The Impact of Recent Immigration on the London Economy
July 2007

THE LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE

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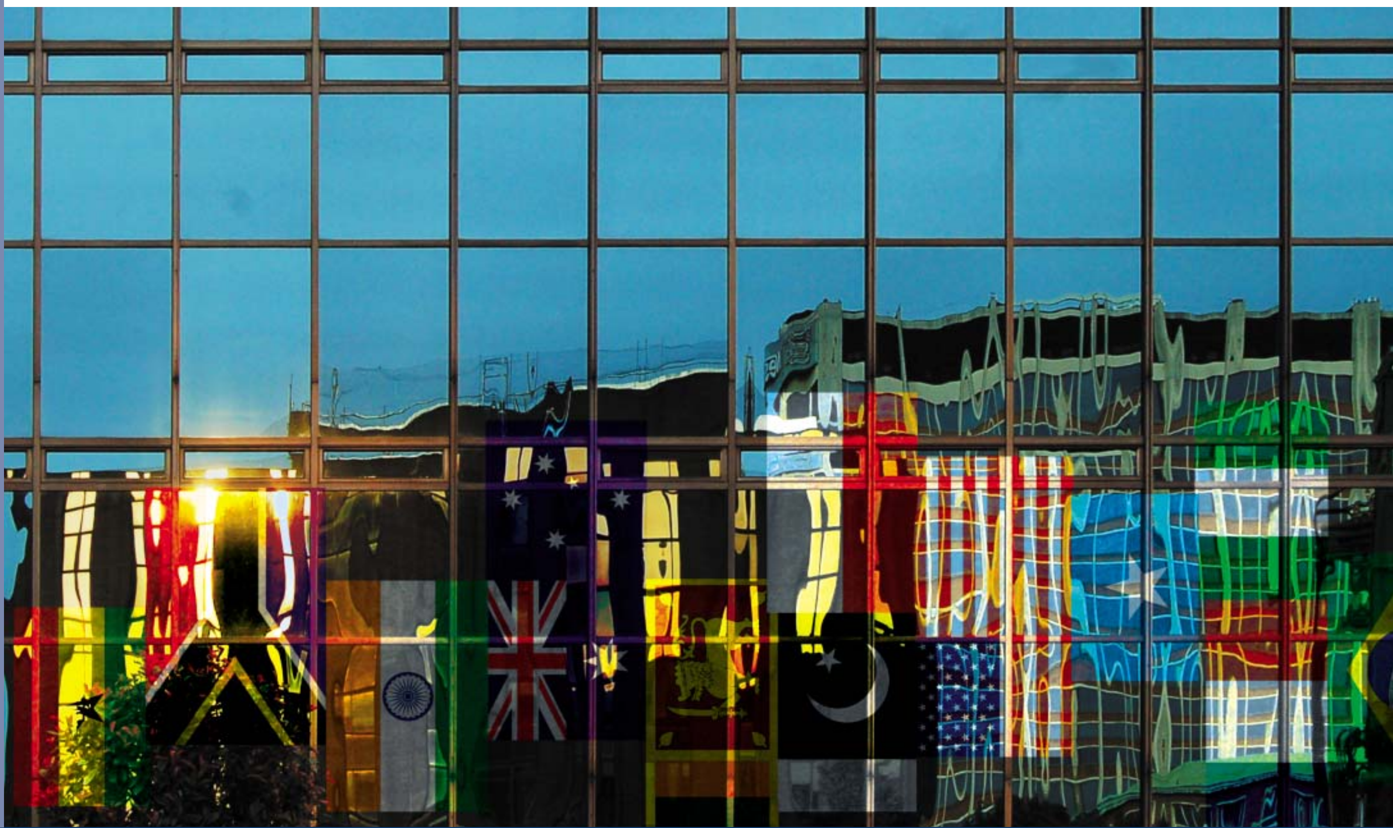

CITY OF LONDON

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The Impact of Recent Immigration on the London Economy

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Foreword

Michael Snyder
Chairman, Policy and Resources Committee
City of London

The City has always benefited from the presence of international talent among its workforce and management. Street names such as Lombard Street remind us of the impact of foreign bankers as far back as the Middle Ages, while institutions such as Schroders and Rothschilds originated from international enterprise in the 18th and 19th centuries. The City has remained open to talent from abroad through to the present day; and, with something like a quarter of its employees coming from outside the UK, must have a strong claim to be the most cosmopolitan of all international financial services. The presence of such talent is one of the key factors underpinning our global competitiveness.

Migration from abroad has also played a key long-term role in London as a whole. Once again, the modern age has seen an acceleration in arrivals. The foreign-born population has grown from 1 to 2 million during the last 20 years. In the last decade alone, London has experienced a net gain of some 800 thousand immigrants from an increasingly diverse range of countries of origin.

Despite the scale of this globalization of our resident population, there has been surprisingly little analysis of its impact on London’s economy, social fabric and governance. With this in mind, we commissioned the London School of Economics to produce a research report specifically focussed on the composition and dynamics of migrant flows, and their impact on the housing and labour markets. In addition, we asked the consultants to consider the consequences of increasing diversity for the government of London and how it is financed.

Despite the public data limitations that bedevil any research into the UK’s population and workforce, the authors have produced a compelling analysis of London’s new inhabitants. Overall, they are young and are likely to have had significantly more education and possess higher level qualifications than the comparable age cohort of the London-born population. Many of those coming from richer countries tend to be temporary residents, coming here for several years to work (often in the City) and to enjoy the benefits of a dynamic global city, before returning home. Those from other countries are far more likely to be permanent additions to the population, exercising a long-term effect on the housing and labour markets.

The impact of migration on London’s already strained housing stock might have been limited to date due to relative youth and low household formation rates. This situation is likely to change when, as the report forecasts, we reach a point where the majority of children in the capital will be born into families who have come from overseas.

The impact on the labour market has been more immediate, with the evidence suggesting that better educated new arrivals are displacing London-born workers from the lower end of the labour market. This phenomenon might be expected to extend further and further up the earnings scale as immigrants integrate and take fuller advantage of their education and skills.

From a local government point of view, perhaps the most compelling section of the report is that dealing with the financial implications of international in-migration. London receives a much larger share of the current wave of new arrivals than the rest of the country. The centralization of revenue collection, and relative rigidity of the formulae used to re-allocate funds for local spending, means that neither the GLA nor the London boroughs receive financial resources proportionate to the increasing size and diversity of their populations. Unless this balance is redressed, the strain on local government finances can only increase, with negative consequences for the quality of the services they are expected to provide. It would be a tragedy if the current positive impact of new migrants on London's competitiveness and sustainability were to be increasingly undermined by inadequate public financing. This report points the way towards the more comprehensive analysis required to support the major shifts in public policy necessary to ensure that this does not happen. I trust the report's findings will be heard at all levels of government.

Michael Snyder
London
July 2007

Executive Summary

- Twenty years of strong inward migration, with net gains totalling some 800 thousand people since 1998, have produced both overall population growth and a much more cosmopolitan mix in London. The foreign born population has grown from 1 to 2 million over the 20 year period. Whereas, in 1986 just 6 countries of origin accounted for half of this population, now it takes 15 to do so.
- Particular elements, such as asylum seekers and recent A8[1] migrants, have contributed to this growth but are only minor parts of a strong trend driven by international forces combined with London's particular attractions. These trends appear set to continue.
- Net immigration into London from abroad tends to displace some existing residents, who move out into other parts of the Greater South East – though the short-run effect is nearer to 'one for two' than 'one for one.' This substantially reduces the impact of immigration on London population growth, while probably intensifying that on the population mix.

Characteristics of migrants

- The new migrants come from many places, but share characteristics of relative youth, above average qualifications, and positive ratings by employers.
- There are major limitations in the official statistics about migrants, notably on out-migration, whether by the UK-born or by temporary residents here. Similarly it is not possible to track migrants' subsequent moves within the UK. The basic facts are reasonably clear, but the picture is complicated, and our current understanding is only partial.
- Those who come from richer countries tend to remain for shorter periods (particularly the most qualified), while those from less developed countries are far more likely to make London their long-term home.

Impacts on the London economy

- Two distinct positive effects of migration are its *qualitative* impact on the London labour force and economy, through diversity, flexibility, international experience and skill sets; and its *quantitative* contribution through expanding labour supply and thus enabling employment growth and reducing upward wage pressure.
- Migrants work in most types of job in London. There are concentrations mainly from richer countries in the financial and business services. Many work in catering and hospitality. A8 in-migrants are particularly concentrated in construction.
- Those coming from less developed countries tend (at least initially) to take up lower status jobs than their qualifications would warrant. Over time this differentiation tends to disappear.
- An effect of the concentration of migrants in the worst paid segment of the labour market has been a significant downward pressure on wages at the bottom end of the market. This seems to have encouraged job growth in these occupations, but earnings among workers in this sector

[1] A8 – the 8 eastern and central European accession countries of the EU25.

have suffered, falling behind growth in the cost of living. At the same time the gap between earnings levels for this group in London and those in the rest of the UK has been substantially eroded.

- High levels of net inward migration in the working age range (averaging about 70 thousand per annum (p.a.)) have continued since 2000, despite both the substantial cut-back in numbers of asylum-seekers and the fact that London employment growth has slowed down.
- So far, this imbalance in labour supply and demand trends has been mitigated particularly by increased out-commuting, with no evident increase in unemployment in London. Across the wider set of south eastern regions including London, there may, however, have been some downward effect on labour market participation.
- Both employment rates and earnings among new migrants tend to be lower than for otherwise comparable Londoners. This suggests that their potential is not being fully used at present by London employers.

Accommodating the migrant population

- New migrants form fewer households than their indigenous counterparts. They also consume less housing and live disproportionately in the private rented sector. Over time their housing demands increase as incomes rise and people become more settled – but if there is significant turnover in migrants this longer term impact is more limited.
- Additional demand from migrants and foreign investors, have put pressure on house prices. In the private rented sector, however, rents have remained fairly stable as demand increases – suggesting that supply has become more elastic.
- Migrants are not usually eligible for social housing immediately on entry. Those who remain on low incomes and in poor housing conditions, especially those with families, will be eligible for assistance and may obtain priority if they become homeless. This can add to existing tensions between meeting housing need among newer entrants and perceived housing entitlements among established residents.

Use of public services by migrants

- The majority of migrants use relatively fewer public services than indigenous households – and are therefore less costly to the public purse. There are, however, additional pressures from the diverse needs of migrants, and the claims of those in the weakest situation. The costs of housing, translation services, health provision, schools and social security benefits have increased as a result of the additional needs of some new migrants to London.
- Finance to secure additional local government services is often not fully underwritten by central government, resulting in councils having to make statutory provision without an adequate resource base. London faces particular problems when revisions are made to estimates of migrant arrivals (and thus local populations), as these lead to unpredictable shifts in central grant support to local government, the NHS and other services.

Summary

- Social cohesion within London has generally remained strong during the recent period of rapid in-migration. There is some risk that this could change if there were a long-term mismatch between available resources and additional spending needs.
- London is experiencing an unprecedented period of sustained high levels of international migration, of very diverse kinds, with potentially major impacts on the growth and competitiveness of London. This first assessment has identified some of the key effects, especially with respect to the labour market, housing and local services. It has also shown that the relationships between increased in-migration and the functioning of the capital are complex. Substantial further research will be required fully to assess their overall impact on the London economy.

1 Introduction

Migration, which is often a politically-contested and awkward subject, is also seen as a powerful indicator of a city's modernity, openness and its willingness to adapt to economic progress. City leaders tend to talk optimistically about the benefits of a cosmopolitan population and about the flow of new people into their city.

Thus, the introduction to the Mayor's London Plan stated that London is 'the most culturally diverse city in the world'. It went on to make a strong case for international in-migration:

> 'London's diversity is one of its great historical social, economic and cultural strengths. New arrivals moving to London from overseas will contribute further to it. London is already a highly diverse city, one of the most multi-racial in the world. Nearly one-third of Londoners are from black and minority ethnic communities…and) a significant growth in (these) is projected over the next 15 years. International in-and out-migration has been high and is projected to remain so' (MoL, 2004, p26).

London is not alone in seeing migration as a powerful asset. The Mayor of New York's Commission for Immigrant Affairs has stated:

> 'If New York City is the capital of the world, it's because of the energy and vision of generations of immigrants. Immigrants are 36% of New York's population and 43% of the labor force. They continue a long history of spurring growth, fuelling our economy, and building dynamic communities' (NYMOIA, 2007).

The Mayor of Toronto, David Miller, has linked his city's large immigrant populations more specifically to Toronto's potential to take advantage of growth in China and India in the years ahead:

> 'It happens that Toronto's two largest groups of immigrants are from China and South Asia. That means we have a natural advantage in this shifting global economy. We already have the cultural and business links to make Toronto a hub of trade and business between North America and Asia' (CoT, 2005).

Mayors in other cities would make similar remarks. Migration is seen as evidence that a city is 'capital of the world' or 'the most culturally diverse city in the world', with the implication that this is a good thing. New migrants are believed to strengthen the economy and also provide a signal of the city's global reach. Set against such confident judgements, hard evidence is, however, much more difficult to pin down. The aim of this report is to start the task of building a relevant evidence base for the case of London. This involves identifying those impacts about which knowledge is available – but also the significant areas of ignorance where more evidence needs to be gathered, and those fields where actual impacts will depend on how the city responds to the opportunities and challenges that migration now present.

At the start of the 21st century, London is in a confident and expansive mood, thanks both to growing incomes in its professional financial and business services (and the spending power of those who work in them) and a symbolic turnaround in population trends within Greater London after half a century of contraction. The immediate causes of these two developments are, in the first case, the combination of a very strong competitive position in these sectors built up over decades, with a burgeoning (national and international) demand for sophisticated services, and in the second case an extraordinary growth in international immigration, not in itself unique to London, but scarcely matched elsewhere for its scale and diversity. Two key questions now are:

- Whether these two developments are causally linked, and mutually supportive in a way that will help underwrite further expansion; and
- how closely they are, or can be, connected in labour market terms, with both:
    - international migration supplying the kinds of labour that London requires to sustain its competitive advantage, and
    - the growth sectors offering the employment opportunities making effective use of the labour potential offered by the new migrants, and successfully integrating them in social and economic terms.

As highlighted in publications linked to Gordon Brown's last two Budget speeches (HM Treasury, 2006, 2007), London is now also identified statistically as the UK region with the lowest employment (and highest unemployment) rates among its population – which seems a great paradox for such a successful city in overall economic terms. Another question to be addressed is whether the discovery of this phenomenon is somehow linked to a couple of decades of large scale immigration into London – either because population growth is running ahead of (a much less certain) expansion in employment, or because migrants are feeding particularly into the bottom end of the labour market and undermining the position of those Londoners who were already occupying the weakest positions in a high skill economy.

Another key issue is whether the city can actually accommodate within its borders the scale of growth that immigration has brought. For decades Londoners' demands for more space to match their rising incomes, have led an increasing proportion to move out, allowing lower densities to be achieved inside Greater London. The reversal of population decline in the city over the last 20 years may well owe something to changes in tastes among an increasingly educated population, some of whom attach greater weight to accessibility to the cultural and social opportunities of the city than to more space (at ground level), as well as the changing values of planners. It also (perhaps preponderantly) seems to reflect the willingness of migrants to live at substantially higher densities than established residents.

