

Your Place or Mine?

The local economics of migration

by Max Nathan

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Foreword

This working paper is the first from ippr's Economics of Migration project. The project aims to improve understanding of the economic impacts of migration in the UK, and how policy should respond to that migration in order to maximise its economic benefits, and minimise its costs.

The project seeks to highlight economic aspects of migration to and from the UK that are either important to policymaking, or in which evidence is relatively scarce, or both. We hope that the project will shape thinking around how we conceptualise the economic impacts of migration, provide new evidence about the extent and nature of the impacts, and provide new insights into how policy might best address migration to maximise economic benefits. We also hope that the project will help create a better-informed public and more prepared policy community that is more able to evaluate migration's economic contributions, and manage them to the benefit of everyone.

The subject of this working paper, the local economic impacts of migration, is important but relatively under-researched. While we know intuitively and theoretically that migration has the potential to impact on the nature and dynamism of local economies, we have little contemporary evidence for what these impacts might be in the UK.

This working paper makes clear the variety of ways in which migration may have affected local firms and economies. While some impacts of migration – such as filling local skills gaps – are quite visible, migration also affects local economies in less noticeable ways, such as by boosting local markets. The paper brings these out, and underlines the importance of looking at migration's longer-term impacts in local areas, as well as its short-term effects.

The analysis presented here is also intended to be a corrective to the almost exclusive focus on the impacts of migration at the national level. Moreover, the observation that 'the local effects of migration seem to operate differently in different places' should also be a warning against making too much of the experiences of the handful of places we often hear about in the media. And we should not lose sight of the fact that these varied spatial impacts are important not just for understanding more clearly how migration affects economies and communities, but also for the fact that they hint at a potentially new set of levers that policymakers can use to make the most of migration.

We are grateful to Max Nathan for his contribution to our series and to the nascent literature on this topic in the UK. We are also grateful to the funders of the project: Business for New Europe, Commission for Rural Communities, Trades Union Congress and the UK Border Agency (Home Office). The views expressed here are those of the author and do not necessarily represent those of ippr or project funders.

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Executive summary

This paper examines the local economic impacts of migration in the UK. The aim is to provide an evidence-based narrative on how migrant flows are shaping local economies – to tell the story of the ‘local economics of migration’.

The paper draws on a review of the existing evidence base from the UK and abroad to develop a typology of impacts, explore the effects of migration on different local areas, and draw out some high-level policy lessons.

There are a number of reasons to look at the local impacts of migration: there is a growing public and policy interest in the local economics of migration, the local experience of migration differs markedly from place to place, and local factors and processes help drive some of the main economic outcomes of migration at national level. It is also an area in which data is frustratingly weak.

Overall, international migration is contributing to population growth in every English region. There are high volumes and population shares of ‘old’ and ‘new’ migrants in London and in major cities and some larger towns in the wider South East. There has also been rapid migration growth in most other areas, including, for example, East Anglia, the East and West Midlands and Northern Ireland, often from a very low initial level.

This paper suggests there are three main ways in which migration affects local economies:

1. Skills effects – short-term changes in a local area’s human capital mix, and in the composition of the local labour market.

In the short term employers clearly benefit from a migrant labour supply, but wider impacts on the local area are likely to be small. In places where most migrants enter low-skill jobs, there may be some short-term losses for low-skilled domestic workers, though these are mitigated by migrants’ willingness to take ‘hard to fill’ jobs at the margins of the labour market.

2. Diversity effects – medium-term changes in the diversity of the workforce and in consumer tastes.

Employers in ‘knowledge-intensive’ sectors get the greatest benefit from workforces with a range of approaches and experiences, and pass on the benefits via wages to employees. Greater diversity may also lead to new markets for non-traded goods and services, such as food, clothes or music. Diversity effects are probably greatest in urban areas with large migrant populations and a strong presence of high-value economic activity.

3. Size effects – long-term changes to the size of the local population, and the size and productivity of the local economy.

In the long term, it seems that large-scale migrant inflows can help boost productivity in large urban areas, which is where migrant populations are biggest and the scale of economic activity greatest. The biggest gains accrue to high-skill workers and property owners. Greater concentrations of population can lead to competition for resources – particularly housing. The danger is that pressure on resources leads to housing cost rises. However, low-skill workers who are given social housing are partly shielded from these cost of living increases.

These effects can play out in a number of ways.

In some places, mainly big cities, the net impact of migration is generally strongly positive. New arrivals and the resultant growth in diversity can help drive forward innovation, open up trade links and keep economies on high-value growth paths. In this scenario, migration is a net benefit to the local area, and also contributes to productivity at the national level.

In most other places outside big cities the net impact is lesser although migration will still bring benefits to local communities, particularly by filling holes in local labour markets. The broader policy challenge is to make the most of growing diversity in these areas – for example, by opening up entry

points for high-skill migrants, encouraging the formation of new businesses and helping to build diaspora links.

In a few places, especially those with lots of entry-level jobs, there is a risk of some negative impacts, notably from migrants being used as a source of cheap, capable labour. In this scenario, migration may play a part in keeping these local economies on a low-cost, low valued-added path, with wider benefits not being realised. But without migration, these areas could fall into economic decline. In these cases the correct policy response is to improve local people's skills and employability, and to encourage further economic development.

Policy recommendations

We can do more to increase the benefits of migration to local areas.

- Central, regional and local policymakers need to recognise the long-term importance of migration to economic growth and develop strategies around this. For example, universities can operate as 'migrant magnets', drawing in young, highly skilled people who may then stay in the local labour market.
- Government should take further steps to ensure that potential economic problems are prevented or minimised, both in the labour market and around the potential growth paths of local economies. Active labour market policy is an important part of the policy mix – this includes both welfare-to-work and measures to encourage progression of British-born workers up the skills ladder.
- There needs to be a significant investment in building the evidence base around the economic and wider impacts of migration, at local and national level, and especially over the long term. Government should also look further at the drivers of local migrant flows.
- Political leaders and policymakers need to sharpen their narrative about migration, particularly on the longer-term effects on local areas. Migration flows are critical, but the bigger story is how we manage the benefits and costs of having larger, more diverse communities.

1. Introduction

You may not know that Liverpool is twinned with Shanghai. The city's Chinatown is one of the oldest in Europe: a 15-metre high ceremonial arch, imported from China and decorated with over 200 dragons, stands at its heart.

Now based around Nelson Street and Berry Street in the city centre, Liverpool Chinatown grew up in the 1860s on the back of a regular steamer service from the city to Chinese ports. By the 1930s, there were around 20,000 Chinese migrants living in Liverpool. World War II bombing, post-war dispersal and economic decline saw Chinatown shrink, but the area is now one of the city's main assets. On top of the cluster of restaurants and shops, the city's Chinese New Year celebrations attract around 20,000 people, and the business community provides a range of business support and community services, forming a bridge between firms in the city, businesses and markets in China, and with the Chinese community worldwide.

A local story

The story of Liverpool Chinatown is one of local change, and of gradual innovations shaping the economic direction of a city as a whole. And it is a story about the dynamic effects of migration that show themselves in long-term changes to the social and economic diversity of a community.

The Liverpool story illustrates a lot of what is missing from today's debate about migration in Britain. Much of the public conversation to date has tended to focus on the national impacts of short-term people flows: macroeconomic growth, inflation and tax receipts. Less attention has been paid to change in local communities.

