterns of exploitation

The combination of non-compliance and insufficient enforcement can lead to instances of severe exploitation, particularly of vulnerable groups such as migrants. During our visit to Wisbech we were shown clear evidence by the police and local council of such instances of exploitation of migrants, and on a relatively

Migrants in low-skilled work

large scale. Box 4 shows how and why exploitation occurs, based upon what we were told and saw in Wisbech.

Box 4: How exploitation occurs in Wisbech, Cambridgeshire

Companies in Latvia and Lithuania advertise the life that potential migrants can expect in the UK and charge £300 to £600 to come to the UK. Migrants are dropped off outside a petrol station, and then brought by a minibus to an overcrowded house.



The owners of the house are usually unaware, as the house for them is just an investment, and it is really controlled by a letting agent or sub-letter. The sub-letter will usually control several properties and will not only collect rent from the tenants but also collect their wages and then distribute the money to them.



Upon arrival, the migrants are immediately charged rent, perhaps as much as 3 weeks' worth in advance so they are immediately in debt. Their passport may also be confiscated, and may be used to commit identity fraud.



They are also discouraged from getting a UK bank account as this means that the exploiters have more control over them. Alternatives like Onepay cards may be used instead.



Accommodation is tied to work. If there is work available, they are given work; if not then they are not offered any assistance, and there is the risk that they will lose the accommodation due to lack of formal tenancy agreements. If work is not tied to accommodation, the accommodation is more reliable but the work offered tends to be more spasmodic.



If they are in work, then they are often paid less than the minimum wage. This is achieved through illegal deductions from their pay including transport, food and rent. Work is rationed; for example, 5 people are paid to do one person's work, and this keeps people poor and reliant on the exploiter.



The key is often that wages are paid to one person and then they distribute the wages as they see fit to multiple people, meaning that the migrants' pay is less transparent and they are more under the exploiters' control. Ensuring direct payment each worker is an important step in counteracting this exploitation.



The incentive for migrants is that there is a light at the end of the tunnel, that there are examples of people who come out of their initial period of debt and are then able to get a bank account and escape the sub-letter's control.

Migrants in low-skilled work

What happens to such exploited migrants seems to depend upon a few key factors. Box 5 sets out these factors and the very different outcomes that may result, using case studies of migrants we met when visiting Wisbech.

Box 5: Case studies from Wisbech on the outcomes of exploitation and their determinants

Currently being exploited:

1 couple and 1 man. The couple previously resided in Italy where they worked as party planners. Now they work in a chicken-processing factory. For a whole week's work they were paid £50. This figure is their wage minus deductions such as rent and transport, but does not include utility bills. They are using Onepay cards rather than bank accounts. They were misled by the recruitment agency about what life in the UK would be like and are strongly considering going back to Italy, where they had more pleasant living and working conditions.

Keys:

- Awareness of NMW
- Bank account rather than Onepay card
- Legitimate gangmaster
- Able to overcome initial debt due to availability of work and control of finances

Escape

Exploitation

Keys:

- Lack of access to work
- Unable to save and overcome initial debt
- Debts mount and increase the risk of losing accommodation and becoming homeless

A success story:

2 women aged mid-20s to mid-30s. They have been in the UK for about 1 year. One has a medical degree and has come to the UK with the hope of improving her English so that she can apply her skills here. Both work in agriculture and catch a minibus to work. They normally earn (and are aware of) the NMW and receive legitimate wage slips.

Descending into poverty:

1 man. He stayed in a squat the night before we met him (the conditions of which are appalling: no heat, light or running water and the basement is used as the toilet) because he wanted to drink with his friends. He is not returning to other accommodation because he has no money to pay the rent. He has been working in agriculture, but the work has dried up recently. He is indifferent about returning home because the conditions are no better – the homeless are attacked and abused there.

Migrants in low-skilled work

Evidence suggests that enforcement of employment rights is not always effective. Questions can be asked about how extensive this enforcement is, whether the resources devoted to enforcement are sufficient, and whether the penalties are too feeble.

Enforcement bodies, such as the GLA, the HSE and the EASI, could have the effectiveness of their enforcement activity increased with more resources.

The fact that there are a number of bodies with responsibility for enforcing different aspects of employment rights caused us concern. There might be confusion over respective roles and differing priorities of each of these organisations. In addition, these bodies are prohibited by legislation from the widespread sharing of data and we do believe there is a case, in the current state, for increased data sharing among relevant enforcement bodies.