Two questions of importance then are:

- how far it is the case that the presence of increased numbers of migrants has been responsible for densification and (thus) the new population growth within London; and

- whether such differences in housing aspirations will be sustained over time, and thus whether further densification can be expected, without a steady acceleration in the rate of international immigration.

Beyond these relatively straightforward labour and housing market issues, there are more profound ones about the potential long-run impacts of a much more diverse population on the city's creativity and its political culture. These are mostly beyond the scope of this study, which is focused on economic impacts and currently visible changes. There are, however, important short-term aspects to both of these, one of which concerns the effects of migration on demands for public services and the political/fiscal issues involved in responding to such demands at a local level within the city.

Until recently, rather little has been known about the significance of migration for the London economy. Since, and even during, the earlier post-war waves of Commonwealth immigration into London, the focus has been more on ethnicity/race than on migration itself, largely because discrimination and its secondary effects have continued to impact on the London-born children and grandchildren of these earlier migrants. There is, however, currently a burgeoning of research about many aspects of migration, including its economic effects. Important elements in this work are underway but are still in quite early stages. The intentions of this study are thus largely exploratory: to survey what can readily be established about the scale and role of the new migration in relation to the London economy from accessible data sources and from papers emerging from current research; and to assess both the significance of these and key areas of ignorance requiring more focused research effort.

To pursue this, the following chapters first set the context for the current wave of immigration into London, in relation particularly to London's history of receiving migrants (Chapter 2); then examine the scale and character of migration over the past 20 years (Chapter 3); before considering its significance and impacts in relation to the housing system (Chapter 4); labour market/competitiveness (Chapter 5) and; public service provision (Chapter 6). A concluding chapter draws the threads together, and identifies key points for consideration in relation to public policy in London and development of further research.

2 Historic and overall trends

2.1 The history of migration to London

London is often described as an 'international city', once primarily in relation to its imperial role, but since the 1980s more broadly as a 'global city' serving the whole world. The main justification for this title has been the concentration of many dynamic 'command and control' functions for an increasingly integrated world economy, most notably in and around the City itself (e.g. Sassen, 1991). An equally remarkable and even more pervasive kind of internationalisation of the city in this period has been in its population, which has become dramatically more diverse over the past 20 years, with large numbers of new migrants from many places, most of which (unlike the homes of earlier post war migrants) were never part of the British Empire.

The reasons why people have travelled from overseas to London – for work, refuge, stimulus, profit, personal development and pleasure – are almost as varied as their origins, but by no means unique to this city. Many large urban centres have a history of immigration, some on a much larger scale than was the case for London – for example Toronto, Los Angeles, Sydney and New York – but these too have experienced large new waves over recent decades which have a very similar character to that affecting London. Other European cities, like Paris and Amsterdam, are also experiencing more cosmopolitan (as well as larger) inflows now, if not to the same degree as London. In all these cases it is very much bound up with their urban character, their openness, economic vitality, existing cultural diversity and concentrations of economic, social and power. The relationship, however, seems to be a two way one, with a strong belief at least that the presence (and turnover) of migrants from a wide variety of origins will contribute strongly to all of these urban assets – if also probably to the accompanying tensions and problems endemic in such cities.

The connection of international migration with high-level political power is clearly a very old one. Three monarchs came from Europe and a number of others married foreigners. Strong connections were developed with rulers and royal families in many other European countries. With all these links and transitions there came larger groups of foreign migrants, some to the courts themselves, and some to pursue the commercial opportunities opened up by the internationalisation of the monarchy.

London's trading role was also a major stimulus to migration, and migrants contributed greatly to it from the very beginning. The City developed as a centre of overseas trade from the period of Roman occupation onwards, and the fact that its main city was a wholly Roman creation, with no native past, marked Britain out from virtually all other provinces of Rome: 'London began as a city of foreigners, and long continued as a government town, whose resident authority overawed native British custom' (Morris, 1982, 280-281).

By the end of the Roman period in the 5th century, however, most of London's population would have been born here, and its subsequent decline halted further immigration. When it re-emerged as an Anglo-Saxon city around 600, it was settled by migrants from other parts of England, who were assimilated through both intermarriage and peaceful commerce (Ackroyd, 2000). After further occupation by Danes, English rule was established by King Alfred, bringing an era of security and trading success, which was maintained after the Norman conquest. People from many different countries passed through the capital, as traders, diplomats, servants and, later, slaves. In the 13th century, the City of London was described as 'overflowing with Italians, Spanish, Provencals and Poitevins' (Selwood, Schwarz and Merriman, 1996). Lombard Street in the City became established as a banking centre after Lombard merchants from northern Italy settled there in the 12th century.

By the 15th century there were estimated to be 1850 foreigners in London, rising to 3,000 in 1501 (Selwood, Schwarz and Merriman, 1996; Thrupp, 1969). Londoners would from time to time react against the privileges granted to such outsiders, 'and, on occasion, vented their fury and prejudice upon them' (Barron, 2004, p14). The monarchy, however, was often enthusiastic about the potential for taxation and lending provided by such overseas traders: increasing the power of foreigners (who were unlikely to form a power bloc) was more attractive than strengthening London and its merchant class (who, in the City of London, were politically powerful). The city's willingness to attract and (for most of the time) tolerate foreign traders contributed to its mercantile success. In the period prior to the Reformation, London seems to have flourished as a 'truly cosmopolitan city' (Barron, 2004, p115), though a subsequent wave of Huguenot immigration into London (fleeing Catholic persecution) provoked alarm during the mid-1560s.

By the middle of the 17th century, London's expansion was fuelled entirely by migration, mostly domestic but partly international. Jews, who had been expelled from the country 350 years earlier, were allowed back in by Oliver Cromwell. Many fled to London from anti-Semitism in continental Europe, building a Sephardic community of some 20 thousand, notably in Spitalfields where they lived side-by-side with the Huguenots – in an area now settled by Bangladeshis. There were also between 5 and 10 thousand black inhabitants in Georgian London (Porter, 1994). High levels of immigration and economic growth were seen as leading to higher wages and costs, making London expensive compared both to the rest of the country and other cities in Europe. These high wages and costs appear, however, to have energised its economy, not damaged it (Porter, 1994). Moreover, overseas traders began to take an active part in the city's political life.

During the mid-19th century, famine in Ireland pushed people toward British (as well as American) cities in search of work, with 46 thousand emigrants settling in London, added to the 84 thousand who already lived there. The city's Jewish population doubled between 1850 and 1880, especially as people fled pogroms in central Europe, Poland and Russia. The East End became a heavily overcrowded district of new migrants. By 1901, 42 thousand Russians and Poles lived in Stepney. Many from this community later achieved prominence in business, science and the arts.

It was not only the poor and dispossessed that moved to London as the city grew. The city's wealth and attractions brought aristocrats, investors and leisure-seekers from across the world. The Great Exhibition in 1851 was a publicly-backed initiative to show London as what would today be called a 'world city'. The strength of its financial markets with their openness (at this stage) to foreign participants brought European financiers to the city with innovative practices that reinforced its competitive position (Michie, 1998). London also became a place where immigrants could foment ideas in a relatively anonymous and tolerant political environment. 'London was a place where dangerous continental anarchists could drop out of sight and become a brooding presence' (Nash, 2005, p114).

2.2 The Twentieth century

During the first Great Age of Migration (and globalisation) before the First World War, the UK (like Europe in general) was involved primarily as a place of origin rather than as an important destination for international flows – except in its role as asylum for refugees from Russia. During the first half of the 20th century, particularly in the 20s and 30s, international migration was much more limited – and London's core activities became more insulated from international influences – while the emergence of a new round of refugee flows in the late 1930s had rather little impact on the UK, although it brought some distinguished migrants to London.

In Europe generally, the period since the Second World War has been one of very much larger scale migration, both into and within the continent, though with markedly shifting patterns, several of which have had distinctive impacts on London. In broad terms, we can distinguish four sub-periods in which different processes have operated to quite different effects:

Post-war resettlement: On the continent, the aftermath of the war (and the division of Germany) brought massive movements, with many millions of people being repatriated, forcibly displaced or voluntarily seeking asylum. The driving forces were almost entirely political, but with very major economic effects, notably in providing a large boost to West German labour supply growth, continuing through the 1950s until the Wall halted the refugee flow from East Germany. The impact of these flows on the UK was more modest, but a few hundred thousand 'European Volunteer Workers' were recruited by the post-war Labour government, primarily from Displaced Persons camps, and directed to employment in 'essential industries', mostly production sectors where labour was in short supply. At the time this source of supply was chosen over the importation of non-white workers from British colonies, who were seen as less socially acceptable (Kay and Miles, 1992). Because of the targeted sectors, these flows were mostly directed to areas of the country away from London.

Managed labour importation: Through the 1950s and 1960s, most northern European countries actively promoted labour immigration as a tool of economic policy, drawing in workers from outside northern Europe on a basis initiated and managed jointly by a combination of the states concerned and major employers in search of replacement labour. The arrangements took different forms in different countries, with a major contrast between the Germanic nations. Citizenship was defined by descent and foreign migrants had the status strictly of guest workers (*gastarbeiter*), and the main colonial powers (such as the UK), where most of the new migrants either already had citizenship rights or could readily acquire them. There were also significant differences in the sectors to which migrants were recruited, with a German focus on expanding manufacturing sectors, contrasting both with a British emphasis on public services (and later on less competitive industries) and a French tendency for more migrants to go into private services/construction. In the UK, though the interest of West Indians in coming to Britain (and particularly London) was signalled by the arrival of *The Empire Windrush* at Tilbury in 1948, large scale migration from there only followed at the end of the 1950s, thanks to recruitment initiatives by London Transport, and of the National Health Service, continuing until it was largely cut off by the 1962 Immigration Act.

Immigration to London continued through the 1960s though, with a new influx of south Asians, including refugees from Kenya and Uganda. Recruitment of large numbers of Pakistanis at this time to work in a number of increasingly uncompetitive manufacturing industries mostly brought migrants to northern cities rather than to London. As far as tradable goods were concerned, however, it became increasingly feasible and attractive to use cheap labour supplies *in situ*, by off-shoring work.

Halting the inflow: This planned importation was halted in the early-mid 1970s for reasons primarily associated with the oil price shock and rising unemployment in domestic economies, though British restrictions had come in earlier, for essentially political reasons. In the gastarbeiter countries, in particular, there was an expectation now that migrants would go home, reducing the size of the foreign-born population, for whom there was no longer an economic need. Even with strong encouragement in some places, this mostly did not occur. Cyclical (back and forward) movement was greatly reduced, however, facing earlier migrants with a much starker choice between permanently returning 'home', or staying on a more settled basis, which is what the great majority did. From the 1980s onward, government policies in the main migrant countries increasingly complemented restrictions on further primary immigration[2] with efforts to enhance settlement and integration among previous immigrants, including acceptance of secondary migration as a means of family reunification.

New (Post-Fordist)[3] migration: From the later 1980s, long-distance migration into western Europe revived on a much more heterogeneous and less managed basis. In particular, there was an upsurge in asylum-seeking (from eastern Europe and from war-torn areas of the Third World), in movements by the highly skilled, and in spontaneous economic migration by individuals from many areas of the world now in possession of much better information about available work opportunities abroad, both through globalised media, and contacts with earlier migrants. Though immigration controls remained in force they were less effective in stemming this new migration. Globally the numbers of people living outside their country of origin are estimated to have grown by

[2] i.e. migration of single people or principal family breadwinners.
[3] Post-Fordism refers to a shift in the balance of economic activity over the last 25 years or so from one characterised by mass production of relatively standard goods in large firms or state organisations, to a more flexible, diverse and market-oriented mix. Post-Fordist migration shares similar features, contrasting with the more organised and homogeneous flows of the 1960s.

80% between 1980 and 2000[4]. One factor in this was the great upsurge in refugee flows, principally from one Third World country to another, but also involving at the peak of asylum seeking in 2001 some 638 thousand arrivals in OECD countries (with some 15% coming to the UK).

The reduced role of major employers in shaping this new diverse set of flows, the much enlarged set of origins, and the increased representation of graduates in them all suggest that major cities (especially those with a range of established minority populations) should be of special significance as destinations for the new migration**.** At an international scale, the OECD(2004) reports that current immigrant flows into advanced economies are particularly concentrated in areas which are: economically attractive, urban in character, close to relevant ports of entry, and with existing concentrations of potential immigrant groups.

London has certainly figured prominently in the upsurge of immigration to the UK over the past 20 years, typically receiving about 40% of the gross inflows (three times its population share). In net terms the concentration has been even more striking – indeed until the late 1990s London effectively accounted for 85-90% of additions to the UK's migrant stock, coming down to 55-60% in the last 5 years, as migration has started to take off in other regions. The impact on London's own population over the last 20 years has been dramatic, both quantitatively and qualitatively. The chronic population decline of the previous quarter century has been replaced by net growth (of around 50 thousand p.a.); the share of foreign born in the population has almost doubled over 20 years, reaching about one-third of the total, and the number of nationalities heavily represented among its residents has grown enormously, with a much larger proportion now coming from non-English speaking countries (Table 2.1).

Table 2.1: The cosmopolitanisation of London's population 1986-2006

	1986	2006
Foreign born population	1.17 million	2.23 million
Proportion of total	17.6%	30.5%
Share coming from former British territories	76%	59%
Dominant origins: Number of countries contributing majority of migrant stock	6 countries Ireland, India, Kenya, Jamaica, Cyprus, Bangladesh	15 countries Previous 6 + Nigeria, Poland, Sri Lanka, Ghana, South Africa, Pakistan, Somalia, USA, Turkey

Source: Labour Force Survey (LFS).

[4] From 96 to 174 million according to UN statistics.

In this respect, London has truly become a global city, rather than simply an ex-imperial one. A recent international comparison (Benton-Short et al., 2004) places London just in the top quartile of international cities (24th out of 116) in terms of its proportion of foreign born, well behind places such as Dubai, Miami and Amsterdam – all clearly smaller than London – and with a smaller absolute number of foreign born than New York, Los Angeles or Toronto (where 2 million foreign born represent 45% of the city population). On a broader 'total immigrant index', reflecting diversity as well as the overall share and number of foreign born, this study places London in 5th position, just ahead of Amsterdam and well ahead of any other European city (Table 2.2).

Table 2.2: The Top 10 international cities for immigration and population diversity

Cities	Total immigration index
New York	2.11
Toronto	1.92
Dubai	1.89
Los Angeles	1.79
London	1.28
Amsterdam	1.13
Vancouver	1.08
Sydney	1.06
Miami	1.03
Melbourne	0.86

Source: Benton-Smith et al., 2004.
Note: The 'total immigration index' presented here combines measures of absolute and relative immigrant stock, together with its diversity in terms of national origins[5].