This is starting to change. Government, experts and the media now spend a lot more time looking at how migration is affecting local areas. But the debate is often unhelpful. There is plenty of talk about possible local 'costs': job losses, pressure on wages, community tensions and problems with public services. Ministers have generally responded by pointing to evidence of national benefits – essentially, that migration is good for the UK as a whole, and any problems are small-scale and transitional.

But on the ground, things feel different – and are much more complex. Large cities like London have clearly benefited from migration over many decades – to the extent that the capital's economy may now be 'migrant-dependent' (Travers 2007). But in other places, such as rural areas that have no previous history of immigration, what is the effect of large numbers of new arrivals?

Lessons for policymakers

To gain a more complete understanding of the economic impacts of migration – as well as the experience of population change for Britons – it is important to look local. We need to explore what we are calling here 'the local economics of migration', and specifically the mix of costs and benefits in different places and for different people. What are the local costs and benefits of migration? Who are the winners and losers? How does the process differ across different areas? And for both national policymakers and local leaders, how can any gains from migration be maximised – for the benefit of the local economy, and for local residents?

The evidence base is frustratingly thin, and a key task for policymakers is to improve the extent of our knowledge. But from what we know already, it seems likely that in many areas of the UK, migration is a net benefit. For example, cities seem to amplify the dynamic benefits of migration: more innovation, better trade links, a bigger range of goods and services. Over time, this delivers higher productivity and higher wages to 'UK-born' citizens. However, if migrant-driven cities become more popular (and crowded) places to live, this will tend to raise local living costs.

Policymakers also need to take account of other potential risks. First, there may be some short-term negative impacts as local labour markets adjust. Second, in areas with a lot of entry-level jobs, cheap, capable migrant labour has the potential to contribute to a long-term low-skills equilibrium. Third, some of the benefits of migration seem to be distributed unevenly across income groups.

Over the long term migration drives up diversity, which brings its own local costs and benefits – Liverpool Chinatown being one good example of where benefits have been accrued. The local economics of migration and diversity need to be managed: policymakers need to find ways to increase the benefits and minimise the costs.

About this paper

This paper draws on an extensive review of the existing evidence base from the UK and other countries, developing a typology of impacts, exploring the effects of migration on different kinds of local area, and drawing out some high-level policy lessons.

There are two important caveats to make. First, the evidence base on the economics of migration, as explained above, is limited, especially at local level (Home Office and Department for Work and Pensions 2007). Many of the key studies come from the US, a country with more migrants relative to population size, some unusual local economies (such as very low-density ‘exurbs’) and much higher geographical mobility than in the UK. Some care is needed in interpreting and transferring results and policy lessons to the British context. Where possible, this paper balances evidence from many sources in developing its conclusions.

Second, the paper focuses on economic, not social, change. Migration stocks and flows will also have a range of impacts on society, culture and public services (see for example Alesina and La Ferrara 2004, Card 2007, Page 2007, Putnam 2007). Some of these non-economic effects will also have indirect impacts on economic outcomes. For simplicity, non-economic effects are largely left out of the analysis.

Structure of the paper

The paper is structured as follows.

- Section 2 sets out why looking at the local impacts of migration is important.
- Section 3 introduces some of the key local issues for policymakers.
- Section 4 gives the UK context, highlighting key patterns and drivers of migration, and the role of migration in demographic change across local areas.
- Section 5 introduces a typology of local economic impacts of migration.
- Sections 6–8 look in turn at the elements of the typology in detail, and set out the evidence base for each.
- Section 9 looks at the implications for cities, towns and rural areas.
- Section 10 concludes.

2. Theory: why look at local areas?

What is 'local'?

In order to talk about the 'local economics of migration', we first need to define 'local'. This is not quite as straightforward as it sounds. People have different ideas of their own neighbourhood and community, and hence of what is local to them.

For the purposes of this paper, and unless otherwise stated, 'local areas' mean 'local economies' – that is, a functioning local economic system (such as a labour or housing market). In urban areas, these often spread well beyond a local authority boundary – for example, Greater Manchester's economic development body Manchester Enterprises covers 10 local authority areas. In rural communities, by contrast, local authorities' boundaries often reflect the shape of local economies much more closely.

We also need to be clear about how 'local' economic changes are related to others. It is helpful to distinguish between three scales: 'micro', 'meso' and 'macro'. Roughly speaking, 'micro' refers to an individual firm, 'meso' to the local economy, and 'macro' to the UK as a whole. This paper will be mainly concerned with micro and meso effects.

Some of these effects scale up and down. As we will see, some of the micro impacts, of migration on firms, are also felt collectively – as meso effects – across a local economy. And the performance of big urban areas – economic building blocks such as London – will influence the performance of the UK macro-economy (HM Treasury *et al* 2006).

Why the local level is important

There are a number of clear reasons to look locally. First, as we know, there is a growing public and policy interest in the local economics of migration. Second, the local experience of migration will differ markedly from place to place. We need to understand these meso-level differences, and how they affect local communities. Third, *local* factors and processes help drive some of the main economic outcomes of migration at *national* level. In other words, migrants shape micro- and meso-level economic processes, which then help shape macro outcomes.

To fully understand these transmission mechanisms, we need to pay particular attention to the patterns of migration in different local places, local industrial structure, and to the role of agglomeration economies in urban areas. It is worth saying a little more about each of these.

Migrants are unevenly distributed around the UK, particularly at the local level. Historically, the largest volumes of migrants have been found in and around large cities and towns but a number of rural areas are now experiencing rapid growth in their migrant populations (Bassere *et al* 2007).

Economic activity is also uneven across the UK. Spatially, the British economy is 'spiky', with meso-level concentrations of activity around major urban centres. The 56 biggest city-regions in England contain around half the country's population and two thirds of all employment (Parkinson *et al* 2006). Economic problems also tend to be clustered at the meso level – for example, worklessness is largely concentrated in inner urban areas, coastal towns and a small number of rural areas (Parkinson *et al* 2006, Midgley 2006).

Cities are a critical locus of economic and demographic change: they are where much of the economics of migration comes together (Leadbeater 2008, Legrain 2006). Firms are often attracted to towns and cities because of agglomeration economies: the benefits of a bigger variety of inputs, big labour markets and access to customers, and from the free flow of information and ideas ('knowledge spillovers') (Marshall 1918). Each of these represents a set of productivity gains to firms, especially in knowledge-based sectors where face-to-face contact is important. In effect, companies benefit from a kind of 'critical mass', allowing them to expand output and raise local employment and wages (Overman and Leunig 2008, Rosenthal and Strange 2004). As average wages rise, workers are drawn in, continuing the cycle of growth – but also increasing competition for space and thus local living costs (Combes *et al* 2005).

Migration changes a place's population size and mix, and over time this is likely to amplify agglomeration in bigger cities – for example, by increasing the size of labour and consumer markets, or by increasing urban economic diversity and thus the potential for knowledge spillovers between sectors. Sectors such as science, high-tech manufacturing and financial or business services, which may gain from diverse teams and high-performing individuals from the migrant community, also tend to be based in and around urban centres (Saxenian 2006, Sassen 2006). But migration may also increase competition for urban space over the long term – raising the local cost of living and potentially adding to congestion and crowding (Crafts and Venables 2001).

3. Key issues and problems

So what are the key economic issues policymakers need to be thinking about in relation to the local economics of migration?