It may be that it is the UK's flexible labour market combined with the low level of enforcement activity that has contributed to the increased employment of migrants in low-skilled jobs.

IV. Economic and social impacts of migrants in low-skilled work

Economic impacts

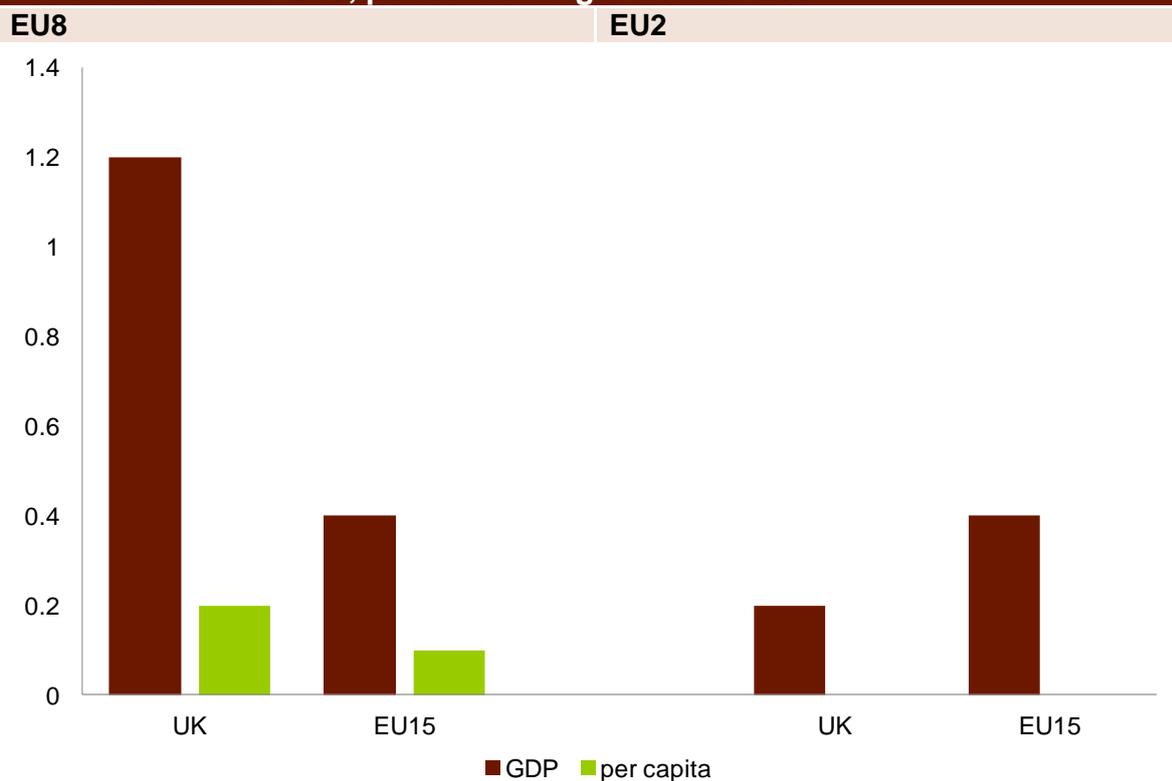
Although migration from Central and Eastern Europe has boosted UK and EU GDP, the effect on per capita incomes has been either marginal or zero.

BIS has estimated that, based on wages alone, total employment in low-skilled sectors added £233 billion to UK GDP in 2012. This is equivalent to 16 per cent of total UK GDP. Migrants in low-skilled work added £37 billion.

What we are interested in, though, is how migration contributes to *GDP per head*. Research by NIESR (2011) on the GDP impact of migration from the EU enlargement countries on the EU15 member states for the period 2004-2009 found that overall the impact on GDP per capita of the migration shock has been negligible (Holland *et al.*, 2011). Whereas UK GDP increased by 1.2 per cent following EU8 accession, GDP per head increased by just 0.2 per cent, which was approximately £50 per head for the period 2004-2009. Between 2007 and 2009, UK GDP rose by 0.2 per cent following the accession of Bulgaria and Romania but the increase in GDP per head was effectively zero. Ireland saw the biggest overall GDP gain (3 per cent) following EU8 accession, but the per capita GDP effect was zero.