Though from a rather different starting position, London could be seen as now following the course pursued by New York a decade or so earlier. Though New York had always been a city of immigrants (or their descendants), from a variety of, mostly European origins, the influx was very severely cut back from 1924 until 1965[6] (Moorhouse, 1988), after which high rates of immigration from many new origins brought a turnaround, from heavy decline to substantial growth, between the 1970s and 1980s in the city's population trends (NYDCP, 2004). In fact, since security-based restrictions cut immigration to the US back from its 2001 peak, London seems to have caught up with, and possibly even overtaken New York in terms of the net inflow, with each gaining some 500 thousand people from abroad between 2000 and 2005[7]. This must surely be the first time that London has matched that great immigrant city in these terms, and concerns are starting to be expressed there that the new constraints on immigration of skilled workers may be starting to affect that city's ability to attract skilled talent (McKinsey, 2007, p16).

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[5] Technically, this index is a z score, scaled to produce a mean value of 1.0 across the full set of cities, with a standard deviation of 1.0 also.
[6] With some post World War II concessions for displaced persons from Europe.
[7] The London estimate is from ONS and the New York figure from Demographia (2007).

2.3 Conclusion

What the real significance is for London of this population turnaround, and of the new migration which triggered it – beyond the simple addition of extra numbers to those living in the city – is the focus of the rest of this report. In some ways it might be argued that there is nothing essentially new about the influx which London (like New York) is now experiencing. The city has long experience of playing host to cultural elites (or cultural servants of the elite), to refugees and would be revolutionaries, to upwardly mobile people seeking an introduction to the world of affairs, and to larger numbers looking simply for work. What is novel about the present situation seems principally to be the coincidence of each of these kinds of flow, operating on a much larger scale, and from more countries of origins than London has ever experienced before. We start our investigation in the next chapter by seeking to chart the kinds of flow now coming into London, their scale and the dynamics of their change.

3 Migrant flows, stocks, composition and dynamics

This chapter focuses on the 'new migration' into London and the UK over the past 20 years, seeking to establish some basic facts about: who has been coming to London, in what numbers, and what the margins of uncertainty are about this. It also analyses how and why trends have been evolving over this period and what the implications are for longer term population change in the city.

3.1 Sources and definitions

From the outset it must be recognised that there are particular problems in pinning down the numbers, characteristics – and thus the impacts – of international migrants. These reflect various factors:

- the heterogeneity of types of move and difficulties in establishing who should be counted as a migrant, as distinct from e.g. a visitor;
- the elusiveness of recent, frequent or weakly integrated migrants as far as conventional surveys or administrative records are concerned;
- the impacts of controls on migrants or their permitted activities on counts for those wishing to avoid detection; and
- the failure of conventional national statistical sources in recording outward movements across national boundaries.

In the face of the growing importance of migration (and specifically immigration) as a phenomenon, UK official statistics are recognised to have major inadequacies. Indeed the Interdepartmental Task Force (2006) review of migration statistics headlines an observation by John Salt, the leading academic expert in the UK, that:

> 'The reality is …we don't really have a satisfactory measurement of the number of people who are coming to live in the UK' (p. 15).

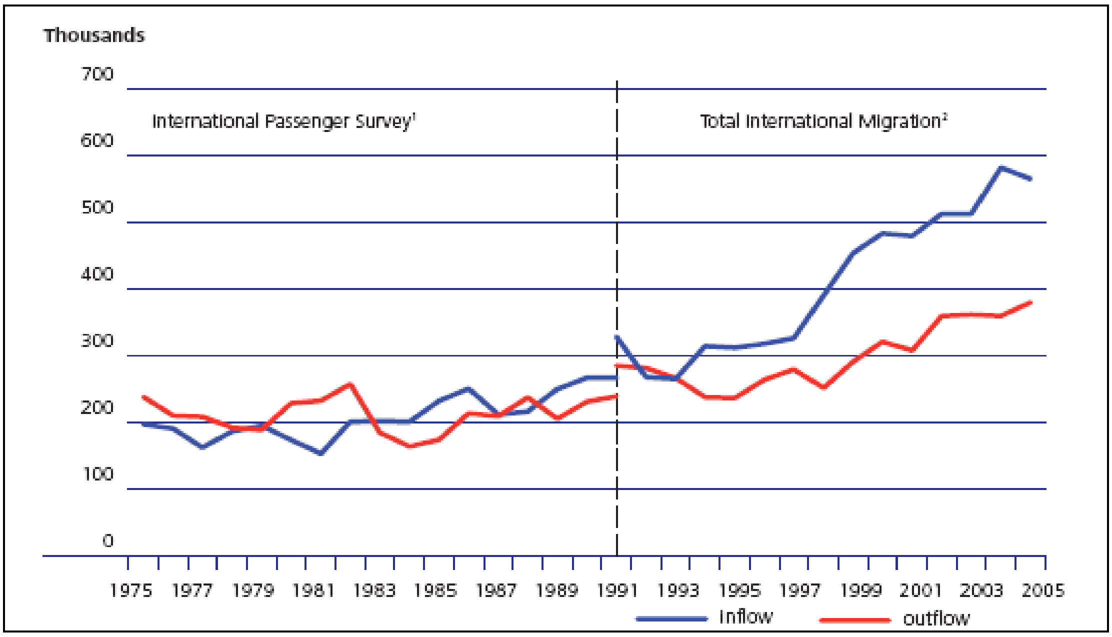
While this is clearly true, it is important not to interpret it as meaning that the published official estimates are necessarily biased downwards, or that there is not a great deal to be learned from them about the role and significance of overseas migration. It should also be recognised that, with the very diverse types of trans-national movement which have grown up over the past 20 years or so, some of the major uncertainties actually involve the question 'who should be counted as a migrant' (for particular purposes), and not simply 'how many immigrants are there'. In London's case, as we shall see, there are many people from overseas who spend time working and living in the city, but not long enough to count as migrants, and many others who are counted as migrants but do not stay permanently.

The statistical sources currently used by UK government to estimate inflows and outflows of international migrants, and those (notably the Labour Force Survey (LFS) on which we rely for information about the characteristics of London's migrant population, are discussed in Appendix 1. There are also definitions of the key terms used to refer to various related categories which are sometimes confused. Our judgement is that, despite the range of problems discussed there, the current Total International Migration (TIM) series provides a reasonable indicator of the scale of flows and of changes in these since the early 1990s, while the LFS offers a reasonably unbiased view of the characteristics of those who come to and remain in London. Due to the limitations of available sub-national data, however, we need to start by looking quite closely at UK level patterns of migration and how these have been evolving in the recent past.

3.2 Migration trends 1991-2005

After an era of relatively modest, stable and balanced international flows for the UK as a whole since the mid-1970s, the period after 1991 (when the TIM series start) has been one of strong and rising immigration, with sizeable net inflows in every year except 1992 and 1993 (Figure 3.1). Although on average outflows are of a comparable magnitude to inflows (averaging some 300 and 400 thousand per year respectively over these 14 years), it is in-migration which is the main driver of change. This very largely (around 85%) comprises primary immigration by people born outside the UK, whereas a larger part of out-migration represents return moves by recent immigrants (with the UK-born accounting for just half the outflow). Thus over the period as a whole, international emigration from the UK has tended to grow, alongside immigration.

Figure 3.1: International migration flows UK, 1975-2005



Source: ONS data presented in ITF (2006).
Notes: Data for 1975-1991 from the International Passenger Survey (IPS) only; for 1991-2005 on a TIM basis (including asylum seekers and status switchers).

Comparing the two halves of this period (the calendar years 1991-97 and 1998-2005) it can be seen (Table 3.1) that out-migration has grown by about one-third as much as in-migration (65 thousand p.a. compared with 194 thousand) with net-migration increasing by two-thirds as much (129 thousand p.a.). Higher levels of asylum seeking were partly responsible for the increased inflow – up 31 thousand p.a. on average. This actually reflects much higher levels in just 4 years, 1999-2002, when they averaged 88 thousand compared with 32 thousand in the other 11 years. (A sharp reduction in asylum flows since 2002 presumably partly reflects a tightening of controls, but is in the context of reduced applications to all West European countries, and a halving of inflows to OECD nations).

Table 3.1: International migrant flows into and out of the UK, 1991-2005 (annual averages in 000's)

	1991-2005	1991-97	1998-2005	Change between sub-periods
Total in-flows	407	304	498	194
Total out-flows	298	264	329	65
Total balance	**109**	**40**	**169**	**129**
Asylum seekers in-flow	50	34	65	31
Asylum seeker out-flow	11	5	15	10
Irish in-flow	11	16	6	-10
Irish out-flow	18	18	16	-2
Other in-flow	346	254	427	173
Other out-flow	269	241	298	57

Source: ONS (annual), MN series (Total International Migration estimates).
Note: The 'other' category represents migrants recorded by the IPS and subsequent adjustments (adding about 20 thousand p.a. to both inflows and outflows) reflecting recorded switches by individuals between visitor and migrant status.

Partly off-setting this factor was a reduced in-flow from Ireland, falling by 75% since the mid-1990s (reflecting the marked strengthening of the Republic's economy). The main factor, however, has been a fairly consistent growth in other kinds of immigration from many other origins. These flows have risen steadily from 1995 on, with growth rates of 8-9% p.a., reaching 454 thousand in 2003. There was a step up to 537 thousand in 2004 and 2005, principally reflecting the impact of heightened flows from the new (A8) EU accession countries in eastern/central Europe from May 2004[8].

The major origins in terms of the area of last or next country of residence are shown in Table 3.2 for the 2005 flows. For the broad regions which we identify, the EU15 (i.e. the 15 countries of western Europe within the EU prior to its last expansion) stands out in terms of the combined volume of flows in and out, reflecting both its proximity and the free internal movement of labour. Relative to the population sizes of the countries involved, however, the flows to and from Australia/New Zealand are actually the most remarkable, showing the potency of continuing cultural connections.

Within Europe too, it is remarkable that the EU's new accession countries to the east (dominated numerically by Poland) generated almost as large an

[8] For 2005, the IPS estimates an inflow to the UK of 70 thousand migrants from these countries, and an outflow of 17 thousand (ONS, MN32, 2007).

inflow to the UK in 2005 as the vastly larger population of the EU15, though the outflows from the UK were very much smaller. Clearly the combination of the large wage differentials relative to the A8 countries, and the lead taken by the UK in opening up its borders immediately in 2004 to labour migrants from these new accession countries has much to do with this. In terms of the large proportional excess of inflows over outflows, the A8 countries seem, however, to fit into a rather simple pattern. The relatively poor/low wage regions of the world generate substantial net inflows to the UK, whereas the richer regions are either in balance (in the case of the USA) or attract substantially larger outflows from the UK (in the case of the EU15 and Australia/New Zealand).

Table 3.2: Migration flows by international regions of last/next residence, 2005

	Inflow (000's)	Outflow (000's)	Net balance (000's)
Indian sub-continent	86	17	+69
EU A8 countries	81	18	+63
African Commonwealth	62	20	+41
Rest of the World	159	102	+58
USA	25	27	-1
EU15	95	114	-18
Australia/New Zealand	57	82	-27
Total	**565**	**380**	**185**
Rich countries	184	236	-52
Poor countries	381	144	+237

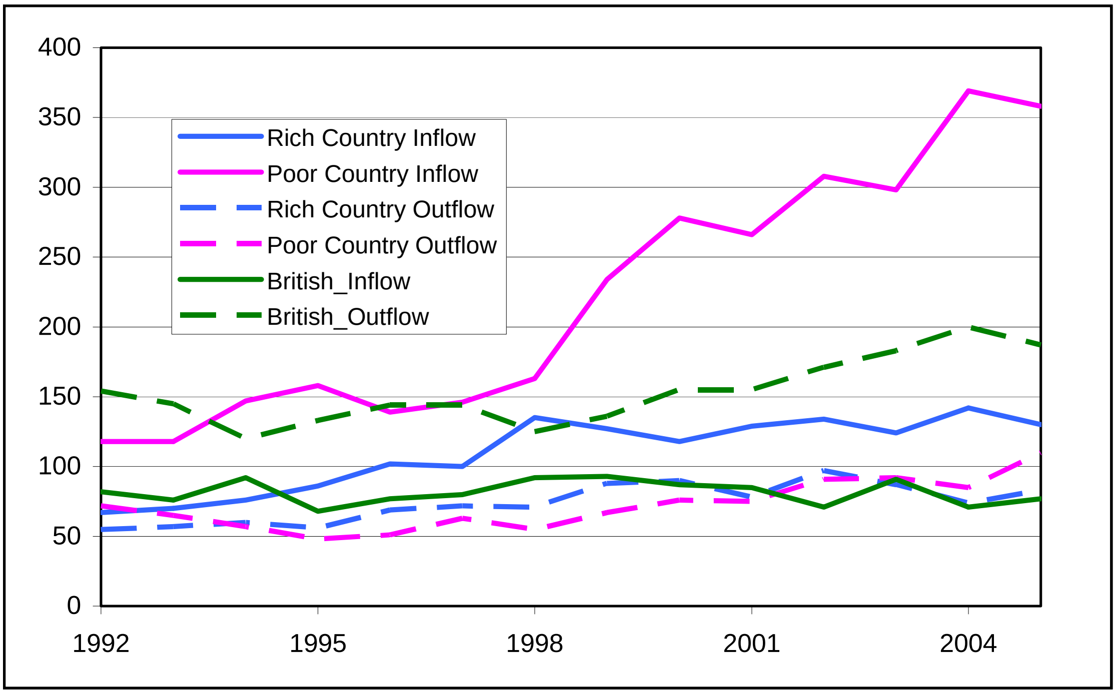
Source: ONS (2007) *International Migration MN32.*
Notes: 1. These data are on a TIM basis. 2. 'Rich countries' include the Old Commonwealth (OCW) (except South Africa), the EU15, and the US, while 'Poor countries' include all others.

In terms of country of birth, the general pattern is, not surprisingly one of net gains by migration of those born abroad and net losses from the UK-born population. The scale of the estimated net outflow of the latter group, however, is remarkable, averaging 81 thousand p.a. during 1998-2005, alongside average gains of 249 thousand p.a. among the foreign-born. Taking the EU15 and the Old Commonwealth (OCW) as an approximation to the group of 'rich countries', there was an average net inflow of those born in this part of the world of 43 thousand per year, against a gain of some 203 thousand p.a. from the 'poorer' rest of the world. Given that migration by the UK-born is very largely to or from other rich countries, we can see that the net outflow from the UK to other rich countries equates with there being much larger net losses by migration of the UK-born than the net gains to the UK from the migration of those born in other affluent countries.

The balance between these groups in UK migration has changed substantially since 1991 (see Figure 3.2). The inflow of those born in other rich countries (EU15 and OCW) grew substantially in the early 1990s, as the economy moved out of recession, and then levelled off. By contrast, the inflow of those born in the generally poorer remainder of the world rapidly accelerated after 1998, increasing by 200 thousand over just 7 years, and reaching 3 times the level at which it started out in 1992. The inflow of the British-born, i.e. earlier out-migrants returning home, while experiencing short-term fluctuations has shown no real trend, but the outflow of this group has moved up strongly since 1998, when it totalled 125 thousand, to touch 200 thousand in 2004, before falling back slightly in 2005. The pattern of overall changes among all emigrants over these years suggests that the shift relates very largely to:

- people intending to stay away for 4 or more years (whereas inflows have grown mainly among people expecting short – 1-2 year – or uncertain stays); and
- to people with reasons other than work/study or accompanying/joining others, and to women much more than men. (This group comprises of a combination of 'other reason' and 'no reason stated' in the statistics e.g. they would include retirees, people taking extended breaks, individuals setting up businesses, and if answers are not considered work related.)