First, and most importantly, what is actually happening? Many local areas are now experiencing rapid changes in population size and mix and we need to better map and track these changes, primarily through better data (Reed and Latorre forthcoming).

Second, what might the impacts be? The House of Lords Economic Affairs Committee has accused the Government of overstating the economic benefits of migration and underplaying the impacts on low-paid workers and local communities (House of Lords Economic Affairs Committee 2008). But there is some evidence that migrants are taking jobs 'locals' do not want (Stenning *et al* 2006, Green *et al* 2007a). For example, a recent BBC documentary on migrant workers in Peterborough found some local people unwilling to take agricultural work (Samuels 2008).

Ministers have been keen to respond to public concerns: Home Office Minister Liam Byrne announced that 'there have been communities in different parts of the country where the pace of change has been too fast...' (quoted by Dawar 2008). Gordon Brown's 2007 announcement of creating 500,000 'British jobs for British workers' is also partly a response to local economic worries.

Third, what should the response be? The Government may need to intervene – at various levels – to maximise the economic gains from migration, and work around problems. There are clear coordination problems in the response by public services to rapid population change, for example. Other interventions might include regulating the activities of employment agencies or gangmasters (Coombes *et al* 2007, Stenning *et al* 2006).

Fourth, are national and local government geared up to deliver? Nationally, migration policy has seen four major rethinks since 2001 (Somerville 2007). The new regime is complex, and still in the early stages. Roughly speaking, the Home Office and Communities and Local Government (CLG) are now in charge of 'borders' and 'society', respectively. A number of other departments also take an interest in the local economics of migration – notably the Treasury, Department for Work and Pensions (DWP), Department for Innovation, Universities and Skills (DIUS) and Department for Business, Enterprise & Regulatory Reform (BERR). The Migration Advisory Committee (MAC), which analyses employer needs across the labour market, and some parts of the Points-Based System, is still being rolled out. And the Migration Impacts Forum (MIF), which looks at social impacts on communities and public services, is still in the early stages of its work.

Locally, capacity to understand and manage migration flows is variable (Local Government Association 2007). There is a clear need for local leaders – helped by national government – to get better at identifying and leveraging the potential gains from migration, and at minimising costs.

Finally, what is the bigger picture? Migration is a driver of diversity in local communities over the long term. The UK as a whole is becoming more ethnically diverse, especially in urban areas but increasingly across the country (Champion 2006, Kyambi 2005). Immigration is a major driver of this – not just through the inflow of people, but also through high birth rates of some minority communities (Putnam 2007, Performance and Innovation Unit 2003).

To fully understand the local economics of migration, in other words, we need to think beyond people flows and look towards the costs and benefits of bigger, more diverse communities for society as a whole (Brittan 2008, Wolf 2008, Legrain 2006).

4. What is happening? Patterns and drivers

The big picture

Migrants make up around 2.9 per cent of the world's population (Salt 2007). The UK has been increasing its share, particularly since 2004. In 2006, the net inflow of migrants was around 190,000 per year (this is Office for National Statistics TIM [Total International Migration] data, which includes movements of some Britons in the figures). Other data – from the Labour Force Survey – suggests that by the middle of 2007 the foreign-born working-age population in the UK was over 4.5 million.

Compared with many other Western countries, long-term net migration flows into the UK are relatively small. For example, between 1971 and 2006 the UK population grew by 8.2 per cent, while the US population grew by 44.6 per cent – with international migration the main driver in both cases (Blanchflower 2007).

By contrast, short-term UK migration flows are very large, and the mix is now changing rapidly (Kyambi 2005). While estimates differ, ippr's analysis suggests that over a million workers from the A8 – the eight countries that joined the EU in 2004 – have arrived in the UK since accession, but around half have now returned home (Pollard *et al* 2008).

What is driving migration?

For those who are not forced migrants, economic, family and community considerations will be the most important. Of these, economic reasons seem to be paramount: 2005 International Passenger Survey (IPS) figures show that 43 per cent of all respondents gave work-related reasons for migrating (rising to 85 per cent for A8 migrants). A survey of migrants in the West Midlands found 62 per cent were in the UK primarily for economic reasons (Green *et al* 2007b).

Changing economic conditions in 'host' countries will shape long-term flows of people. Essentially, migrants are weighing up the benefits of being in the UK against the costs of migration and of displaced spending in their country of origin (Borjas 1994). Many Central and East European countries' economies are becoming increasingly healthy so departures from the UK are likely to accelerate, particularly as the British economy is now slowing down. Within the UK, place is significant in migration, since jobs, family members and existing migrant and minority communities are unevenly distributed.

Where do migrants go?

Overall, international migration is contributing to population growth in every English region. At the regional level, migrants are concentrated in London – which contains around 40 per cent of all immigrants – and to a lesser extent, the South East (Kyambi 2005).

At a more local level, migration has tended to be strongly focused on major cities. A recent OECD survey suggests that the major pull factors for migrants are places that are economically vibrant, have existing groups of migrants and are close to ports of entry (quoted in Gordon *et al* 2007).

This historic pattern is now growing more complex. Right now there are two key trends in the distribution of migrants across local areas:

- There are high *volumes* and *population shares* of 'old' and 'new' migrants in London and the wider South East, major cities and some larger towns
- Rapid migration *growth* in most other areas, often from a very low level – for example, in East Anglia, the East and West Midlands and Northern Ireland (particularly Belfast) (Green *et al* 2007a).

Let's examine these trends in turn. First, the biggest stocks of migrants are still found in and around the larger urban areas. In 2002-3, for example, over half of all net migration was to London. Around 69 per cent of the rest was to the other major conurbations (Champion 2006). Outside the capital, major cities and large towns – particularly Birmingham and Leicester – have the biggest migrant

populations. Because they have such high volumes of migrants, urban communities also tend to have large migrant population shares (that is, they have a large proportion of the total population who are migrants). Table 4.1 gives more detail.

Table 4.1. Local authorities outside London with large migrant populations, 2001

Local authority	Population	British-born	Non-British-born	Population share (%)
Birmingham	977,089	816,054	161,035	16.5
Leicester UA	279,925	215,456	64,469	23.0
Manchester	392,819	334,834	57,985	14.8
Bradford	467,672	412,494	55,178	11.8
Leeds	715,391	667,853	47,538	6.6
Coventry	300,853	261,734	39,119	13.0
Luton UA	184,369	148,159	36,210	19.6
Sheffield	513,232	480,630	32,602	6.4
Bristol; City of UA	380,618	349,349	31,269	8.2
Kirklees	388,569	358,265	30,304	7.8
Slough UA	119,072	90,524	28,548	24.0
Sandwell	282,889	255,860	27,029	9.6
Brighton and Hove UA	247,821	221,090	26,731	10.8
Wolverhampton	236,586	210,010	26,576	11.2
Nottingham UA	266,985	240,488	26,497	9.9
Oxford	134,250	108,331	25,919	19.3

Source: Census 2001 via Nomis, author's analysis

Note: data is for Local Authority Districts and Unitary Areas (UAs). Some of these will form parts of larger urban areas, for example, Birmingham/Sandwell/Wolverhampton, Leeds and Kirklees.