Migrants in low-skilled work

Figure 9: Long run impact of EU8 and EU2 accession on GDP and GDP per head for UK and EU15, per cent change 2004 to 2009



Source: Adapted from Holland *et al.* (2011)

Considering other macro impacts, we found a very small depressive effect on *prices* for non-tradable services. A small boost to *productivity* was also found but it is inconclusive as to whether this derives from high or low-skilled migration (though probably more so the former). UK-specific evidence on *trade-generating* effects with migrant-sending countries is also inconclusive, though there is some evidence that the UK economy experiences a leakage due to net outflows of *remittances* vis-à-vis those countries most likely to provide labour for low-skilled sectors.

The most thorough recent analysis of the impact of the *fiscal effects of immigration* to the UK has been carried out by Dustmann and Frattini of UCL.

Table 4: Net fiscal contribution by migrants and the UK born to the public finances, 2001 to 2011

Group	Cumulative (£m)	Per person per year (£)
UK born	-624,120	-1,087
EEA		
All	8,978	436
Recent	22,106	2,732
Non-recent	-13,128	-1,052
Non-EEA		
All	-86,820	-1,471
Recent	2,942	162
Non-recent	-89,762	-2,198

Notes: Recent refers to migrants who arrived from 2001 onwards and non-recent refers to migrants who arrived prior to 2001. Migrants are defined by country of birth.

Sources: Dustmann and Frattini (2013), table 5; Stone (2013), page 8

Over the period 2001-2011, migrants' cumulative net contribution was minus £78 billion. By comparison, the cumulative net contribution of the native UK population over this period was minus £624 billion. Recent migrants from both the EEA and non-EEA have made a positive contribution to the public finances.

EEA migrants arriving since 2001 made a positive net fiscal contribution of £2,732 per person per year, while non-EEA migrants who arrived before 2001 were net debtors at minus £2,198 per person per year. Overall, on a per person per year basis, migrants cost the public finances £978, almost identical to the UK-born population who cost £1,087.

These results are congruent with common sense: recent EEA migrants have high employment rates and relatively few children; non-recent non-EEA migrants are older, have lower employment rates or may be retired and have larger families; many will also be in low-paying jobs. Their low employment rate and relatively low pay causes them to make a negative contribution.

Labour market impacts

The evidence on labour market impacts suggests these are mainly quite modest. We offer a partial analysis of the economics literature here; the MAC is conducting further research in this area and this will be published in due course.

At the aggregate level, the evidence to date suggests modest effects on employment and unemployment of UK-born workers. Wages for the low-paid may be lowered as a result of migration, although

Migrants in low-skilled work

again this effect is moderate at the national level but possibly larger in London.

There are **local areas** that have experienced a larger or more rapid increase in migrants than the national average. We might expect that this migration is more likely to have impacted the labour market specific to these local areas than average estimates for the national level suggest. But there was no consistent pattern in local labour market indicators among the areas with a high share of migrants in employment in low-skilled jobs, which supported the fact that each local area would need to be considered individually to assess any impacts of migration. These effects are difficult to assess empirically and there are other factors to consider apart from simply the level of migration in an area, or the timeframe over which an influx has happened.

At the **sector level**, research showed that, although sectors with relatively high average wage and temporary working patterns tended to attract relatively more migrants, the association between migrant share and these variables (wage and working patterns) was weak. We noted that there was considerable variation in the employment of migrants, both from EU and non-EU countries, in specific low-skilled occupations and sectors of the economy. There are low-skilled jobs in which migrants have a greater propensity to be employed than the UK born population, particularly those which have specific working practices like temporary working or less attractive working conditions.

Social impacts

Social impacts are complex and difficult to measure. Very often they are also based on subjective (perceptions) rather than on objective measures. However, there is some evidence to suggest that social impacts may be more intensely felt than economic impacts.

At a more disaggregated level, in England, although community cohesion and personal wellbeing appear to be negatively associated with (but not necessarily caused by) migrants in low-skilled work, the same is broadly true for UK workers in low-skilled jobs. This, along with the wider evidence, suggests other factors – such as socio-economic deprivation – may explain the negative association rather than immigration per se.

Perceptions also play an important role in determining attitudes towards migrants. Public understanding of the scale and nature of migration often differs markedly from the reality. Opinion polls demonstrate that the public perceives immigration to be a far greater problem at the national level than it is for them locally. But in terms of migrants in the labour market, the public clearly believes the lower skilled are bad for Britain (Figure 10).