Figure 3.2: UK migration inflows and outflows by birthplace of migrants: UK-born, other rich countries and poor countries, 1992-2005 (000's)



Source: ONS (annual) MN series.
Notes: 1. Rich Countries are defined here as the EU15 plus the Old Commonwealth. 2. Data are on a TIM basis and expressed in thousands.

There are interesting patterns of correlation among these streams of migrants. In the case of migrants born in rich countries, there is a strong positive relation between the scale of outflows from the UK and those of inflows in the previous year, suggesting that the pro-cyclical fluctuations in the inflows of this group contain a large element of short-term migrants[9]. For those born in poor countries there is no such relationship – while for those born in the UK, the significant (positive) relationship is between their outflow rate, and the inflow of migrants from poorer countries 2 years previously[10].

This latter correlation suggests the possibility of some kind of displacement or reaction process caused by the inflow of poor country migrants stimulating higher out-migration[11]. Certainly there has been a large increase in emigration of the British-born since 1997, in a period when UK economic performance has been relatively strong – removing one traditional reason for emigration – and when an unusually large proportion of emigrants expected to be away for more than 4 years, and gave reasons for going other than a specific job, study or joining/accompanying a family member.

3.3 London's role in UK migration

Over the period since 1991, the published TIM series suggest that London (with just 12% of the national population) was associated with 40% of the inflows, 30% of the outflows, and absorbed 67% of the net balance of overseas immigration. In the second half of this period, London's share of the inflow appears even higher, though this actually peaked in 1997-2001 – years both of high levels of asylum seeking nationally, and of strong employment growth in London – when it averaged 44%, against 38% in the years before and since.

As we note in Appendix 1, however, these estimates of London's share of the inflow are now understood to be significantly exaggerated in relation to where migrants actually end up. Combining the sets of revisions proposed for the years 1999-2002 and for 2002-5, and making a similar adjustment for 1998, a more likely figure for 'total international migration' into London over the last 8 years appears to be approximately 185 thousand p.a. gross and 87 thousand p.a. net.

At 38% and 51% of the UK totals (for gross and net flows), these still represent 3 times and 4 times (respectively) London's expected share on a simple population basis. This disproportion is not new: through the 1970s and 1980s London appears to have absorbed about a third of inward migrants to the UK (on IPS estimates), with an above average ratio of inflows to outflows. As the total volume of inward movement has gone up and net immigration has become the norm nationally, so London's share seems to have increased.

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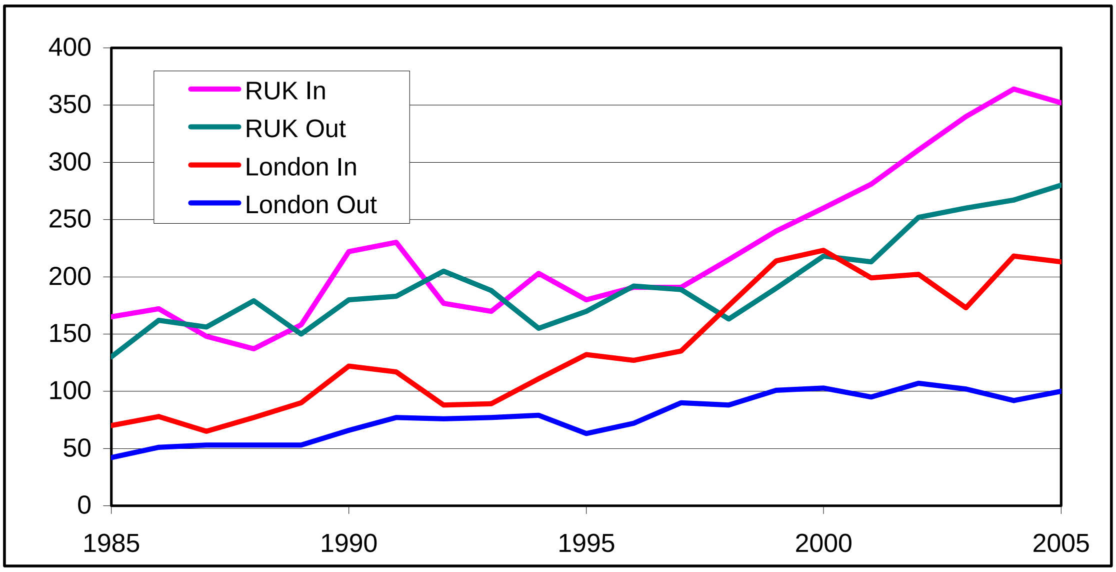
[9] Regressing the outflow rate on the previous year's inflow rate for this group yields a coefficient of 0.45, with and adjusted R-squared value of 0.75 over the years 1993-2005.

[10] The coefficient on the lagged inflow rate is 0.39, and the adjusted R-squared value 0.889, reflecting an extremely significant relationship.

[11] A simple regression of out-migration by British nationals in the years 1994-2004 on foreign-born immigration rates 2 years earlier yields an adjusted R-squared value of 0.83 and a regression coefficient of 0.28 (rising to 0.50 if the previous year's unemployment rate is included as a control variable. There is a similar relation for out-migration from the UK by foreigners, in relation again to their lagged in-migration rate, but this seems essentially to reflect the incidence of return/onward migration (a view supported by the fact that similar relations can be found on a more disaggregated level, e.g. for asylum seekers, Irish flows, EU citizens etc.).

Figure 3.3: Gross international migration 1985-2005: London versus the rest of the UK (RUK), 000's



Source: ONS (annual) MN series.
Notes: 1. Data are on a TIM basis, covering calendar years and expressed in thousands. 2. RUK is the rest of the UK (excluding London).

Inspection of the annual TIM series (Figure 3.3) shows that both London and the rest of the UK have had strong upward trends in immigration since the mid-1980s, alongside a slower but steady increase in emigration. The timing of periods of strong growth has been rather different, however, with immigration into London growing most steeply between 1994 and 2000, then levelling off, while in the rest of the UK the upturn came later and rapid growth was concentrated in the years 1998-2004. The ratio of inflows to outflows has almost always been greater in London than in the rest of the UK. London has had consistent net gains from immigration since 1985, whereas this only became the norm across the rest of the country in 1998. Outside London, it is also notable that rates of outflow seem to have been much more heavily shaped by inflows 1 or 2 years earlier, which may imply more shorter term immigration there. Of the two special factors generating sharp year on year fluctuations nationally – asylum seekers and the recent A8 influx – London seems to have been more affected by the former, though there are major data uncertainties in both cases.

Over the period 1983-97 (during which large scale refugee flows to the UK emerged and rose to almost their peak level), London has been estimated to have received between 240 and 280 thousand refugees – 85% of a UK total estimated at between 282 and 330 thousand[12] (Storkey and Bardsley, 1999). In the years since 1997, ONS figures for net movements by asylum seekers suggest that the UK total should have risen by some 400 thousand. Dispersal policies introduced in 2000 appear to have substantially reduced London's share of these new additions to the refugee population. Overall this has

[12] This 85% estimate originally derives from analysis of a sample of Home Office files for those granted asylum or exceptional leave to remain between 1983 and 1991 (Carey-Wood et al., 1995).

averaged about 31%, since although only about 5% of those supported with accommodation under the National Asylum Support Scheme live in London, the proportion remains at about 73% for those just receiving financial assistance (HO, annual). Over the period 1998-2005 then, it appears likely that London will have added a further 180 thousand or so to its refugee population (i.e. an average of about 23 thousand per year, though falling to perhaps a quarter of that rate in the last couple of years).

In the case of the A8 migrants, who started arriving in the second half of 2004, there is only a year and a half of data on which to base judgements. There is also a great deal of uncertainty about the to-ings and fro-ings and length of stay of this group (among whom the Poles are numerically dominant).

National statistics indicate that intending migrants (as distinct from working visitors) numbered some 52 thousand in 2004 and 80 thousand in 2005. Estimates of London's share in this total vary between 13% based on Worker Registration Scheme (WRS) registrations and about 33% on a national insurance number (NINO) basis, with an intermediate figure from the Annual Population Survey (APS) of 19%. The point seems to be that Poles in particular had been coming to London in increasing numbers since the early 1990s (with very much smaller flows to the rest of the country) and continue to come, independently of accession and the WRS. The new (WRS-managed) flows have spread workers (most of whom intend staying less than 3 months) much more evenly across the country, including rural areas where a sizeable minority have taken seasonal jobs in agriculture/food-processing (HO et al., 2007).

The addition to London's migrant inflow consequent on allowing immediate entry to job-seekers from the A8 countries is probably in the region of 5-10 thousand p.a., with the likelihood of some additions to the outflows of this group reducing the net impact further. A8 arrivals have thus been another factor, along with the recent slowing and dispersal of asylum arrivals contributing to London's reduced share in UK immigration over recent years – though in numeric terms it has stabilised, not actually fallen.

In terms of the more specific national origins of recent migrants to London, we have pooled data on the most recent year's arrivals from LFS' undertaken between 1999 and 2006. The results, presented in Table 3.3, show a broad spread of intakes across regions of the world, including particularly Europe (East and West), Africa and Asia (both South and East). The countries responsible for the largest inflows were (in order) Australia, India, South Africa, Poland, the US and Brazil.

Table 3.3: Origins of immigrants to London, 1998-2005

Country of origin	Percentage of inward flows
Western Europe	18%
of which France	5%
Central/Eastern Europe	14%
of which Poland	5%
Australia/New Zealand	9%
North America	6%
of which US	5%
Caribbean	2%
Central/South America	5%
of which Brazil	3%
Middle East	4%
South Asia	12%
of which India	6%
East Asia	10%
Africa	19%
of which South Africa	6%

Source: LFS's 1999-2006.
Note: Data relates to persons arriving in the year preceding the survey.

3.4 Characteristics of the migrant population to London

For evidence on the characteristics of London migrants we shall rely on estimates from the Annual Employment Survey for 2005-6 (which represents a consolidated and extended version of the LFS). Its principal limitation is that it excludes all those living in institutional accommodation, which could include many recent asylum seekers, who (for this or other reasons) may be missed. As we have seen, these are no longer a large element in the inflow and do appear to get covered in large numbers after a delay of 2 or 3 years.

The broad characteristics of the immigrant inflow can be most precisely measured in terms of data from a single quarter of this survey on arrivals in the most recent year. From this it is evident that, as with immigrants elsewhere, those arriving in London from overseas are a young group, with half aged between 20 and 30, and only 5% over 45. Just 20% were children, and half of the adults were neither married nor cohabiting. Just over half were from white ethnic origins, and 20% had non-Christian religious affiliations (half of these being Muslim).

For a closer look at the make-up of London's migrant population we need a larger sample, and so will pool all those who respondents who have been in the country for less than 3 years, while looking also at the group of more established migrants (the foreign-born population resident in the UK for more than 3 years).

In terms of places of origin, we continue to distinguish between those coming from relatively ‘rich’ and relatively ‘poor’ countries[13]. Asylum seekers/refugees cannot be separately identified from the LFS, but for an indication of particular characteristics which may differentiate them from other ‘poor country’ migrants, we have distinguished a set of ‘asylum countries’, from which asylum seekers represent a large proportion of migrants arriving in the UK[14]. This will exclude many asylum seekers coming from countries which generate large numbers of other kinds of migrant, as well as including the smaller proportion of migrants from the ‘asylum countries’ who are not themselves refugees.

Finally, though the numbers in the sample are small, we have occasionally distinguished migrants from the A8 countries (and/or Poland as much the largest of these). This grouping by areas of origin overlaps with ethnic and religious classifications, in the sense that 75% of those from rich countries are white, compared with a quarter of those from poor countries; while one-third of those from poor countries are Muslim, except amongst the recently arrived, where the Muslim proportion is diluted by a similar-sized contingent of (white, Christian) A8 migrants.

One key characteristic of migrants coming to London could be expected to be their level of education, given the city’s increasing specialization in functions requiring graduate level skills. This is not entirely straightforward to assess, given differences in the types of qualification that migrants may have, and it is perhaps not surprising that the LFS, which has a particular interest in qualifications, assigns the majority of migrants to a miscellaneous group as far as ‘highest’ qualification is concerned[15]. For one-year migrants, the 2001 Census provides an alternative, less sensitive measure in terms of 5 levels on which most migrants do get classified, which Manacorda et al (2006) show to be consistent both with the distribution of ages of completing education, and with codes given in other waves of the LFS to some individuals elsewhere assigned to the ‘other’ group. At the national scale, they conclude that ‘other’ qualifications are more likely to equate to degree standards than to minimal level assumed by those grouping ‘other’ with ‘none’. Overall, they indicate that the general level of qualifications among migrants is definitely above that of the native labour force, implying that migrants make a qualitative as well as quantitative contribution to the UK labour supply.

For London on its own, the 2001 Census (SAR) data show the same contrast that Manacorda et al (2006) report for the UK as a whole. Even though the proportion with level 4/5 (degree equivalent) qualifications was much higher among the London population (in the 16-74 age range), at 30%, than for the rest of England and Wales/the UK, at 18%, it was even higher among the recent migrants, at 61% (compared with 45% for migrants elsewhere in the

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[13] The former group are here defined to include the EU15, the Old Commonwealth, the US, Japan and Korea.
[14] The countries placed in this group were Albania, Algeria, Bosnia, Croatia, Ethiopia, Iran, Iraq, Lebanon, Macedonia, Romania, Sierra Leone, Somalia, Sri Lanka, Zimbabwe and two ‘other Yugoslavia’ and ‘other Middle East’ groups.
[15] Manacorda et al. (2006) suggest that this is partly a result of deliberate policy by ONS, not simply a result of difficulties in coding individual cases.

country). The proportion with no qualifications (i.e. below level 1) was also dramatically lower among migrants to London (just 7% compared with 24% among the London population).

It is clear then that there is a particularly high level of selection by qualification (and presumably also ability) among those migrating to London, given the lower incidence of higher education in many of the countries from which migrants are drawn. What is less clear is, firstly, whether the comparison also holds on an age for age basis, given that migrants are more likely to be competing against their younger peers than those from earlier generations where educational opportunities were more limited and secondly, whether there are big differences between migrants coming from relatively rich as compared to relatively poor countries.

To address the first of these questions we have focused specifically on 20-30 year olds, as the core group of migrants. As far as the Census measure of qualifications among one-year migrants is concerned, this does tend to narrow the differences, but only to a limited extent. 61% of migrants in this age group had high level qualifications, against 36% among their London coevals; and 7% had no qualifications, against 13%. To examine how this varies across migrants from different origins, and those who have stayed longer in the country, we turn to the APS, using age of completing full-time education as the indicator of the level likely to have been achieved. The main results are shown in Table 3.4.