Looking more closely, there are important differences across groups depending on their countries of origin (which we call country-of-birth [COB] groups). Not all migrants are urban dwellers to the same extent. Analysis of 2001 census data suggests a threefold typology for COB groups:

- Australia, South Africa – relatively low correlation with urbanisation
- India, Bangladesh, Pakistan, Greece, Turkey – largely clustered in urban areas
- Pre-2004 arrivals from countries such as Poland, Baltic States, Cyprus, Spain, Hong Kong – no strong spatial clustering. (Stenning *et al* 2006)

Second, recent inflows – largely from Central and Eastern Europe – are starting to modify this pattern. Looking across the UK, there is no simple pattern of spatial clustering for entrants from the A8: the biggest regional concentrations are in London, the East Midlands and Eastern England, but there are also large populations in every other region except the North East (Bassere *et al* 2007).

However, looking more closely we can see local and urban clusters starting to emerge, often varying by nationality. Table 4.2 (next page) shows the 10 local authorities with the highest numbers of A8 workers, as of December 2007. The highest volumes tend to be in urban areas – but rapid growth is clear in rural communities such as Boston and South Holland, Lincolnshire.

Table 4.2. Local authorities with the highest concentrations of A8 migrants, 2007

Local authority area	Total WRS* registrations May 2004 – Dec 2007	2006 mid-year population estimate	Estimated A8 population per 1,000 total population
City of London	3,590	7,800	306
Boston, Lincs	7,875	58,300	90
Westminster	19,275	231,900	55
Northampton	14,250	200,100	47
South Holland, Lincs	5,195	82,100	42
Peterborough	9,995	163,300	41
Fenland	4,760	90,100	35
Dungannon, N. Ireland	2,735	52,300	35
Herefordshire	9,285	177,800	35
East Cambridgeshire	4,115	79,600	34

Source: WRS, ONS and ippr calculations, in Pollard *et al* 2008

Notes: *WRS=Worker Registration Scheme

For total A8 population, Pollard *et al* assume that the WRS underestimates actual worker numbers by 33 per cent, and that 50 per cent of in-migrants have now left the UK.

We can also see clustering by nationality in these local areas. Of the A8 migrants overall, the biggest groups are Poles (508,000 people, 66 per cent of the total), Lithuanians (73,315 people, about 10 per cent of the total) and Slovaks (78,830 people, about 10 per cent of the total) (Pollard *et al* 2008). By contrast, in the top 10 local authorities above, Poles make up 90 per cent of the A8 population. Lithuanians are found largely in Northern Ireland, East Anglia, London and the South East, Herefordshire and Western Cornwall, and the largest concentration of Hungarians in the UK is in Great Yarmouth (Bassere *et al* 2007).

The reasons for the clustering of these groups in particular local areas are not yet completely clear, but include the levels of local labour demand, local economic structure (in particular, the presence of industries with a lot of entry-level work), the presence of existing migrant communities, and the presence of employment agencies (Bassere *et al* 2007, Coombes *et al* 2007, Stenning *et al* 2006).

Migration, diversity and population change

Migration trends are helping to feed bigger, longer term changes in cultural and ethnic diversity, especially in urban areas – where international migration and natural change are the biggest drivers of ethnic and cultural diversity. UK census data is still quite crude when dealing with ethnicity, and tends to focus on visible minorities – that is, the non-white population. The census suggests that over the 1990s England's non-white minority populations grew substantially, and that minority population stocks are largely concentrated in and around major cities. At the same time, many small towns and rural areas saw large inflows of non-white populations from a small base (Champion 2006).

5. Modelling the economics of migration

A typology of impacts: skills, diversity and size

The best way to explore the effect of migration on local economies is to break it down into its component parts, and look at how those affect the outcomes we care about.

First, what is the context? It is important to note that local areas lose or gain people in one of three ways: international migration, natural change, and internal migration between different parts of the UK. Here, we focus on the first of these.

Second, what do we need to cover? When we think about the ‘local economics of migration’, we need to look at the local economy as a whole. This will help us to:

- Look at the adjustment process – what happens in local communities in the very short term. It is critical for policymakers to understand the ‘lived’ experience of migration-driven change.
- Look at dynamic effects – longer-term impacts of migration on innovation, the emergence of new goods and services, trade and so on. We also need to factor in the role of agglomeration economies in cities.
- Bring it all together – by taking a ‘general equilibrium’ approach covering output, wages, employment and living costs we can take a broad view of change, who wins and who loses.

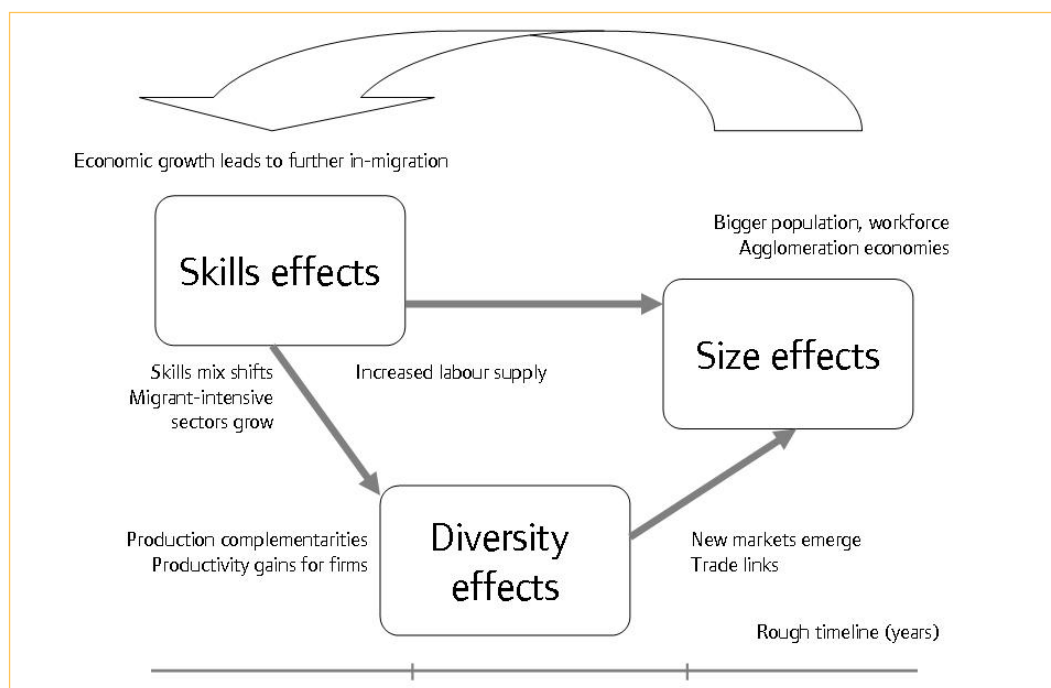
Third, how does change take place?

This paper suggests there are three main ways in which migration affects local economies:

- **Skills** – short-term changes in a local area’s human capital mix, and composition of the local labour market.¹
- **Diversity** – medium-term changes to the diversity of the local labour force, and to the range of tastes/preferences in the local population.
- **Size** – longer-term changes to the size of the local population, and the size of the economy.

Figure 5.1 sets out how these channels operate and interact.

Figure 5.1. The local economics of migration: skills, diversity and size effects



1. Technically, changes in labour market composition can lead to changes in wages and employment, at least in the short term. So we could equally term these impacts ‘employment and skills’ effects.