Figure 10: Public views of labour migrants, by migrant characteristics



Notes: The figure indicates net response between per cent of respondents agreeing migrants are a good thing minus those agreeing migrants are a bad thing for Britain. Respondents to the British Social Attitudes Survey were given brief descriptions of three migrant groups and, in each case, asked whether they regarded settlement of migrants like this as good or bad for Britain. What respondents did not know was that each group description they saw was randomly varied. Each respondent was asked one question about labour migrants, one about students and one about family reunion migration. Respondents were read the introduction below and were then asked three different questions, with the characteristics in brackets being randomly allocated:

[I would now like to ask you about some of the groups of migrants who come to settle in Britain. For each group, I would like you to indicate whether you think accepting these migrants is a bad thing or a good thing for Britain.

[Highly qualified professionals/Unskilled labourers] from [East European countries like Poland/Muslim countries like Pakistan] [who have been recruited to fill jobs where there are labour shortages/who have come to Britain to search for work].

Students with [good grades/poor grades] from [West European countries like Germany/East European countries like Poland/Muslim countries like Pakistan/East Asian countries like China].

Migrants from [West European countries like Germany/East European countries like Poland/Muslim countries like Pakistan/African countries like Nigeria] bringing over their wife and children after living in Britain for [3 years/10 years].

[0 Extremely bad, 5 Neither, 10 Extremely good]

Source: Adapted from Table 2.5, Ford et al. (2012)

Housing

Concern about the **impact of migrants on housing** has featured in much of the recent debate about migration at both the local and national level: *“increased population and household growth means more housing is required, resulting in higher house prices, overcrowding, and the loss of green space”* (Whitehead (2011)). There is also a common perception and concern about the demands that migrants place on the welfare system through their access to publicly provided housing in the UK, otherwise known as social housing.

Migrants in low-skilled work

Available data suggest that a larger share of migrants, as compared to UK-born residents, use the private rented sector. 67 per cent of all UK-born residents in England and Wales own properties, with 15 per cent privately renting and 17 per cent in social housing. By contrast, of all migrant residents, 46 per cent own properties, 35 per cent privately rent and 19 per cent are in social housing.

Data from the most recent English Housing Survey also show that migrants are more likely to be in privately rented properties compared to UK-born residents. Most of the migrants who arrived before 1981 are now owner-occupiers.

The main issue surrounding immigration and **housing** concerns access to social housing. UK citizens and migrants from the European Economic Area (EEA) who have the right to reside in the UK are eligible for social housing. For non-EEA migrants, access to social housing is only granted once they receive indefinite leave to remain, typically after five years lawful residence in the UK. The share of migrant residents in social housing is highest for those who arrived between 1991 and 2000, with the lowest share being for those who arrived before 1981.

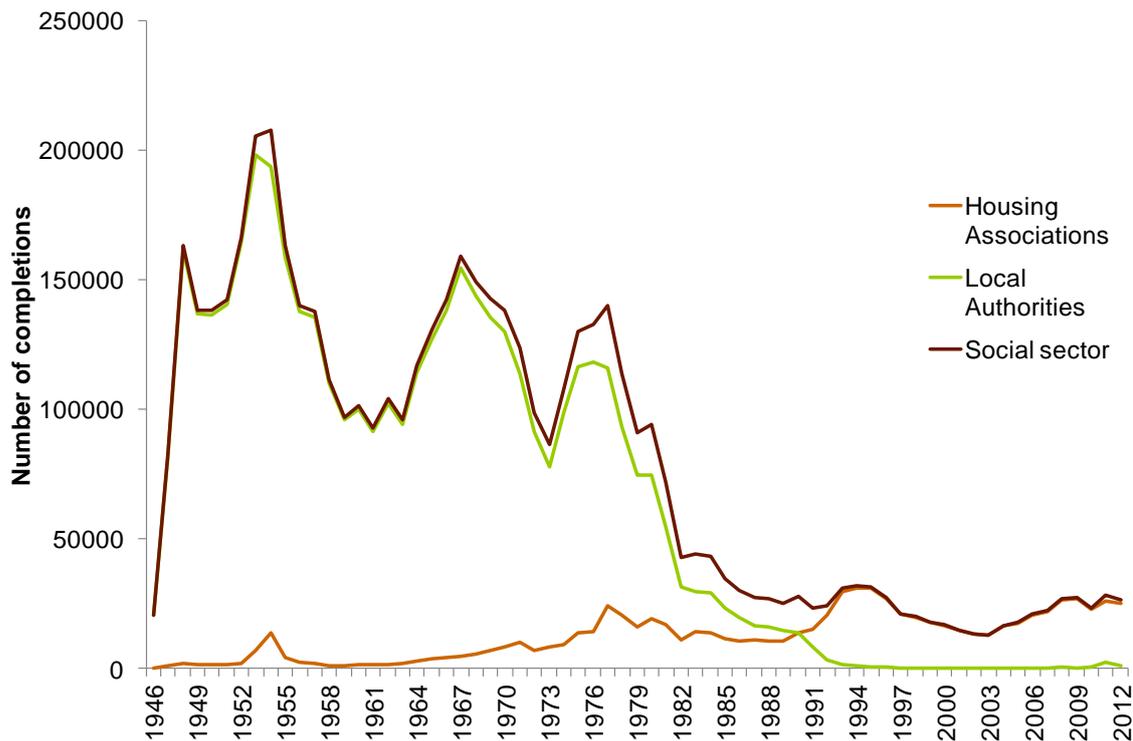
Immigrants, in the raw data, are a little more likely than the UK-born to be in social housing. But there is considerable heterogeneity among immigrants. EEA nationals are less likely than British nationals to be in social housing. By contrast, non-EEA nationals and migrants who are now UK citizens are more likely than British nationals to be in social housing.