Table 3.4: Age of completing full-time education by origin and length of stay in the UK: London residents aged 25-44

	Rich country migrant		Asylum origins		Other poor countries		UK-born
Age of completing education	In UK <3 years	In UK >3 years	In UK <3 years	In UK >3 years	In UK <3 years	In UK >3 years	
<16	1%	5%	9%	11%	1%	8%	5%
16-19	27%	34%	44%	50%	32%	44%	56%
20-24	46%	47%	27%	24%	46%	35%	34%
25+	24%	14%	13%	11%	19%	11%	4%
Still in education	3%	1%	7%	3%	3%	2%	1%

Source: Annual Population Survey (APS) 2005-6.
Note: The survey sample on which these figures are based included the following numbers of respondents for the 6 migrant groups: Rich country < 3 years 500; Rich country > 3 years 2,000; Asylum origins <3 years 200; Asylum origin > 3 years 1,000; Other poor countries < 3 years 800; Other poor countries > 3 years 4,200. Approximately half of these were in the age range covered by this table. In total there were 20,000 UK born respondents, of whom about one quarter were in this age range.

In terms of those staying in education until at least 20, who are very likely to be graduates, it appears that all groups of migrants have higher proportions than the native born, with the possible exception of those from asylum origins who have been in the UK for several years. The most recent group of migrants from rich country origins are distinguished by having a quarter of them educated beyond age 24, presumably to postgraduate level. This suggests that the most highly qualified are among those staying in the UK for relatively short periods, rather than settling here.

Overall, it seems that migrants coming from rich country backgrounds are likely to be better qualified than the average migrant from poorer countries. There is, however, a very large overlap between the two distributions, and migrants from poorer countries are likely to possess qualifications which are at least comparable to those of the UK born within this age group. Relative to the London labour force as a whole (or to the London-born within this age group), they will have had significantly more education and higher level qualifications.

There are, of course, some questions to be asked about the effective equivalence of qualifications obtained in different countries – in absolute terms as measures of knowledge attainment but also relative to the requirements of UK-based firms, and also in relation to the understanding/appreciation of London employers. In particular, the findings of MGI (2005) about the limited suitability of the great majority of university-educated professionals in low-wage countries for employment in multinational businesses may also have some relevance at least to newly arrived migrants with similar kinds of qualification. It certainly should not be presumed that any of the major streams of inward migration into London over the past 10-20 years have low skills or limited potential, by the standards of London's own workforce.

3.5 The longer term demographic impact of international migration to London

The long-term effects of overseas migration on the London population, depends on three main factors. The first and most basic of these is the extent to which migrants actually stay, rather than returning to their home country or moving on to another destination. The second issue involves the extent to which immigrants from abroad effectively displace some of the local population, thus diluting their impact on population growth within the area of migrant settlement. The third factor involves the impact of migration on natural change in an area, specifically through the children born to migrant parents.

Return and onward moves

One very important influence on the dynamics of international migration into and out of London is the timing of return or onward migration among those 'immigrants' whose stay in the UK turns out to be temporary. This further movement may have been planned from the outset – when migrants come to fulfil a specific assignment, to gain experience, to accumulate capital, or simply for the pleasure of travel – or it may be unexpected – with a further move stimulated by another opportunity, a development requiring/permitting return 'home', or dissatisfaction with how the migrant experience has turned out ('failed migration'). Alternatively, and quite commonly among past immigrant groups, expected return moves may fail to materialise, because new attachments develop, connections with 'home' weaken, or target rates of saving prove harder to achieve in practice.

In fact, though the preconception about migrants is that they are people who intend making a permanent move to a new country, the norm seems to be quite different. Almost half of immigrants (whether from rich or poor countries) declare an intention on arrival of coming for 1-2 years, with less than a third expecting to stay more than 4 years. On exit, three-quarters of foreign migrants leaving the UK declare stays of between 1 and 4 years. This seems reasonably consistent with the stated intentions of immigrants, except that the much lower level of recorded emigration than of immigration by foreigners makes it clear that a very large number actually end up staying semi-permanently.

Hard data on durations of stay and their variation across migrant groups are somewhat elusive (whether at UK scale or for migrants to London) because of the limitations of administrative records/official surveys of those leaving the country (since such moves are hardly subject to control, while the vast majority of those leaving are travellers not emigrants). Further, in domestic surveys, even designedly longitudinal ones, emigrants tend to figure only as (one type of) unexplained absence.

The best available source appears to be the Quarterly Labour Force Survey (QLFS). This survey regularly provides estimates of the numbers of (past) immigrants by their year of arrival into the UK, with the rate of attrition among a particular cohort in successive years (in those age bands with low mortality rates) providing a reasonable proxy measure of the likely rate of re-migration out of the UK. This is subject to significant sampling error where migrant groups are small (since annual samples are very largely independent[16]), while there is also a significant question – on which, as we shall see, the survey itself casts some light – about the likelihood of recent immigrants being found and responding to the QLFS.

To explore the importance of return moves for particular categories of immigrant group, we have taken the cohorts of people who declared arrival dates in the years 1986-2006 and tracked the successive estimates of their numbers in spring quarters of the QLFS from 1999 to 2006. As the LFS is not supposed to survey recent arrivals, we have taken the number recorded as arriving in the preceding calendar year as a baseline estimate of the inflow. We have then tracked how numbers in a particular cohort change over successive waves of the survey, to estimate probabilities of survival/staying in London from the 1st to 2nd year, 2nd to 3rd and so on[17].

With the exception of migrants coming from the asylum countries (whose recorded numbers increase for the first 3 years), the pattern is one either of no significant changes in numbers or of reduction. We take this as some reassurance that, apart from asylum seekers, who are clearly less likely to be counted (for both formal and informal reasons) that immigrants are being

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[16] By design individuals stay in the sample for 5 quarters, so that in comparisons between one quarterly survey and that 12 months later, at least 80% of the sample members will have changed.

[17] Given the extreme youth of the great bulk of migrants, we have effectively assumed that all exits from the sample are by migration (whether out of London, or more likely out of the country).

covered by the LFS. Initially we explored this issue on a quite disaggregated basis, but the one significant pattern of variation turned out to be between the three broad groups already discussed, namely migrants from rich countries, from asylum origins and from other poor countries.

In the first case, there seems to be a continuous decline, at about 15% p.a. for the first 6 years, and half that rate thereafter. In the second case, there is a window some 5-8 years after arrival in which numbers do appear to reduce significantly (by around 20%), but do stabilise from then on. After 10 years, the numbers were down by 80%, implying that this group is on the whole made up of temporary migrants to London. Among the third group, i.e. all others from poor countries, we found no significant evidence of a downward trend in numbers over the years after arrival, suggesting a very high propensity do settle more or less permanently in London[18].

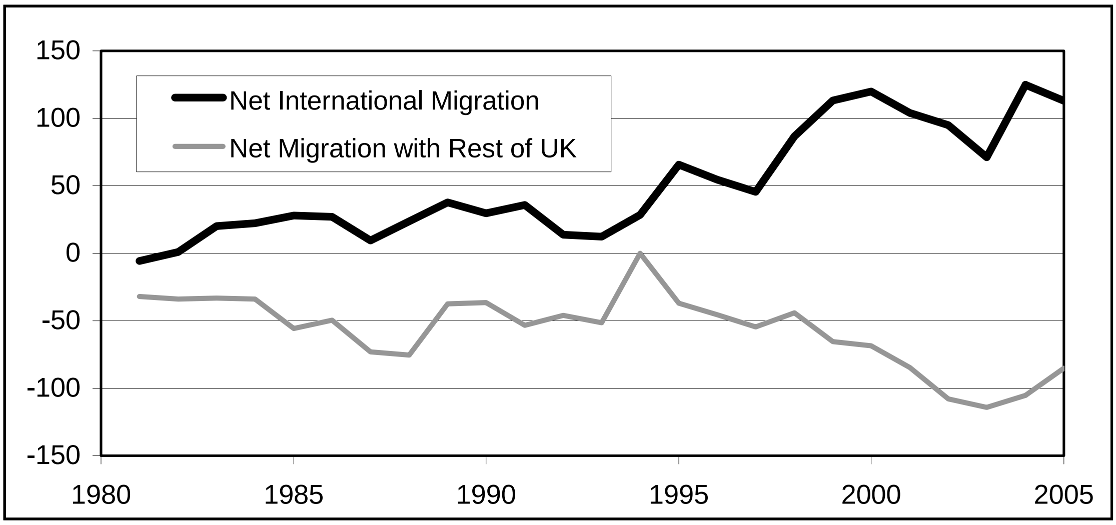
This significant difference in the actual pattern of behaviour of migrants (as distinct from their originally stated intentions) from poor as against rich origins has important implications for the effects of their arrival on the growth and composition of the London population. Basically, it suggests that a constant stream of in-migrants from rich countries is likely to cause something like a once-for-all increase in the London population (and a once for all effect on its diversity), whereas a similar stream from poor countries will produce more or less continuous growth (and shifts in population composition).

Displacement

Over decades a pattern of population decentralisation from core areas of the London region followed from increasing aspirations of Londoners to spend part of their rising incomes in acquiring access to more space, inside and outside their dwellings, whether by finding larger dwellings, reducing their household sizes, or finding areas with more external space. Success in achieving lower residential densities in this way inevitably meant a continuous tendency for fewer people to live inside the fixed area of Greater London.

[18] An actual tendency for London-based migrants to return home could, in principle, be obscured by a drift into London by migrants originally counted elsewhere. We have no evidence of this being a significant factor.

Figure 3.4: Trends in domestic versus international net migration Greater London, 1981-2005 (000's)



Source: Office for National Statistics.

Immigration can change this pattern, by bringing in a population with a greater preference for access over space and/or less resources (especially in their early years) to afford the densities on which established Londoners have settled. This means that they do not necessarily displace an equivalent number of Londoners, but they are still likely to displace some, thus boosting the rate of net migration out of London to other parts of (mostly) southern England.

Inspection of simple charts of net international and domestic migration into/out of London tends to support this picture, with the scale of net outward migration from London to the rest of the UK being more or less doubled in recent years, alongside the growth of the positive net balance from international migration (see Figure 3.4). More systematic statistical analysis of the pattern of movements across the set of southern regions by Hatton (2006) suggests, that the current measure of displacement is in the range 40-50%, implying that for each additional 1 thousand international migrants into London, we might expect the London population to go up by just 500-600[19]. If the housing preferences and resources of long-term migrants (particularly those from poor countries) converge toward those of the home population, we should expect the long-run displacement effect to be significantly higher.

Natural change

The impact of migration on natural change is primarily through its effect on enlarging the size of the child-bearing age groups. Its scale is a little complicated to gauge because births may be spread over a long period after migrants' arrival in London. In fact, data on the youngest children in households with migrant mothers (from the 2005-6 APS) suggests that the average delay between arrival and births is 12-13 years. Hence, many of the

[19] This is aside from any question of immigration possibly stimulating out-migration from the UK, as the trends that we have discussed in relation to other parts of the country might perhaps suggest.

children which may be expected to be born to migrant mothers from the years of peak inflow since 1998 have yet to arrive.

Currently, among children of all ages in London about 55% appear to have UK born mothers; the proportion born abroad rises with age from zero amongst the youngest to around 15% at age 15. Conversely the proportion born in the UK to migrant mothers falls from near 45% to about 30%. If the higher migration rates of the last 8 years continue up to the time when these recent cohorts have completed their family formation (and recent birth rates continue), the likely shares among 15 year olds would be nearer 45% with UK-born mothers, 15% immigrants, and 40% born to migrant mothers – with a cohort entering the working age group about 20% larger than at present.

In other words, over and above the direct contribution of current immigration to population growth in London, very important secondary effects are to be expected over quite an extended period through births to a larger number of women in the child-bearing age groups. This is already a major explanation of how London has managed to shift from being a region of natural decrease in population (with deaths exceeding births), to being the one with the highest rate of natural increase. The higher rates of immigration of the years since 1998 will further raise this over the next decade and beyond – with knock on effects on the growth of the working age population continuing in the period beyond that.

3.6 Conclusions

There are still substantial uncertainties about the scale and character of the recent international migration into the UK as a whole, and about the relative strength of the various causal factors contributing to it. Some of this uncertainty reflects the fact that the new international mobility is very diverse, with a wide range of types of people, with different kinds of skills, coming from very many different origins, for periods ranging from a few months to the rest of a lifetime. By convention, all those coming for more than a year (or expecting to do so) are identified as 'migrants', but this label is not particularly meaningful, and consequently generalisations about the effects of 'migrants', or about the appropriate level of total migration are not likely to be very helpful.

Several things are, however, quite clear about migration to London over the past twenty years or so. It is large by historic standards, and certainly by comparison with the rest of the UK. It is not purely a London (or UK) phenomenon, but London has received several times the share that its own population would lead one to expect. An international upsurge in asylum seeking (now abated), and recently boosted numbers of migrants from the new EU accession countries have both contributed to the growth, as have a couple of boom periods in London employment. None of these factors have been dominant as causes.

London's foreign-born population has doubled, growing by about 1 million over 20 years, with a good likelihood that there will be a foreign-born majority inside the Greater London Authority (GLA) area (if not across the wider London region) at some stage in the not-so-distant future. A much wider range of origins for these flows (as compared with those of the 1960s/70s) has produced a much more cosmopolitan mix for the London population. Immigration has been responsible for turning round London population trends from long-term decline to quite solid growth. It has also substantially increased the size of the young working age group, and raised average levels of education in the workforce.

In purely demographic terms, a key distinction appears to be that between migrants from relatively rich/high wage countries on the one hand and those from relatively poor/low wage countries on the other. This is not because of any simple distinction in terms of 'skill' or human capital level between them, since both include more graduates than does the London workforce as a whole. Rather it is because of very different dynamics in their pattern of movements, with most of those from 'rich country' origins leaving the UK sooner or later, whereas the great majority of those from 'poor country' origins have tended to stay. A logical consequence is that net international migration will be dominated by the flows from the poorer countries, which are primarily responsible for the growth in population and labour supply – both directly and via subsequent births to migrant families in London.

Increased net immigration from overseas has been accompanied by an increase in the city's net population losses to other parts of the UK, principally to neighbouring regions in the Greater South East. The pattern of association suggests a displacement effect via competition for opportunities in the housing (or possibly labour market). Currently, induced domestic losses appear to offset about half the gains from international flows, but if the resources and tastes of migrants converge on those of the UK-born, it would be possible for displacement to very largely neutralise the effect of international migration on growth of population inside the GLA area. Overall the expectation is that migrants should boost the overall performance and competitiveness of the London economy, to the potential advantage of all, but limitations on any key resources (notably space) will also involve issues of competition.

To explore how the substantial qualitative and quantitative changes in the London population are likely to impact on the scale and distribution of opportunities generated in London, and how this differs between those coming from richer versus poorer national origins, we turn now to look first at processes in the housing market. Chapter 5 examines the impacts on the labour market/economy and public service provision.

4 Accommodating the migrant population – the impact on housing markets

The most immediate impact of immigration is on the demand for housing. Migrants need housing as soon as they arrive – and, as we have already seen, they tend to come disproportionately to London. Their demand increases pressure on the housing market, pushing up prices as compared to other parts of the country and helping to generate movement out of the capital. Increases in house prices reduce the amount of space that Londoners consume, increases problems of access to owner-occupation and puts greater pressure on the rental sectors both private and social. They may also reduce people's capacity to form separate households. The extent of these impacts depends on how responsive supply is to increased demand – as well as how responsive households are to higher prices and fewer housing opportunities.