Table 5.1. The local economics of migration: possible impacts and outcomes

Effect	Scale	Impacts	Outcomes
Skills	Micro/firms	Firms can plug skills gaps Some firms choose to use cheap labour, rather than invest in improved technologies.	Productivity gains for some firms, output expands. Low-cost, low-quality production persists.
	Meso/local economy	More competition for jobs, especially in sectors where migrants concentrate. Contribution to low-skills equilibrium in some cases?	Output mix shifts towards 'migrant-intensive' sectors. Relative wages of UK-born fall in the short term, but readjust over time. Short-term job churn, no long-term job losses. Restricted set of growth paths for local economy?
Diversity	Micro/firms	Role of individual 'star' workers. Diverse teams may be more productive.	Higher levels of innovation. Short-term costs, longer-term productivity gains especially in 'knowledge-based' firms.
	Meso/local economy	New markets for goods and services. Displacement of some existing businesses? Emergence of migrant entrepreneurs. New trade links, improved market access.	Output mix shifts. Emerging localisation economies, wider knowledge spillovers. Output, employment start to rise. Wage rises for higher-skilled workers.
Size	Micro/firms	Access to larger, more diverse markets. Increasing returns for all firms.	Firms are more productive, can raise output, wages.
	Meso/local economy	Larger population, workforce. Agglomeration (urbanisation, localisation economies). Feedback from size, diversity effects. Further domestic, international in-migration.	Population growth. Output, employment growth. Average wages rise. Cost of living rises.

'Skills' and 'diversity' effects are not the same. To see one reason why, we can look at why employers say they value migrant workers. First, migrants are viewed as being highly employable due to their hard and soft skills (such as professional qualifications and positive attitude) (Institute of Employment Studies 2006). Second, on top of this migrants are also seen as bringing fresh ideas, approaches and experience. Many firms deliberately recruit in international talent pools – not just to hire the best people, but also to encourage the creative sparking of ideas inside the business (Landry and Wood 2008). In other words, for many employers migrants seem to bring something extra to the firm by being 'different' – which can help improve that firm's performance (economists would call these 'production complementarities').

Table 5.1 gives some examples of skills, diversity and size effects. This is a first attempt to set out some micro-foundations for the local economics of migration. We can see that:

- Over time, skills and diversity effects tend to contribute to size effects. Specifically, production complementarities and both larger and more diverse local markets feed agglomeration.
- Change takes place at micro (firm) and meso (local economy) levels. Some impacts at firm level will aggregate up to the local economy. For larger urban areas, meso effects may have macro (national) impacts.

Fourth, what are the outcomes we should care about? Here we focus on the material wellbeing of the resident, UK-born population (remember we are focusing on economic, not social, impacts):

- Output per head – a central measure of local economic performance
- Earnings and employment – key measures of economic performance, particularly for local people
- Cost of living – since this helps determine real local wages. In practice, we look at housing costs, since these make up the largest element of living costs.

Finally, we need to think about how things play out over time:

- Growing cities tend to attract more migrants, pushing populations up over time (Altonji and Card 1991). But weakening host country economies, or improvements at home, may lead some migrants to leave (Borjas 1994).
- In the long term, migrant inflows tend to be bigger than 'UK-born' outflows, so that unless members of the same ethnic group are moving out at the same rate as migrants arrive, migration will tend to build an area's diversity (Card 2007, Putnam 2007). This may reinforce some of the dynamic benefits of migration, particularly diversity effects.
- In theory, agglomeration effects tend to be self-reinforcing, except at the margin, where living costs become unacceptably high (Combes *et al* 2005). In practice, this means that urban areas may continue to grow but with increasing spatial sorting by income and/or local income disparities (Overman and Leunig 2008). As we shall see, in larger urban areas migration may contribute to this process – which generates winners and losers.

6. Skills effects: theory and evidence

Of the existing research on migration and local economies, most of it has focused on local labour markets. Most of the evidence suggests few if any long-term impacts on employment and wages, although there are short-term costs in some places as labour markets adjust.

Theory

At the *micro level*, migrant-driven changes to the local skills mix affect firms in two main ways. First, firms may use migrants to plug individual skills gaps or ease labour supply bottlenecks – taking jobs UK-born workers do not want or cannot do. Second, firms can exploit generic characteristics of migrants, such as their work ethic.

In theory, all of this should help firms improve productivity – which in turn may allow them to pay higher wages, expand output or both.

In fact, firms in different sectors may respond differently. For some employers, if migrants and UK-born workers are not perfectly interchangeable – for example, if British workers have more relevant experience or know-how – then the latter may get ‘bumped up’ to more senior positions within firms (Ottaviano and Peri 2006). But other companies may react to an increased supply of relatively cheap labour by maintaining or shifting to low-quality, labour-intensive production models (Card 2005).

Some of these processes scale up to the *meso level*. The basic point is that, in the short run, an increase in the supply of one type of labour causes wages for that group to fall. In many cases this can be unskilled labour, as there is a tendency for highly skilled migrants to ‘downgrade’ in the labour market in the first few years, and undertake jobs below their actual skills level (Dustmann *et al* 2007). However, the extent to which this actually occurs depends on the structure of the local economies migrants enter, as well as the terms under which they enter the country. Arrivals through the Points-Based System are often recruited to undertake particular skilled jobs, and move straight into them on arrival.

Models of open local economies predict the following. In the short term, the relative wages of competing UK-born workers fall. Over time, ‘migrant-intensive’ sectors – some of which will be labour-intensive, with a lot of entry-level jobs – tend to expand, persuading UK-born workers’ wages back up. In the long term, all relative wages return to their previous level, local output per head is higher and the structure of the local economy has changed (Dustmann *et al* 2003).

So the employment profile and attitude of migrants matters. If new arrivals are largely taking jobs that ‘locals’ do not want or cannot do, then migrants will largely be competing with each other: wage impacts on the UK-born will be minimal or neutral (Manacorda *et al* 2006).

Migrants’ marginalisation in the labour market may have long-term consequences. If a large number of local firms maintain or move to low-skill, labour-intensive production, migration may contribute to a low-skills equilibrium in that local area: if there are a lot of cheap, unskilled workers in a local economy, employers may respond by organising production around the workforce. In other words, they will demand fewer skilled workers (who are scarce) and make do with unskilled people (who are easily available) (Finegold and Soskice 1988). Employment may be higher than it would otherwise have been, but wages will stay low, and investment in R&D or new technology is likely to be delayed. This is an important potential dynamic effect: if it occurs, it could limit the long-term growth path of the local economy; and reduce incentives for UK-born workers to train.

What the evidence says

Migrants provide clear benefits at the *micro level*. A number of UK studies suggest that for firms in many local areas, migrants are important in filling skills gaps, at all levels of the labour market. In general, migrants are seen as having better ‘soft’ skills – in particular, punctuality, enthusiasm and a good work ethic (Institute of Employment Studies 2006).

Migrants seem to be particularly helpful for employers with a lot of entry-level or intermediate positions. A recent study of Tyneside and Peterborough, for example, found that most migrants in the

area were employed in agricultural or low-wage manufacturing work (Stenning *et al* 2006). Easily available supplies of labour are clearly essential to employers both in the UK and abroad: for example, a crackdown on illegal immigration by the local sheriff in Phoenix, Arizona has left a number of employers facing severe skills shortages (Sterling 2008).