However, when controls such as the demographic structure of the household, the area of residence, and economic circumstances are introduced to allow a comparison between equivalent immigrant and native households, the picture changes.

The results show that immigrant households are significantly less likely to live in social housing than comparable British households. Nevertheless, the probability of a UK-born household being in social housing has fallen over time. This is mainly a result of three factors: the reduction in the stock of social housing; the increased number of immigrant households; and the changes to the allocation procedure – designed to eliminate discriminatory practices – which have raised the probability of an immigrant household being allocated social housing.

A British household now has a lower chance of being in social housing than previously. About one third of this reduced chance comes from the increase in the number of migrants and alterations in the allocation rules, and two thirds because the stock of social housing has fallen (see Figure 11).

Figure 11: Total completions of social housing construction, 1950 to 2010



Notes: (i) The social sector is made up of social rented housing owned by local authorities and private registered providers/housing associations; (ii) Housing associations in England are independent societies, bodies of trustees or companies established for the purpose of providing low-cost social housing for people in housing need on a non-profit-making basis; (iii) All local authority dwellings are public sector dwellings
 Source: Manning (2014)

Other social impacts

Our own analysis, as well as other available research, of social impacts suggests little impact overall nationally in terms of claims for welfare benefits, crime and use of education and healthcare services.

Focusing on local level impacts, our own visits to areas such as Wisbech and Boston highlighted the considerable change in composition of population and social impacts (e.g. on the health and education services) in those areas. It may well be that other areas are similarly affected.

V. Emerging themes

We do not make formal recommendations following our assessment of the evidence, but instead highlight a number of emerging themes that the Government and others may wish to consider.

1. Recruitment, compliance and enforcement

The UK has one of the most flexible labour markets in the world and this has contributed to its relatively strong economic performance over recent decades. But flexibility should allow firms to compete and grow while simultaneously protecting workers, especially vulnerable groups.

UK labour law has a number of safeguards in place to provide this protection – such as the minimum wage, and health and safety legislation. These should provide a minimum level of protection for all. Some of the evidence we present in this report suggests that this is not happening in all cases. Failure to enforce the minimum protection results in a playing field that is not level. Our findings do not provide an overall measure of the scale of the shortfall in protection, but we did see evidence of shortcomings in both compliance and enforcement in some areas that we visited.

There is the risk of exploitation taking a variety of often connected forms: a failure to pay minimum wages; ensuring decent working conditions; forcing workers to accept sub-standard accommodation; forcing workers to pay for things that they do not need through deductions from their wages; and having workers' passports retained.

The linkages between all these areas require a more joined-up enforcement response. One solution that the Government may wish to consider is an overarching labour inspectorate. At the very least, there is clearly scope for existing agencies to re-focus efforts and seek to work more collaboratively to tackle these issues.