In this chapter we try to unpack some of these relationships to assess the net effect of immigration on housing in the capital and thereby on the attractiveness and competitiveness of London. It is very much a patchwork, mixing well-established quantitative results and more anecdotal evidence. We look first at the extent of household immigration and its relative importance in determining the additional housing required. We also look at the evidence on differential behaviour of migrant households as compared to the local population. Secondly, we examine the impact on out-migration to the rest of the country – and thus on the mix of households that remain in the capital. Thirdly, we examine the tenure that migrant households tend to live in, and where. We then examine evidence with respect to relative house prices in London and the extent to which additional demand and therefore, pressure on house prices originates from migrants. Next we examine the impact on the rented sector – both, what is happening in the private rented accommodation, where early migrants tend to be disproportionately located, and what impact immigration has on social housing and social mixing. Finally, we draw conclusions as to the impact of migration on London's housing market and its consequent effect on competitiveness.

4.1 Immigration and projected housing requirements

The vast majority of data on migration relate to individuals rather than to households. To understand the impact of immigration, however, it is important to understand how many households will be added to demand, and the extent to which migrant households act in a way similar to those born in the UK.

The most detailed evidence on the relationship between in-migration and household formation comes from a study based on the 2003 population projections and 2001 census based household representative rates (Holmans with Whitehead, 2006). This suggests that the number of households in London can be expected to rise by some 36 thousand p.a. over the period to 2021 and that this accounts for about 17% of the overall increase in England during that period. Thus, London is expected to house a disproportionate share of the national increase.

Within this total, international migration is seen as accounting for some 26% of the national increase but almost 70% of the increase in London (Table 4.1). This is partly because London's population is generally younger and less family-based than elsewhere, so the impacts of longevity, aging and family break-up are less. Equally the propensity to form separate households is not expected to increase as rapidly in London as elsewhere in part because of higher house prices.

Table 4.1: Components of the projected increase in households 2001-21: regional analysis, (000's per year)

	Longevity	External migration	Separation of couples	Household representative rates	Other changes (a)	Residual	Total
North East	2	1	3	2	1	-3	6
North West	7	4	7	6	2	-3	23
Yorkshire and Humber	5	4	5	4	1	-1	18
East Midlands	4	2	5	4	1	4	20
West Midlands	5	4	5	5	2	-2	19
East of England	5	4	6	5	2	6	28
London	6	25	6	6	2	-9	36
South East	8	8	9	7	2	2	36
South West	6	3	6	5	1	5	26
England	**48**	**55**	**52**	**44**	**14**	**0**	**213**

Source: Holmans with Whitehead (2006).
Note: (a) comprises 'other changes in total and age structure' (of the population) and 'other interaction effects'.

Since these estimates were made, the 2004 based population projections have been published. These suggest a further expansion which is expected to increase the number of additional households nationally to perhaps 223 thousand p.a. Much of this further expansion can be attributed to migration and therefore, again places a disproportionate increase in London – resulting in a new estimate of 36 thousand additional households p.a. each year to 2026 (CLG, 2007). Since these projections were published, the Office for National Statistics (ONS) has published 'indicative estimates', revising its migration estimates for London downwards, and within London particularly for Westminster, Kensington and Chelsea and Camden (see Appendix 1). These suggest that the net numbers of migrants remaining in London might have been overestimated by as much as 60 thousand people since 2001, more than offsetting any increase in household numbers arising from the changed population projections. Very roughly this would reduce the average annual household migration figure in London by perhaps 6-7 thousand bringing

London's share of expansion far nearer to the national average. This revision has been challenged especially by the boroughs with the greatest downward adjustments. Holmans' examination of how many households have actually formed since 2001 suggests that the actual increase in household numbers has been well below that projected (Holmans, 2007). Assessing this very different evidence, a best guess would be that the number of households in London will continue to rise by at least 30 thousand p.a. and that around two-thirds of this increase will be related to net immigration.

The second important question is whether migrants and natives form similar numbers of households out of a given population. The evidence here appears to be straightforward. New migrants generally have lower household representation rates than established households, particularly as compared to those born in the UK.

Table 4.2 shows that the household reference person ratios among persons that entered the UK within the previous 5 years, are lower than among those that entered the UK between 10 and 20 years or more previously, or 20 years or more previously. Among those that entered the UK 20 years or more previously, the household reference person ratios were very similar to those of the UK-born population. The picture is therefore, one of household formation rates among inward migrants being initially lower than for the UK-born population, but converging over time.

Table 4.2: Ratios of household reference persons to total private household population: England 2002 to 2005 (%)

	Age (yrs)				
	16-24	25-29	30-44	45-64	65 and over
Born outside UK					
Entered less than 5 years ago	23.8	37.9	49.1	57.8	29.4
Entered UK 5 years but less than 10 years ago	19.6	43.3	52.9	57.9	43.6
Entered UK 10 years but less than 20 years ago	10.5	45.9	55.6	60.5	50.5
Entered UK 20 years or more ago	23.5	41.4	58.1	60.0	69.8
Born in the UK	13.7	45.9	57.3	59.1	70.5
Whole private household population	**13.7**	**43.5**	**56.3**	**59.0**	**70.1**

Source: Holmans with Whitehead (2006).

These data cannot presently be replicated at the regional level. There are, however, certain clear implications for London. In the country as a whole over half of those born outside the UK have been in the country for more than 20 years and the proportion entering in the last five years is only 15%. The proportion entering less than five years ago is far higher in London and the impact on the demand for separate housing will therefore be lower. Of course if migrants remain in the country, their demand to live separately will rise towards the levels of those born in the UK. As a result migration in a given year continues to add to the pressure on demand for additional homes for many years to come. What matters in the short- to medium-term is that migrants will demand less housing than equivalent numbers of non-migrants.

Finally, we have already noted that those from richer countries who generally have higher incomes and higher demands are less likely to stay for longer periods. Hence, the conclusion that migrants will require less housing than the established population appears quite robust.

4.2 The impact of immigration on movement out of London

The next relevant question is: as immigrants come into London, how many additional households decide to leave the capital for other parts of the country. London has long exported more people to other areas (especially in neighbouring region) than it has received in from these areas – even when there has been no net immigration from abroad. These net losses to other parts of the UK have, however, increased alongside the growing net immigration from abroad. By no means, however, is all of the current movement out of London caused by international immigration. Indeed, the evidence discussed in Chapter 3 suggests that an additional person entering the capital from overseas leads to around 0.4 or 0.5 of a person leaving for the rest of the country. The other fraction (0.5 or 0.6) adds to pressure on housing in the capital and results in higher prices, some additional supply of housing, reduced vacancies, more sharing and higher density living.

Current targets for additional new homes in London run at around 23,000 units p.a., although output is still running at a little below 20,000 (GLA, 2004 and 2006). The Mayor intends to try to raise the target to around 30,000 p.a. over the next few years – but even this will still be below the expansion of households. This implies that pressure on the existing stock will increase consistently over the next few years. To a significant extent this is an outcome of the extent to which net international immigration is not fully offset by leakages into the rest of the country.

A rather different question is what happens to the social and income mix of those seeking housing in London as a result of inward and outward movement from the capital. New research by a group from the University of Newcastle (Champion et al, 2007) looks at the impact of mobility by examining one-year movers in the 2001 Census. The research shows that though overall London lost people through migration to the rest of the country, there was actually a net inward movement of people from higher managerial and professional groups, while the net outflows were of lower skilled (and less affluent) workers. It also showed that these higher qualified groups came from outside the London city region, while the out-migrants went usually to nearby locations within the South East.

The main message in terms of the housing market is that increased international migration is not stopping large numbers of better trained people coming to London from elsewhere in the country – although as a result commuting distances may be increasing. Equally it is relatively lower skilled workers who are shown to be leaving London, in part presumably because of higher house prices and more difficult access to housing. What cannot readily be measured at present is how many of those who leave the capital were themselves international immigrants.

In interpreting these findings it is important to recognise that net figures can give a distorted picture of the impact of particular groups of households on overall demand. If, for instance, one looks only at net migration in and out of London it is indigenous growth – births over deaths or household formation from the established population – that dominates change. If on the other hand one looks at the gross flows, it is clearly net international migration that generates additional housing need in London.

A second issue which requires further analysis is the changing pattern of household composition. In particular households that leave London for the rest of the country are more likely to be families, while those entering the capital are more likely, at least initially, to be single person households. Over time, however, they form families and have children (indeed, as we have seen, a majority of children in London in the future are likely to be the children of immigrants). They then require larger accommodation – simply because they are young when they come and follow normal demographic patterns once they are here. To understand fully the number of units and the size of these units that will be required, we need far better information on who returns to their own countries and when and who moves into the suburbs and out of London. At the moment we can only say that initially migrant households will be smaller than the average for the capital.

4.3 Migration and tenure

The main sources of evidence on the tenure of migrants are the Census and the LFS (now integrated in the APS). The main problem is that the LFS/APS provides very little housing information except tenure, while the Census provides more detail but only for the specific group of one-year movers. Also the data is best analysed by individual rather than by household. Even so it gives a reasonable picture of both initial tenure and how the tenure mix changes with time in the country.

Table 4.3 provides some detail on the tenure of migrants by four main groups, split between new migrants (less than three years in the country) and more established migrants (those who have been here for more than 3 years).

Table 4.3: Tenure mix of London residents by migration, origin and time in the UK

	Rich countries		Asylum countries		Other poor countries		UK born	Total population
	< 3 years	> 3 years	< 3 years	> 3 years	< 3 years	> 3 years		
Owned outright	1%	24%	2%	6%	3%	16%	21%	19%
Owned with a mortgage	13%	32%	6%	23%	11%	32%	43%	38%
Social rented	6%	21%	35%	46%	21%	37%	26%	27%
Private furnished	64%	15%	48%	16%	56%	8%	7%	8%
Private unfurnished	16%	8%	8%	8%	9%	5%	4%	6%

Source: Annual Population Survey (APS), 2005-6.
Note: For information on sample sizes see Table 3.4.

New migrants can in principle be divided into those who are joining others already in the country – in which case the immediate tenure will depend on their hosts rather than their own financial circumstances; and those who require housing on entry. These two groups cannot be separated within the survey – but it is likely that many of those in owner-occupation and social rented housing will fit into the category of joining others.

An important distinction is between asylum seekers who have some rights to accommodation and in-migrants entering mainly for work or education purposes who must find their own accommodation (sometimes with the help of their employer). Asylum seekers who are defined as destitute used to be accommodated by the local authority in London (at the level of 50 thousand in 2000). Now, however, they are accommodated outside London by the National Asylum Support Service (NASS). The impact of asylum seekers on London's housing position therefore depends on how many do not seek accommodation support but manage to house themselves, or who end up coming back to London after the asylum decision. Overall asylum requests are decreasing and London's role in accommodating such households has also been significantly reduced.

The figures in the APS are for those from asylum seeking countries not necessarily for asylum seekers as such. They suggest that nearly half of those from asylum seeking countries are accommodated in the private rented sector, and that very few are able to achieve owner-occupation. Perhaps most importantly, given the increasing constraints on access, even new entrants from this group of countries are disproportionately likely to be in the social rented sector – either because they join established social tenant households or because they become eligible due to their own poor housing conditions.

Entry into the social sector in London for new migrants is generally, extremely difficult. The vast majority of those who are not asylum seekers would not be defined as in priority need and therefore would be unlikely to obtain social rented housing. Even if they are classified as homeless they may be placed in temporary accommodation outside the capital.

The number of social sector lettings has been falling rapidly over the last decade: with one-third going to transfers; one-third to homeless households; and only one-third to those not in priority need. Thus, initially migrants who are not homeless would have very little chance of obtaining social housing. Later, family households would be able to gain access through the homelessness and waiting list channels.

The position with respect to A8 migrants appears to be slightly different. They currently account for a tiny although growing proportion of entrants into the social sector. Those gaining access are normally in employment and usually not in receipt of housing benefit.

The majority of households who enter London to take up job opportunities go first into private rented accommodation. Over 20% of those in the sector in London are new households, including migrants. 38% have been in that accommodation for less than one year and almost 70% for less than two years. Among migrants 80% of those from rich countries and two-thirds of those from poor countries who have been here for less than three years are in the private rented sector. It is the most important tenure for mobile households and thus for new international migrants. When employers assist with accommodation for migrant households, this too, will normally be in the private rented sector. Private renting is also a tenure for those not able to afford entry to owner-occupation – again more likely to be true for new migrants than for other households. Of course there are new migrant households who will simply be competing in the owner-occupied sector – but estimates of these are inflated because they include those who go to live with established households who are owner-occupiers.

Over time the evidence from the LFS suggests that the tenure of migrant households tends towards that for the population as a whole – with some cultural and ethnic differences. Overall ethnic minorities (by no means all of whom are migrants) are overrepresented in the social sector – although not once are incomes and household characteristics taken into account. Ethnic minorities also account for some 40% of homeless households in London – again reflecting household composition, incomes and the higher chance of becoming unemployed. Some ethnic groups, notably from South Asia, are more likely to be in owner-occupation. When this is the case they are more likely to be in areas with particularly high proportions of ethnic minorities. Equally it is well-known but not well documented that some proportion of migrants purchase accommodation which they then let to newcomers from their own countries.

Overall therefore, the picture is very similar to that for household formation: migrants start in the tenure where they can gain easy access and which allows some mobility. Over time they behave more and more like the established population. Again what matters from the point of view of pressure on the housing market is how many migrant households stay on in the capital over long periods of time – and whether there is a correlation between incomes and how long people stay. If better off households stay shorter periods then their demands will have less impact on the overall system. If those on lower incomes become eligible for social housing, this will have an increasing impact on the need to provide additional housing in what is already a very pressured system. The most immediate impacts, however, depend upon how the private rented sector responds to increased demands from migrants of all income ranges.

4.4 The effect of immigration on London house prices

In terms of simple averages, London house prices have been rising significantly faster than the rest of the country (Table 4.4). In 1994, which was near the bottom of cycle, London's house prices, while significantly higher than elsewhere in the country except the South East, were only 75% higher than in the North – the region with the lowest prices. By 2004 the ratio had increased to over 2.5 times. This suggests very different pressures at work in London than elsewhere in the country.