At the *meso level*, the overall effects of migration on local labour markets seem to be relatively small. Most international research finds little or no effects of migration on wages or employment (for example, Lemos and Portes 2008, Longhi *et al* 2006, Pischke and Velling 1997, Haisken-DeNew and Zimmerman 1995, quoted in Dustmann *et al* 2003).

In a series of studies on UK sub-regional economies, the latest covering 1997-2005, Christian Dustmann and colleagues have found that migration slightly raises average wages for UK-born workers (Dustmann *et al* 2007, 2005, 2003), but the effects are 'barely significant' (Dustmann *et al* 2003). The same studies found no overall significant effect on employment or unemployment. Research in the United States finds similar, low-level results (for example, Card 2007, Ottaviano and Peri 2007). In a cross-sectional analysis of 100 US Metro Areas, Card finds that migration raises average wages very slightly: a 10 per cent rise in the number of migrants increases average wages for the UK-born population by 1.16 per cent across the cities studied (Card 2007).

What explains these low-level results? One explanation is that migrants have essentially the same skills profile as UK-born workers, so that effects on any one UK-born group are short-term and very small (Dustmann *et al* 2007). Another explanation is that migrants are largely taking jobs that UK-born workers do not want. Looking at the UK labour market, Manacorda and colleagues find evidence that migrants are predominantly competing with each other, more than with UK-born workers (Manacorda *et al* 2006). In some cases, 'new migrants' may be displacing groups of migrants who have been in the UK longer: in a recent case study of London employers and agencies, firms typically rated white European migrants ahead of Black African workers (Wills 2008).

However, there is also some evidence of local 'losses' as labour markets adjust to changes in the skills mix. In London, for example, while low-wage employment expanded significantly from 1995 to 2001, the wage premium of bottom-quintile workers relative to the rest of the UK fell from 23 to 8 per cent, a change partially ascribed to increased competition for low-skilled jobs (Gordon *et al* 2007). Evidence from quantitative studies in the East Midlands and West Midlands also suggests some migrant-related increases in local labour market churn, and rises in claimant unemployment – although some of this seems to be driven by UK-born workers voluntarily moving to other jobs (Green *et al* 2007a, 2007b).

Small overall impacts also hide differences in the distribution of wage gains and losses according to the level of skills in a job ('distributional effects'). Evidence from the UK suggests average wage gains are largely driven by rises for high-skilled workers; low-skill workers suffer small relative wage losses (Dustmann *et al* 2007, 2003). In the US, Card's work suggests that in a migrant-rich city like Miami – compared with a more homogenous city like Philadelphia – relative wages for low-skill US-born workers are 3.5 per cent lower, and those for high-skill workers 4 per cent higher (Card 2007). These distributional effects are partly explained by greater competition for entry-level work, but also by production complementarities for higher-skilled workers – which will lead to higher wages for those workers (see Section 7).

Short-term costs and distributional effects may help to explain some of the hostility of communities to immigration in some local areas. More broadly, there is some tentative evidence that migration contributes to a persistent low-skill equilibrium in some local areas, particularly ex-industrial economies: case studies from the UK suggest that in some cases, migrants are filling unattractive local jobs, employment agencies are taking over human resources functions of some firms, and some agricultural and manufacturing employers seem to be becoming dependent on a 'quick fix' of relatively cheap migrant labour (Dawley and Stenning 2008, Stenning *et al* 2006). Similarly, a recent study in the US of manufacturing firms suggests that higher levels of immigration are associated with slower adoption of new technology (Lewis 2004, in Card 2005). There are real challenges for policymakers here, particularly if the alternative to migrant labour is continued economic decline (see Section 10).

7. Diversity effects: theory and evidence

A more diverse population has a number of potential benefits for firms, and for the local economy as a whole. In some cases, diverse teams are more productive, and migrants may improve levels of innovation. And new markets related to migrants, in non-traded goods and services, have emerged in the UK and elsewhere. Over time, migrants may help local economies' long-term performance, both through diaspora links and through encouraging economic diversity. The evidence suggests that many of these benefits are concentrated in and around urban areas, particularly big cities.

Theory

How could a broader, more diverse talent pool affect *local firms*? First, firms may be more able to hire individual 'stars' – for example, in computing or financial services where firms benefit from having access to large and diverse labour markets (Beaverstock 2002).

Second, and more broadly, a number of models suggest there are long-term benefits to firm-level 'cognitive diversity' – that is, a team with a broad range of perspectives to problem-solving. There are efficiency arguments for working with people who are similar in terms of their skills – communication costs are lower, and it is easier to monitor behaviour in the workplace (Alesina and La Ferrara 2004). On the other hand, greater cognitive diversity seems to improve team performance and firm-level productivity, especially for complex tasks (see Page 2007 for a recent summary of the literature on this subject). This implies that the gains from migration should be greatest to firms when migrants bring new knowledge (Lazear 1998). This will improve firm-level productivity – for example, as a result of higher levels of innovation – and thus firms' output and wages (Hunt 2008, Niebuhr 2006). Since these production complementarities will tend to be largest in high-skill, 'knowledge-based' occupations, this may help to explain why higher-skilled workers' wages rise fastest with migration.

At the *meso level*, diversity may also bring benefits. A more diverse local population will tend to broaden the range of goods and services demanded. For non-traded sectors in particular, this may allow new local markets to develop over time. To the extent that demand is additional – rather than a change in existing preferences – this will expand output and employment.

Some theories argue that migrants are more entrepreneurial than a country's UK-born population – either because this is an inherent characteristic of those who migrate, because they are better placed to see opportunities for new goods and services, or because they are often 'locked out' of the mainstream labour market – for example, because of employer discrimination (Chiswick 1978 in Borjas 1994, Legrain 2006). Either way, this suggests migration may increase the business stock in a local economy.

Migration may change local areas' trade links, particularly in urban areas – which tend to have the best transport and communications infrastructure. Migrant and minority groups often maintain extensive economic links with their 'home' cities and countries (Smallbone *et al* 2005). This may allow local firms to try out new suppliers or ways of organising production, and – potentially – increase the size of the total market into which local firms are able to sell.

This is one of the ways in which large migration flows may, over time, contribute to urban agglomeration. Migration may help some places develop real strengths in particular sectors; alternatively, it may foster economic diversity and knowledge flows between sectors (Jacobs 1961, Duranton and Puga 2001). As a result, migrant communities may help the biggest, 'global cities' maintain that status, at the centre of flows of people, money, goods and ideas (Benton-Short *et al* 2008, Hall 1998, Sassen 1991).

What the evidence says

There is some strong *micro-level* evidence of the long-term benefits of 'cognitive diversity' in teams. A range of workplace studies suggest that managing diversity in the short term may be difficult, with higher associated financial costs. But the success of 'global teams' in multinational firms implies that there is some kind of diversity advantage to be had (Lazear 1998). And there is some evidence that

teams that are more diverse can specifically help improve productivity at the firm level, particularly for businesses in high tech, advanced producer services and creative sectors (Leadbeater 2008, Page 2007, Landry and Wood 2008).

Similarly, at *meso level*, American and European studies suggest that migration has a positive impact on innovation. In a study of German sub-regional economies, for example, Niebuhr finds migration is positively associated with levels of patenting (Niebuhr 2006). US studies obtain similar results, both over the short term and the long term (Hunt 2008, Chellaraj *et al* 2005). The American research highlights the role of foreign students, suggesting that these effects are concentrated around towns and cities with large higher education institutions.