Doing so implies at least four key changes:

- First, **resourcing for enforcement activities needs to be enhanced**. It was clear from our visit to Wisbech that, despite the excellent job being done by the authorities, available resources fell well short of what was required. Equally, the central government resource given to employment agency enforcement seems particularly inadequate.
- Second, **incentives to encourage compliance need to be improved**. There seems to be little incentive for rogue employers to be compliant given the minimal chance of inspection and even smaller risk of prosecution. Penalties – either financial or reputational (naming and shaming) – are either little used or not strong enough.

- Third, **organisational incentives among enforcement authorities would need to change**, along with the re-focusing on tackling wider issues. For instance, the HMRC incentive to recover tax revenue can result in sub-optimal outcomes as the costs of recovery often outweigh the benefits.
- Fourth, **more collaborative working among enforcement agencies should be promoted**. This would inevitably require more sharing of data and intelligence. Presently, the structures are not in place for this to happen either at all or at least efficiently.

In the first instance, this will require a better identification of the scale and nature of the problem. We recognise that, by its very nature, this sort of issue is difficult to investigate in any representative way, but would urge the Government to pursue this in order to establish a firmer evidence base.

Any exploitation of migrant workers is bad for the migrants, and it can pose a threat to fair competition in the labour market.

The evidence we found is consistent with increasing migrant exploitation enabled by insufficient regulation of recruitment practices. There is a need for sufficient and co-ordinated regulation, which, in turn, will enable the labour market to work more efficiently while preventing abuses. At the same time, there is a strong case for extending the scope of the GLA into other sectors such as construction, cleaning, care and hospitality.

The evidence we received about enforcement, compliance and exploitation was mostly qualitative in nature and, therefore, cannot be generalised to the UK labour market as a whole. Nevertheless, based on our analysis of the information we received and our direct engagement with partners, we are concerned that there is a danger that non-compliance and exploitation are no longer marginal and exceptional issues. Rather, non-compliance and exploitation may now be structural features of the UK's low-wage labour markets, at least in certain areas and sectors.

2. Labour market outcomes for the British population, especially for younger groups

The labour market has undergone significant change in recent decades that has seen a shift from traditional trades to an expansion of service sector employment. The demand for skills has changed too, and it has been argued that this has resulted in fewer opportunities for career progression. There is a concern about the lack of educational attainment for a minority of school leavers and another (ongoing) about translating formal qualifications into skills demanded by employers.

In the course of responding to this commission we did see evidence telling us of poor academic performance and weak softer skills among some of the younger British population. This puts younger British workers at a disadvantage whether there is migrant competition for low-skilled jobs or not.

Migrants in low-skilled work

3. Greater recognition of, and support for, the local impacts of migration

Over the last census period the non-UK born population in England and Wales increased by almost 2.9 million. Three-quarters of this increase occurred in just over a quarter of all (95 out of a total 348) local authorities.

Migrants are concentrated in a relatively small number of areas across the country. Therefore, the impacts of migration will be felt locally more than nationally.

Therefore, in the short term – and especially in relation to any future EU expansion (see point 5 below) – local authorities clearly need additional help to ease the transition. This raises questions about exactly where this help should come from - central government? The Migration Impacts Fund (MIF) introduced in 2009 and earmarked for this very purpose offered a small amount of assistance, but was triggered five years after the 2004 EU enlargement. The MIF has since been abolished. Or, should there be greater recognition of these local social impacts by the EU as part of the enlargement process and more assistance through the EU's European Social Fund?

Of equal importance is the speed of such a response. A common issue raised by local authorities with a major inflow of migrants we spoke to was that official population estimates for local areas were not accurate. As additional funding is very often based on population counts, it is not clear just how robust population measures will be achieved either with sufficient frequency or accuracy, especially with changes proposed for the next census.

4. The role of institutions and other public policies

It is clear that the increasing demand for migrant workers in the UK is influenced by a broad range of institutions and public policies. Reducing the growth in the reliance on migrant labour in certain occupations will not happen without fundamental changes to the policies and the way these institutions operate. This may include greater labour market regulation in some sectors, more investment in education and training, better wages and conditions in some low waged publicly-funded sector jobs, improved job status and career tracks, a decline in low-waged agency work, and addressing any abuse of zero-hours contracts.

As a result of the current policy and regulatory framework, the use of migrant workers in some sectors may be higher than it otherwise would be. Examples include construction, where increased migrant labour may be the consequence of inadequate vocational training, or the care sector, where under investment and structural change discourages labour supply from the UK-born population.