Table 4.4: Relative house prices across regions, 1994-2004 (North = 100)

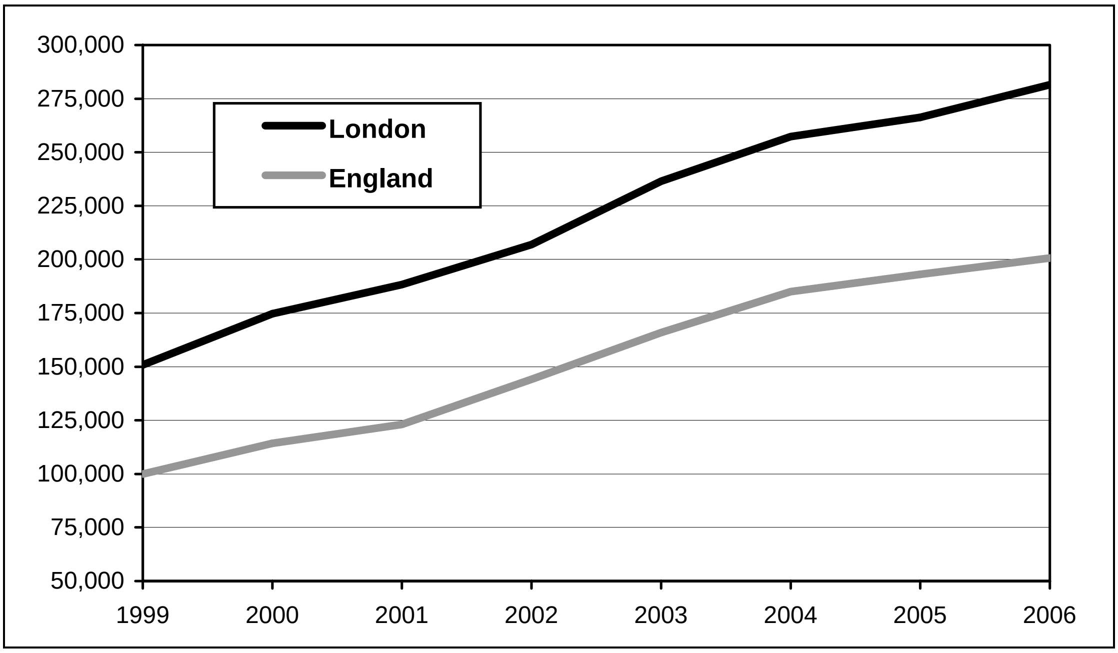
Region	1994	1999	2003	2004
East Anglia	119	130	167	152
East Midlands	110	113	136	129
Greater London	174	237	287	257
North	100	100	100	100
North West	114	106	112	108
South East	161	182	228	200
South West	129	136	193	175
Wales	106	102	112	113
West Midlands	118	123	145	135
Yorkshire and Humberside	108	104	114	111

Source: Council for Mortgage Lenders, *Housing Finance,* Table 9.

Using mix-adjusted house prices (Figure 4.1) the absolute increases in London are clearly shown to be rising rapidly but the proportional difference has in fact been declining. This suggests that the make-up of the transactions, in particular the size of dwellings has been changing over time. It is important to note therefore that 'headline' figures may overstate differentials.

One reason for the headlines is the emphasis given to the very top end of the market. Looking at the prices of prime private development for comparable properties in major cities, Knight Frank suggests that London has the dubious distinction of having the most expensive houses in 2007, at around £2,300 per sq ft (with 1 Hyde Park the highest example at £4,000 per sq ft). This survey also suggests that over the last ten years prices in prime London locations have risen by 230%, as opposed to 185% for the UK average. This differential between major cities and national figures is replicated in other major cities such as New York, Dublin and Sydney – with differential price increases in cities such as Moscow, Mumbai and Delhi even greater than in London (Knight Frank, 2007). Commentators on the London market agree that the demand is driven by money from overseas – for instance it is thought that more than 50% of houses in London sold for over £2m went to overseas buyers (Savills, 2007). This demand, however, does not generally come from immigrants in the traditional sense of the term. Rather they are international investors who may be visitors rather than migrants or simply companies looking for 'trophy homes' – which are inherently in short supply in a rising market. The market is investment rather than person driven.

Figure 4.1: Mix-adjusted house prices, 1999-2006



Source: DCLG Table 507.

Across the market overall, Buy-to-Let demand has grown enormously since these mortgages were introduced in 1999. Buy-to-Let now accounts for around 10% of all new mortgages in 2006 (CML., 2007). Research for the GLA suggests that up to 70% of all new completions in the London region went to investors, of whom the vast majority are in the Buy-to-Let market (HoC, CLGSC, 2007; London Development Research Ltd, 2007). Clearly migrant demand is important in providing tenant demand for these properties. Equally some of the investors will themselves be migrants, perhaps providing for the next wave of entrants. There is no evidence, however, that new migrants are disproportionately involved in this market – indeed rather the opposite, as the market is seen to depend heavily on local knowledge and credit scoring.

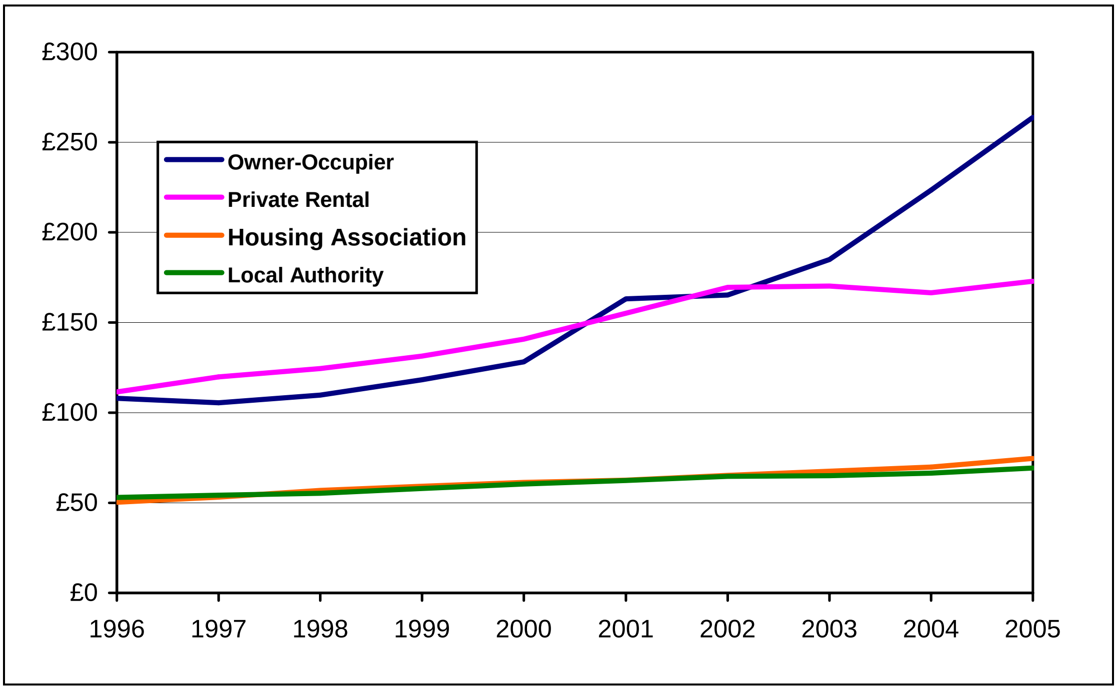
More generally house prices rise because of increases not only in the numbers of households but also because of rising incomes and expectations about future house price rises, as well as alternative investment opportunities. Migrants, as we have shown, are a large part of household growth and their demand to live separately increases over time. On the other hand, they generally have lower incomes at least initially. Moreover, especially if they remain as tenants, their income elasticity of demand for housing is lower than for established households. Therefore their direct effect on house prices is likely to be less than established households.

4.5 Migration and private rents

In the short-run the largest impact of increased immigration is clearly on the private rented sector – with migrants from all types of country heavily concentrated in that sector during their first 3 years in the country (Table 4.3). Moreover, except for those from poor countries this concentration continues, if to a lesser extent. Increased net migration therefore, has a significant effect on demand and one would expect that to show up in higher rents.

The evidence on both average rents and on rents at the bottom end of the market, as determined for Housing Benefit purposes (Figure 4.2) suggests, however, that private rents have stabilized, even in money terms, over the period since 2000 (Wilcox, S. and Williams, P., 2007). This implies that supply has expanded rapidly enough to hold rents down. This in turn may suggest that migration could be providing the impetus for the private rented sector to expand rather than working in the other direction to exclude established households and force higher rents. Changes in relativities at borough level also suggest that it has proved possible to expand supply especially in the East and South East of the capital. It should be remembered, however, that these figures are not controlled for size and quality, both of which may well have declined as a result of increased pressure.

Figure 4.2: Rents and user costs of housing, London 1996–2005



Source: Dataspring.

4.6 Migration and the social rented sector

Table 4.3 has already shown that new entrants, except for those from asylum countries, are disproportionately under-represented in the social sector; while the position of those returning to the UK are fairly similar to established UK households. The chances of being in the social sector for those from asylum and poor countries who have been here for more than 3 years are, however, far higher than for the indigenous population. This particularly reflects both their lower incomes and their initially poor housing conditions.

The best source of information about the impact of in-migration on the need for additional social housing is provided by the GLA's (2004) Housing Requirements Study. This estimated need over the next 10 years on the basis of homelessness, mismatch between dwellings and households, affordability and social requirements. It examined the combined effect of net immigration and the net export of households to the rest of the country – and the resultant change in mix of households. It suggested that, among those entering from abroad around 25% of households would need social housing as compared to 20% of those from the rest of the country. It also shows that, on strong assumptions about reallocation of established households, net in-migration from abroad could account for as much as 70% of the additional housing required. This is in part because those who leave the country tend to go from the private rented sector, while those who are housed in the social sector tend to remain.

The Requirements Study also suggested that two-thirds of these requirements would be for one bedroom dwellings, athough 25% would need at least 3 bedrooms. It is this second group who are likely to be in the greatest priority need and therefore require more immediate assistance. There must be concerns about the estimates of dwelling size required, given the evidence on the numbers of children in London who are expected to be born to migrant mothers over the next decade. This would point, other things being equal, to a larger proportion of the need being concentrated in larger units. It also suggests that there is likely to be increased overcrowding in both the private rented and social sectors.

A final issue here is that of ethnicity. The numbers of ethnic minority households in London reflect past migration, although in some cases this could have occurred several generations ago. Minority populations are concentrated in outer areas of London and are more spatially concentrated when they live in the private rented sector. Those who live in the social sector or share with others live in the most deprived areas. Income poverty is concentrated among Bangladeshi, Pakistani and black African households, with 70% of those in income poverty in inner London coming from ethnic minorities. Overall therefore, it is hardly surprising that these groups are disproportionately found in the social sector (Bailey and Livingstone, 2007).

Competition for social housing is seen as one of the most important areas of tension between established populations and those coming into the local area – who may come from another part of London or the UK as well as from abroad. As such it is seen as an important source of tension impacting negatively on social cohesion (Travers et al, 2007; Hudson et al, 2007; Markova and Black, 2007).

4.7 Bringing the story together

London without international migration might well look far more like some northern cities, with continuing out-migration and suburbanisation of more mature and better off households and declining populations and growing vacancies in central areas. Instead large scale in-migration has resulted in greater utilisation of the existing stock and is associated with the expansion of private renting. It has also been accompanied by some displacement of other households to areas outside the capital, transferring part of the additional demand to these areas. As a result, the impact on the established London population has been considerably less negative than might have been expected.

The initial impact of a migrant household is almost certainly less than that of an established household or one moving from the rest of the country. It is also clear that, to the extent that they become private tenants, supply has been able to adjust so rents have not risen. Other problems such as overcrowding and increasing numbers of unlicensed Houses in Multiple Occupation have, however, almost certainly increased, while space standards may have declined – at least at the bottom end of the market where migrants tend to be concentrated.

In the owner occupied sector, net in-migration, not offset by out-migration to the rest of the country, increases demand and house prices – but initially at least by less than their numbers would suggest because of lower income elasticities. There may in addition be secondary effects through increased investment demand for housing both through Buy-to-Let, and international company and individual demand. At least at the higher end of the market this effect is almost certainly more important than that of migration as such.

The longer term effect of migration on the housing market depends on the proportions of each group of migrants who settle in London and so increase demand more in line with established households. The evidence suggests that it is households from poorer countries and asylum countries that who are more likely to stay. The better off households are more likely to return to their own countries.

The most negative effect of in-migration is its impact on social housing requirements. Many lower-income migrants undoubtedly have housing needs that they are unable to meet in the private market and therefore, compete for scarce social housing. Moreover once they gain entry into social housing they appear more likely to stay in the country and the capital. This is the largest identifiable cost of in-migration.

4.8 Conclusions

Migrants increase the numbers of households looking for accommodation in the capital. Their initial impact on demand, however, is lower than among native households with similar attributes. Migrants are also initially far more likely to be in the private rented sector than indigenous households.

The net impact of in-migration into London is partially offset by out-migration of other households to the rest of the country. The impact on demand for housing in London is therefore much less than might at first be assumed. Over time, however, the housing demands of migrants become more similar to indigenous households and overall demand is therefore further increased.

The increase in demand for housing generated by immigrants increases both house prices and the incentive to increase supply. Supply, however, is relatively inelastic – so it is the impact on prices which dominates. Private renting on the other hand has been able to expand, so that rents have been rising much more slowly than house prices.

Migrants from asylum seeking and poor countries tend to have larger impacts on the need for social housing. This has significant implications for policy and also has the potential for increasing social tensions because of competition for scarce housing resources. Poor migrants in the private rented sector also tend to be quite heavily concentrated in particular areas with negative impacts on social inclusion and cohesion. The latest report by the Commission on Integration and Cohesion (2007) suggests that the rate of in-migration has led to increased tensions in some areas and states that 'diversity can have a negative impact, but only in particular circumstances'. It cited research finding three-quarters of respondents preferred living in ethnically-mixed neighbourhoods.

More generally the structural change in in-migration is part of broader globalisation which includes increased demands to invest in housing across the world, as housing becomes an element in overall asset portfolios. Much of the increased demand for housing in London comes from this investment demand rather than specifically from in-migration.

5 Impacts on the labour market and competitiveness in London

The second of the main classes of effect expected from immigration is on the performance of London's productive economy. Here, there are four main types of positive effect which have been hypothesised:

- Provision of a more elastic labour supply, at or below current going rates for a job-type, enabling the city (and the national economy) to exploit more fully the potential offered by its established competitive strengths in activities where further growth could raise productivity, export performance and income levels;

- Relieving bottlenecks to development by bringing in specific types of labour which are in short supply, whether these involve:
    - more highly skilled positions, where domestic supply is lacking, or very specialist jobs simply need a wider pool of talent; or
    - lower level jobs which have been effectively rejected by domestic workers, where importation of replacement labour could allow upward mobility among the home population;

- Facilitating trade relations with migrants' home countries, through exploitation of their language skills, market awareness, networks and social capital; and

- Benefits from cultural diversity, either through:
    - contributing to supply in London of 'exotic' products and services, raising the quality of life for residents and increasing the city's attraction to tourists and groups of 'talented' workers with sophisticated tastes; or
    - more generally through stimulating product or process innovation where synergies can flow from inputs of a greater variety of skills and perspectives – and the enterprise traditionally associated with immigrant families.

On the other side of the picture, three kinds of possible negative effect have been suggested:

- Blunting the incentives to raising labour productivity (and competitiveness) through temporarily cheapening the cost of labour for activities where changes in production method or location (to somewhere outside London) are really required;

- Redistributing income toward already advantaged groups (whether owners of capital or workers in more skilled occupations) at the expense of those in more marginal positions, whose earnings levels and prospects of employment are eroded through competition with groups of immigrant workers who have lower expectations and less protection; and/or

- Possible lowering of trust levels, co-operativeness and social capital among a more heterogeneous business community/workforce (as has been claimed to be the case for residential communities[20]).

On some of these issues, evidence is at present extremely limited, internationally as well as in relation to London specifically. There is some very interesting recent work, notably by Ottaviano and Peri (2005, 2006) – which we discuss below – suggesting that the overall balance of these effects is positive for cities involved, particularly in terms of the relation between productivity/competitiveness and the cultural diversity of the local workforce. In general, however, it has proved much easier to examine effects on labour market outcomes than implications for other kinds of income, or for productivity and competitiveness. Even in relation to the labour market, however, it must be said that a body of rather sophisticated research has not led to very clear-cut conclusions about the balance of effects.