There is some interesting further evidence for diversity effects. First, there are good examples of new markets emerging at local level, for example in South and East Asian food, and in other local services (Leadbeater 2008, Warwick-Ching 2006). Similarly, a recent UK study suggests cities with an 'ethnic business sector' can improve supply chain opportunities to all local firms (Ram *et al* 2002, in Landry and Wood 2008). Chinatowns in London, Liverpool, Manchester and Dublin have all become important parts of their cities' economies, as well as part of the iconography and 'brand' of those places.

Second, diaspora- and migrant-driven trade seems to matter. Trade flows between California and South and East Asia appear to play a big part in the continued economic success of Silicon Valley in the US, for example, where over 25 per cent of start-ups have at least one foreign-born owner (Saxenian 2006). Saxenian finds that 'ethnic' start-ups are also opening up market opportunities for businesses run by US-born people across the Far East. And, for every 1 per cent increase in first-generation migrants from a given country, California's exports to that country rise by 0.5 per cent (*ibid*). Box 7.1 gives further details.

Box 7.1. Silicon Valley: an open city-region

Silicon Valley, California, is one of the world's best-known innovation systems – a cluster of settlements around San Francisco and the wider Bay Area, centred on the city of San Jose and the university towns of Berkeley and Stanford. Its success factors are well-known: a series of urban cores linked to the much larger city of San Francisco, a huge university base, infusions of Federal defence spending, highly competitive firm relationships, with a massive turnover of companies and ideas, and an outsider culture, particularly centred on the San Francisco core (Saxenian 2006).

Saxenian points out that Silicon Valley has continued to thrive despite becoming progressively more crowded, congested and expensive. This largely reflects processes of agglomeration over time, with feedback loops from earlier success (Combes *et al* 2005). But Saxenian argues that it also reflects the area's open economy.

International migration is a key factor in the Valley's long-term economic performance and resilience. Over half the Valley's scientists and engineers were born abroad, mostly in South and East Asia. These migrant diasporas are both highly entrepreneurial, and help attract a constant inflow of skilled people. They also forge links 'back home', either returning or setting up distributed production systems. Saxenian argues that this is win-win 'brain circulation', helping both home countries and the wider Valley business base.

The Silicon Valley story suggests that migrants may contribute to the development of broad sectoral specialisms, or 'related diversity' (Simmie *et al* 2008). Britain may not have its own Silicon Valley, but the Oxford-Cambridge-London 'golden triangle' of universities and high-tech activity is based around three of England's most migrant-rich cities. A Manchester-York-Leeds system might yet play a similar role in years to come. Further work is needed to establish what role students and other migrants play in those cities' economic performance.

Importantly, in many cases – though not all – these processes seem to be particular to urban areas. The sectors that benefit most from diversity tend to be clustered in and around cities, which also tend to have the strongest communications and transport infrastructure, and the largest universities. Over time, migrant diasporas may enhance localisation economies in urban areas. These feed into the broader, long-term processes of agglomeration to which we now turn.

8. Size effects: theory and evidence

There are a few very striking studies of long-term migrant-driven urban growth. The most recent research from the US suggests that if migrant flows are large enough they will accelerate agglomeration effects, raising productivity but also living costs. It is possible that this is happening in Greater London, and potentially other large cities in the UK.

Theory

At the *micro level*, increases in labour supply will allow firms to reduce their wages. But as we have seen, since migrants tend to cluster in particular parts of local labour markets, wage effects of this kind tend to be observed in specific migrant-intensive sectors. Migration-driven increases in labour supply might also lead to higher investment by firms as they recognise that the marginal return on new equipment will rise (Crafts and Venables 2001).

The more important 'size' changes are observed at the *meso level*. International immigration tends to increase the size of the local population and the local workforce, since outflows of the UK-born are limited. If migrant flows are large enough, there will be significant changes to levels of consumer demand, particularly for non-traded goods and services like retail and leisure.

Over time, very large migrant inflows may accelerate agglomeration effects – particularly in bigger cities where the scale of migration and economic activity is significant. Larger labour and consumer markets mean that collectively, firms can take advantage of economies of scale in production. As firms expand, they hire more people and increase average wages. In turn, this will attract further new arrivals – both from abroad and from other parts of the 'host' country (Ottaviano and Peri 2007). Agglomeration effects tend to accelerate with city size, so that overall output per head is likely to grow.

As the local economy grows, so competition for space grows and the area becomes more expensive to live in. Housing costs in particular are likely to rise – especially in central and inner urban neighbourhoods. Congestion may also increase. Over time, greater public and private investment will be required to increase housing supply and improve infrastructure (ibid).

As suggested in Section 7, other migrant-driven processes will help feed these effects. Production complementarities, new markets and better trade links are all sources of increasing returns for firms.

What the evidence says

The evidence base for size effects is very thin. But what is available is compelling. First, some historical studies suggest that domestic capital flows increase during periods of immigration, as firms take advantage of larger producer and consumer markets, particularly in urban centres (Crafts and Venables 2001, Hatton and Williamson 2006, Williamson 1998). However, as we saw in Section 6, there is some shorter term evidence to the contrary – some firms seem to respond to increased labour supply by slowing or cutting investment (Lewis 2004 in Card 2005, Fitzgerald 2007).

Second, there is some strongly suggestive evidence of migrant-driven agglomeration over the very long term. Crafts and Venables (2001) compare the relative growth rates of North and South America in the 19th century, concluding that the former overtook the latter in part due to migration-driven agglomeration effects around large urban areas. Better infrastructure and institutional frameworks also helped the USA pull ahead.

Third, Ottaviano and Peri find that large migrant inflows are associated with increased productivity of the resident population and higher living costs over several decades. This is the result from a series of studies on the long-term effects of migration on US city regions (Metropolitan Statistical Areas, or MSAs) (Ottaviano and Peri 2007, 2006, 2005). Across the sample a 1 per cent rise in migration leads to a 1.4-1.71 per cent rise in average US-born workers' wages, and a 1.8-2.25 per cent rise in local rents for the US-born (Ottaviano and Peri 2007). As in labour market studies, the largest relative wage gains go to higher skilled workers. Migration turns out to be good for the urban economy as a whole, but the largest nominal gains accrue to employers, high-skill workers and land/property owners.

Other US studies have also linked migration with associated higher local housing costs, especially in the short run (for example, Saiz 2003). However, if poorer workers are largely found in peripheral districts, they will be cushioned from bigger increases in housing costs in central neighbourhoods (Greulich *et al* 2004, quoted in Ottaviano and Peri 2007). In other words, in the long term, real-wage differences for low-skill workers may turn out to be minimal.

There are almost no studies looking at the impact of migrants on wider externalities, such as congestion and infrastructure overload. But there is some strong anecdotal UK evidence of migrant-related pressures on public services (Local Government Association 2007).

The critical question for policymakers is whether these processes are happening in local economies across the UK. Intuitively, Greater London is likely to be experiencing long-term, migrant-driven size effects of this kind, perhaps alongside some other of the largest conurbations. If it is, there could be a concern about the consequences for income inequality. But it is worth remembering that many of the less well-off – though not all – would be insulated from rising living costs through the social housing system. UK evidence also suggests that migrants tend to have a smaller than average ‘housing footprint’ – typically sharing homes, often in overcrowded circumstances (Gordon *et al* 2007).