The key policy question is whether the UK really wants to make these kinds of changes in wider public policies in exchange for fewer new migrants. This is an important question for public and policy debates.

5. Flows of migrants into low-skilled work in the future

The majority of the migrants in low-skilled work are from outside the EU. The fact that since 2008 there has been no specific route of entry to the UK for non-EU migrants for the purpose of engaging in low-skilled employment explains why most of this is accounted for by migration from earlier decades. That said, around ten per cent (107,000) of the non-EU total in low-skilled jobs arrived in the UK from 2010 onwards. The Government controls the policy levers in relation to non-EU migration and can determine the rate of inflow and subsequently the degree to which these new migrants are permitted to work, either at all or in lower skilled jobs. From an economic point of view, once here these migrants ought to be able to work to make a productive contribution to the UK economy. System abuse should be tackled but, equally, low labour market participation for some migrant groups can be costly and hinder integration.

Half of those migrants in low-skilled work who arrived in the UK since 2004 have come from the new member states of Central and Eastern Europe. We have argued that this is primarily explained by income differentials between the UK and those countries, and that these are likely to persist for some years to come, as they are in other Western European countries relative to the east. The incentive to migrate will remain, but now that transitional controls have ended (for EU8 from May 2011 and for EU2 from January 2014) these migrants will be able to exercise full freedom of movement rights across the EU. In other words, migrant flows from these countries to the UK may contract somewhat.

The experience of the 2004 EU enlargement provides lessons for any future EU expansion for both the UK and other EU member states. There are five countries currently with candidate status (Serbia, Macedonia, Iceland, Turkey and Montenegro), with a combined population of 84 million, though Turkey (74 million) accounts for most of this. Average incomes for most of these countries are between a third and a half of the EU average. In addition, there are also three *potential candidate countries* – Albania, Bosnia and Herzegovina and Kosovo (combined population 9 million) – where incomes are a quarter of the EU average.

Once again, on the basis of income differentials, there will be an incentive for migration from these countries towards existing EU member states. The questions are: where will they go and how will the UK be affected?

The scale and direction of migrant flows from any future EU enlargement – again mainly from Central and Eastern Europe, and again with very low (cost-adjusted) incomes vis-à-vis the UK – are likely to be heavily influenced by the individual and collective decisions taken by member states to open up labour markets and the timing of these. It is likely migrants from these countries would once again find work initially in low-skilled occupations, either for income gain in the short run or as a stepping-stone to more skilled occupations in the long run.

Migrants in low-skilled work

In order to minimise negative economic and social impacts on certain localities, especially in the short run, the aim must be to manage these economic flows in a much more co-ordinated fashion across the existing EU member states.

6. The role of evidence in the wider migration debate

Our discussions with, and visits to, partners across the country are invaluable for improving our understanding of the broader research and analysis we carry out. We are particularly grateful, therefore, to all the individuals and organisations that have engaged with us on this commission.

At the same time though there were aspects of our partner engagement for this particular commission, which gave us great cause for concern.

In a number of cases, key partners whom we approached were very reluctant to engage fully or even at all. This was true of public and private sector organisations alike. Among such organisations there was a palpable unease about speaking – and of being identified – publically on these issues.

While disappointing, it is also perhaps quite understandable that commercial operators should be inclined to safeguard their business interests. Where we did succeed in engaging with the private sector (but on an anonymous basis) what we found was good evidence to support a very strong case of fair and proper treatment of migrant and UK workers with absolutely no indication of discrimination against UK workers. This was completely at odds with the portrayed perception of such employers.

It is, therefore, rather worrying that the state of the migration debate is effectively forcing employers to hide the good work many of them are in fact doing.

More worrying still is the lack of engagement displayed by some public sector organisations who are funded by, and who represent the interests of, the taxpayer.

Furthermore, as we have highlighted in this report, there can often be a gap between public perceptions of migration and the reality. Barriers to accessing and presenting the actual evidence merely serve to perpetuate this misunderstanding and possibly lead to poor policy choices in the longer term.

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For full details and caveats readers should refer to the full report published alongside this summary version:

Migration Advisory Committee (2014). *Migrants in low-skilled work – The growth of EU and non-EU labour in low-skilled jobs and its impact on the UK*. Full Report. July 2014

Migrants in low-skilled work

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