9. What does this mean for different people and different places?

The local economics of migration are complex and hard to trace, and the evidence base is limited. However, overall, the balance of theory and evidence suggests:

- **Skills effects** – in the short term employers clearly benefit from a migrant labour supply, and over time, as diversity effects kick in, workers with complementary skills and consumers will also gain. At the meso level skills effects appear to be fairly small overall, but they should be bigger in local areas where there are a lot of entry-level jobs. In these areas there may be some short-term losses for low-skilled workers. Those costs are probably reduced by migrants' willingness to take 'hard to fill' jobs at the margins of the labour market, minimising competition with UK-born workers – but in turn, this may lead to longer term challenges for the area's economic development.
- **Diversity effects** – employers in 'knowledge-based' sectors get the greatest benefit from diverse workforces, passing on wage premiums to their employees. At the meso level, diversity effects are probably largest in urban areas: cities and towns with large migrant populations and a strong presence of high-value economic activity.
- **Size effects** – the evidence suggests that in the long term, large-scale migrant inflows can amplify agglomeration effects in large urban areas, where migrant populations and the scale of economic activity are greatest. The largest gains accrue to high-skill workers and property owners. Low-skill workers are partly shielded from cost-of-living increases through social housing.

Theory and evidence together suggest that local economic impacts will vary from place to place. But what are different communities around the UK likely to experience?

- **Large cities** – larger urban areas are likely to experience the biggest net gains from migration. Agglomeration effects are likely to amplify the productivity benefits of migration – especially in London and the major conurbations, where size and diversity effects are likely to be biggest. Relatively strong-performing city-regions such as those around Manchester, Birmingham and Leeds would be plausible candidates for these effects. Migrant numbers in most other UK cities are smaller, so we would expect similar change but on a smaller scale.
- **Smaller cities and towns** – where local economies are smaller, the impacts of migration outside the labour market are likely to be small. However, towns with a large migrant or minority population will experience some diversity effects, particularly over the long term. And places that form part of a bigger city-region will indirectly experience some of the change that occurs in the urban core. 'Big city' effects are likely to be particularly significant for towns and smaller cities within the gravitational pull of London. Oxford and Cambridge are possible cases – both attract large numbers of migrants through their university bases, have a lot of knowledge-based activity and are part of the Greater London mega-city region (Hall and Pain 2006).

There is some tentative evidence that migration helps sustain a low-skills equilibrium in some local areas, particularly ex-industrial economies. But the alternative may be continued economic decline. Policy interventions could help employers and migrants upgrade production and career paths.

- **Rural areas** – local economies in rural areas tend to be smaller still, so size and diversity effects will be limited: labour market impacts are likely to be most significant. In particular, the major effect in many rural areas may be filling vacancies and skills shortages, which are a significant problem for many rural businesses. In rural areas with rapidly growing migrant communities, some diversity effects may come into play, with new markets for goods and services emerging.

10. Conclusions and implications for policy

Place matters for migration, with migrant stocks and flows unevenly spread in the UK. This paper has argued that migration affects local economies in three main ways: through skills, diversity and size effects.

Over time, migration looks likely to have significant dynamic benefits, particularly in larger urban areas. New arrivals and growing diversity can help drive forward innovation, open up trade links and keep economies on high-value growth paths. In this scenario, migration is a net benefit to the local area, and also contributes to productivity at national level.

In most other places the net impact will be smaller. In this scenario migration will still bring benefits to local communities, particularly through filling holes in local labour markets. The broader policy challenge is to make the most of growing diversity – for example, through opening up entry points for high-skill migrants, encouraging new business formation and helping build diaspora links.

In a few places, especially those with lots of entry-level jobs, there is a risk of some negative impacts. The specific risk is of migrants being used to provide a source of cheap, capable labour to employers. In this scenario, migration may play a part in keeping these local economies on a low-cost, low valued-added path, with wider benefits not being realised.

Also, where migrants comprise competition for job applicants, there may be short-term labour market adjustments, causing some local residents who are in direct competition with the migrants to lose out. But without migration, the likely alternative for these areas may be economic decline. In these cases the correct policy response is to improve local people's skills and employability, and to encourage further economic development.

These findings are tentative. There are still big gaps in knowledge about the drivers of migration flows at the local level, how labour markets and different sectors adjust in the very short run, and about how size and diversity effects play out in the long run.

Policy implications

Given the gaps in the evidence base, it is tricky to draw out robust lessons for policymakers. But we can identify some high-level points.

First, we need a significant investment in building the evidence base around the economic and wider impacts of migration – both at local and national level. This is partly a case of mapping the full range of work being done – by the Office for National Statistics, academics and others. It also means that central government needs to put more resources into new research and better statistics. The MAC (Migration Advisory Committee) could take a lead role here. Regional and local government should be able to draw on this, but will also need to put resources into better understanding local conditions.

Second, assuming net migration continues at current rates or above, government should take further steps to deal with any local costs – in the labour market, but also potential longer-term impacts on local economies' growth paths, and in some areas on increases in the cost of living.

Active labour market policy is an important part of the policy mix – both in terms of welfare-to-work programmes, and equally in measures to encourage progression of UK-born workers up the skills ladder. Programmes such as Train to Gain can play a major role. Similarly, the Government should work with Sector Skills Development Agencies, business support agencies, unions and employer bodies to explore how low-wage employers might shift towards higher-value production. Ministers may also want to consider the role of temp agencies in shaping migration flows into local communities: a good guesstimate is that around 40 per cent of A8 migrants work for or through agencies.²

2. Thanks to Kath Jones at Manchester University for this point. Workplace Employment Relations Survey (WERS) data suggests that since 2004, around 39 per cent of arrivals have been employed in 'administration, business and management', most employed by agencies. Food processing, manufacturing and hospitality are also largely agency-dominated. Finally, the 'temporary work' category is also likely to be dominated by agency workers.

And the Homes and Communities Agency, in partnership with the Department of Communities and Local Government and regional and local government, will need to factor potential impacts of migration into housing strategies – especially in London and the Greater South East, as well as in rural areas which are experiencing a net population increase and where housing is in very short supply.

Third, we need to take steps to increase local benefits. Central, regional and big city policymakers need to recognise the long-term importance of migration to economic growth. Practically, local leaders need to take steps to encourage and retain migrants, especially those with skills. Universities are one key entry point for highly skilled people, and can operate as useful ‘migrant magnets’ for local areas. Examining potential spatial impacts of the Points-Based System will also be important, as will working with local employers in knowledge-intensive sectors to encourage them to diversify their workforces. And on the ground, planning and business support policies can help build and sustain migrant and minority clusters.

Finally, political leaders and policymakers need to sharpen their narrative about migration, particularly their lines on the longer-term effects on local communities. In part, this is about incorporating the messages from this paper. But it is also about putting people flows in context. Migration is just part of the story of how local areas are changing, an experience shared by many countries as well as the UK. Our local communities are becoming more diverse: this is a highly long-term process that has been operating for decades, and will continue.

As Saskia Sassen suggests, we need to recognise that immigrants have always been part of a ‘complex, highly heterogenous “we”’ (Sassen 2004). Robert Putnam argues convincingly that the societies that have best managed difference have remodelled national identities as society changes (Putnam 2007).

We need to recast some of the debate about migration, into a discussion about the costs and benefits of bigger, more diverse communities (Wolf 2008). A proper understanding of the local economics of migration and diversity is essential to starting that conversation.

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