In this chapter we shall therefore start off with, and give most of our attention to, what is known about the role and effects of the new immigrant flows in relation to the London labour market, returning more briefly at the end to other kinds of evidence relevant to the questions about impacts on productivity and competitiveness.

5.1 The role of immigrants in the London labour market

The two kinds of argument just referred to about the contribution of immigration to a regional labour market – as a more elastic/cheaper source of labour supply, and as a remedy for bottlenecks caused by specific gaps in the locally available supply – relate to two rather different ways of thinking about the role of immigrants in the labour market.

The first of these is basically quantitative, viewing labour migrants as simply an addition to the labour pool ('another pair of hands'), whose effectiveness is dependent upon an absence of barriers to their social and economic integration. The other is more qualitative, seeing migrants as representing distinct sources of labour, capable of filling specific slots in the labour market and being treated differently from indigenous workers, so long as there are barriers to their full integration in the mainstream labour market.

These two understandings were both evident in discussion about the organised forms of labour importation practised by West European economies in the 1950s and 1960s. On the one hand, arguments were advanced that a more elastic labour supply allowed faster economic growth without inflation. On the other hand, there was a clear understanding that immigrants were 'replacement labour', taking over less attractive and remunerative jobs from indigenous workers who would move on up the occupational ladder. In relation to the new migration the picture is greatly complicated by a much more heterogeneous set of flows, both into and out of London, but both perspectives still have insights to offer.

[20] Notably by Robert Putnam on the basis of analyses across US urban areas (see Lloyd, 2006).

According to the 2005-6 wave of the APS[21], 33% of the employed residents of London are either immigrants or working visitors[22]. Four-fifths of them (27%) were established migrants, while the other fifth (7%) had been in the country for less than 3 years, with half or so of them likely to be moving on in the next few years.

In just two sectors of activity – hotels/restaurants and domestic services – immigrants accounted for the larger part of the London workforce, with foreign-born residents filling around 60% of the jobs (Table 5.1). These stereotypical immigrant jobs, however, represent only a small proportion of those occupied by overseas migrants to London – some 100 thousand out of a total of about 1.1 million overall. The group for whom catering jobs in particular are most important are the recent (up to 3 year) arrivals from poor countries, for whom they can represent a port of entry into the labour market – but even for these, they provide less than 20% of jobs.

A special case is that of the recent inflow from A8 countries, where a majority of those working in London appear to be either in the construction industry (accounting for a quarter, four times the share among other recent migrants), hotels/restaurants or domestic service (also with a much larger share than for other recent migrants).

Table 5.1: Migrant employment in London 2005/06 by sector, (000's)

Sector	Migrant employment (000's)		Migrant share of employment	
	<3 years in UK	3 years+ in UK	<3 years in UK	3 years+ in UK
Manufacturing	11	60	5%	25%
Construction	19	47	9%	21%
Transport and Distribution	37	212	5%	31%
Hotels and Catering	25	63	17%	42%
Financial services	15	57	7%	25%
Business services	36	160	6%	26%
Administration, Education	18	129	3%	23%
Health	24	131	6%	33%
Other services	20	68	7%	22%
Total	**190**	**525**	**5%**	**24%**

Source: Annual Population Survey (APS).
Note: For information on sample sizes see Table 3.4.

At the other extreme, in terms of relative insensitivity (and closure) to migrants are paper/printing/publishing, energy production, public administration,

[21] This 'new' survey represents a consolidation/extension of the established Quarterly Labour Force Surveys, with a substantially enlarged response base, of some 365 thousand individuals nationally, including 29 thousand in London.
[22] Though the LFS is not supposed to cover people who have been in the UK for less than 6 months, so the majority of working visitors (staying for up to 12 months) will actually be omitted.

education, and recreational/cultural services, where typically the foreign born occupy just 20% of jobs. Some parts of financial and business services also seem to fall into this category[23] although others clearly do not. Across Central London, about 25% of jobs in financial and business services are filled by foreign-born workers, while the core financial intermediation activities have a stronger representation at least of migrants from other rich countries (both short- and long-term residents), who occupy about 16% of the jobs. Computer related activities are the other area of business services where migrants from these countries seem to play an important role, though in this case it is just the recent/short-term migrants who are substantially over-represented. Overall, financial and business services seem to account for a third of the London jobs occupied by migrants from rich countries, compared with one-sixth for those from poor countries. The more general point to put alongside this contrast, however, is that virtually all sectors of the London economy have become substantial employers of migrant labour, for one reason or another.

5.2 Employment status, occupations and earnings of migrants in London

The fact that recent waves of migrants are quite widely spread across the London labour market, rather than being concentrated in a few stereotypical 'migrant jobs' does not necessarily imply that all of them have been fully integrated or that their potential is being fully used. Part of the reason for their broad diffusion across sectors of employment is simply that the migrants of the last 20 years are a very heterogeneous collection of people, with differing kinds of potential, and with great variations in the kind of barriers or constraints that they may face.

To get a bit closer to these, we need to look firstly at evidence on rates of achieved employment among different groups, at earnings levels, and at the positions in the occupational hierarchy where they get inserted or to which they progress. Then, we should look at more qualitative kinds of evidence on how the London labour market treats different kinds of migrant group, though available materials of this kind are more limited.

A starting point is provided by data from the APS for 2005-6, showing the employment status of migrants and others in the 25-44 age group. This covers most migrants, while excluding most of those (in the early 20s) who may have come to London simply to study. The statuses distinguished in Table 5.2 include those who are actually in work (whether as employees or self-employed) and three groups of non-workers self-identified via attitudinal/behavioural questions in the LFS/APS: those of active work-seekers (the ILO 'unemployed); those who would like work but are not currently taking steps to pursue it; and those who, for one reason or another, profess not to be interested in work at present.

For migrants from rich countries the proportion in work is quite close to that of the UK-born 'non-migrant' group, though more of the recent arrivals report

[23] Strictly the division of the Standard Industrial Classification (SIC) identified as 'activities auxiliary to financial intermediation'.

themselves as actively seeking work. Among those from asylum origins, however, only a quarter of the recent arrivals appear to be in work; almost as many say they are actively seeking it (though they may be legally constrained in doing so), while a half say they do not want it. The employment rate is twice as high among those who have been in the country for more than three years, but still only about half of these prime age migrants are in work, well below the UK norm of 80%. Among others from poor countries too, the proportion in work though higher is still below average, partly because of a higher unemployment rate, but largely on account of a much higher proportion not wanting work (about 20% as compared with 10% among the UK-born).

Table 5.2: Employment status of London migrants by origin and time in the UK

Status	Non-migrant	Migrant 0-3 years			Migrant > 3 years		
		Rich countries	Asylum countries	Other poor countries	Rich countries	Asylum countries	Other poor countries
Employed	80%	75%	26%	64%	79%	54%	65%
Seeking work	5%	8%	20%	9%	5%	8%	7%
Others wanting work	4%	4%	7%	6%	5%	9%	7%
Not wanting work	10%	13%	47%	21%	11%	29%	21%

Source: Annual Population Survey (APS), 2005-6.
Notes: 1. This data relates to individuals aged between 25 and 44. 2. For information on sample sizes see Table 3.4.

The higher proportion not wanting work among migrants coming from poor countries seems to be in large part a cultural phenomenon, particular reflecting the fact that only a quarter of the Muslim women migrants from poor countries (in this age group) are either working or looking for work. Another distinct sub-group among the 'poor country' migrants are the A8 migrants (especially Poles) whose employment rates are at least the equal of non-migrants and those from rich countries. Controlling for the differences in ethnic and religious composition roughly halves the differences in probabilities of employment between natives and migrants from poor countries. Even among the group in the country for over 3 years, the chances of a poor country migrant being in work are about 6% lower than for a native with similar characteristics.

A second issue is the quality of jobs to which migrants gain access. We explore this by grouping detailed occupations into five equal-sized groups with similar average hourly earnings and tabulating the proportion of each of the migrant groups in each of these (Table 5.3). Again, these show a wide distribution of migrants across types of job, but with two conspicuous deviations. On the one hand, there is an above average concentration of migrants from rich countries in the top quintile, especially in relation to the recent migrants (who in this case will include many temporary migrants). On the other hand, recent migrants from poor countries (most of whom will become permanent migrants) figure much more prominently in the bottom quintile, though this ceases to be the case for those who have been in the country longer, implying that this is a relatively short-term phenomenon for many who then successfully advance to better jobs.

Table 5.3: Distribution of migrant employment across higher and lower paid job types in London, 2005-6

Migrant origin	Years in the UK	Bottom quintile (< £9.0 p.h.)	2nd quintile (£9.0-£11.5)	3rd quintile (£11.5-£15.8)	4th quintile (£15.8-£20.8)	Top quintile (> £20.8 p.h.)
Non-migrant	..	21%	20%	21%	19%	20%
High wage countries	0-3	18%	14%	12%	21%	35%
	> 3	19%	15%	16%	22%	28%
Asylum countries	0-3	31%	24%	14%	13%	18%
	> 3	23%	20%	14%	21%	22%
Other low wage countries	0-3	46%	20%	10%	14%	11%
	> 3	25%	19%	16%	17%	22%

Source: Annual Population Survey (APS), 2005-6.
Note: For information on sample sizes see Table 3.4. 2. P.h. – per hour.

In terms of actual average earnings, the pattern again is that those coming from rich countries do as well (or among the longer-stayers), better than non-migrants, but that those from poor countries – whose qualification levels are also above the average for Londoners, get substantially lower average earnings (Table 5.4). This is especially clear in the first three years, when they appear to receive about 40% below the London average. For those who have been in London longer a clear differential remains, even though their distribution across higher and lower paying job types is by then not much different from the London norm. For the newly arrived A8 migrants, the difference appears even greater, with average earnings of just £6.00 per hour recorded.

Table 5.4: Average hourly earnings of migrants and non-migrants in London 2005-6, (£)

	Time in UK	Males	Females	All
Rich country migrants	< 3 years	16.7	13.2	15.5
	> 3 years	19.0	14.8	16.6
Asylum origins	< 3 years	10.4	9.4	9.9
	> 3 years	12.7	10.7	11.8
Other poor country migrants	< 3 years	8.9	7.6	8.3
	> 3 years	13.3	10.9	12.1
Non-migrant	(UK-born)	17.0	13.2	15.0

Source: Annual Population Survey (APS), 2005-6.
Note: For information on sample sizes see Table 3.4.

5.3 Impacts of migrants on the London labour market

The question of how the presence of a stream of international migrants affects the position of native workers, in terms of their earnings and prospects of employment has been extensively discussed in the economic literature, with a series of empirical studies using both national and city/regional data to examine the actual direction and practical significance of these effects. In principle, the three key issues influencing how the position of native workers might be affected are:

- whether the presence of the migrant group adds more to the supply or the demand for labour in the area concerned;
- whether by enabling a growth in the volume of local output and employment, migrants allow local producers to benefit from extended scale economies, thus raising productivity levels and sales; and
- whether the effective skill mix offered by migrant workers is more complementary than competitive with those of the local labour force.

Empirical studies of actual impacts in particular cases in North America and Western Europe have come up with a range of results, but a recent 'meta-analysis' (i.e. systematic review) of the published studies has concluded that on balance they point to very small negative effects for both wages and employment – though this is only really clear in Europe and for women (Longhi et al, 2004, 2006).

In the UK, the leading study finds that there is no overall effect on native employment (though the most educated may gain at the expense of those with intermediate levels of education), while the wage effect is, if anything, positive (Dustmann et al., 2005). At city level in the US, Ottaviano and Peri (2005, 2006) report a positive effect on wages (but also on rents), which they ascribe to an effect of diversity on productivity levels. Finally, in a Bank of England analysis directed at the macroeconomic implications of A8 immigration, Blanchflower et al. (2007) argue both that this influx should lower the 'natural rate' of unemployment (i.e. the structural element of unemployment) and moderate inflation by lowering the pressure of demand for labour. Empirically, however, an examination of regional evidence finds no significant effects so far on unemployment.

We have explored these issues firstly by adopting a labour market accounting approach, looking both at how growth of the foreign born labour force over the recent years of very high immigration has affected the balance between labour supply and demand and whether over time it has affected the relation between (un)employment rates in London and its hinterland. Secondly, we have focused on the particular issue of how a more elastic labour supply for low status jobs is likely to have affected employment levels and earnings for those in this exposed sector of the London labour market.

Supply and demand balance
The impact of large scale immigration on the balance between labour supply and demand in the region is a potentially significant issue for London, where overall employment has been more or less stable since about 2000 – and where attention has recently been drawn to the fact that its employment rates are among the lowest in the country (Meadows, 2006; HMT, 2006, 2007).

Looking back over the 8 years from 1997 when London has experienced consistently high levels of immigration, Table 5.5 shows how this has been reflected in the changing shares of UK and foreign born workers in London employment on both a residence and workplace basis. Overall, during this period jobs in London grew by about 1% p.a. (about half as fast again as in the rest of the country)[24] with the net addition of some 317 thousand jobs, virtually all of which accrued to members of the foreign born workforce, whose numbers grew by more than a third over these years (despite a very sharp fall in the number of Irish-born workers in the city). The number of British born-workers working in London seems to have been unchanged over these years when the London economy was showing above average growth.

On a residence basis, there does seem to have been some increase in the employment of this group, primarily because more commuted out to jobs in the adjoining regions. Overall, net growth in employment among London residents recorded in this period was very largely (about 87%) concentrated among the growing immigrant population. Elsewhere in the UK, the proportionate growth in the foreign-born workforce over these years was even more rapid (up by 56%), compared with 39% in London. Since their initial share of employment was very much lower, a majority of the additional jobs in other regions accrued to British-born workers, whose employment there grew half as fast again as it did for their counterparts in London[25].

[24] LFS which the ONS (2006) recommends as providing the most reliable guide to employment numbers at the regional scale.
[25] This comparison is not affected by any significant change in London's share of the UK British-born working age population.

Table 5.5: Changes in employment of natives and foreign-born by workplace and residence in London, 1998-2005

	1997 Q4 (000's)	2006 Q1 (000's)	Change in 000's	and (%)
Total employed London residents:	3,102	3,490	+388	(13%)
Of which: UK-born	2,242	2,293	+51	(2%)
Non-UK born	860	1,197	+337	(39%)
Total employed with London workplaces:	3,559	3,876	+317	(9%)
Of which: UK-born	2,681	2,683	+2	(0%)
Non-UK born	878	1,193	+315	(36%)

Source: UK LFS.
Note: All figures are grossed up from sample data, covering some 7,000 employed respondents in London.

From this simple accounting comparison we cannot infer anything directly about how unemployment or other forms of worklessness in London may have been affected by the injection of a large new element of labour supply. One point that is evident from Table 5.5, is the degree to which potential increases in worklessness among UK-born London residents have been mitigated by adjustments in commuting patterns. The openness of urban labour markets to such switches in travel to work patterns is one of the major reasons why it is not easy/valid to transfer findings from inter-urban comparisons of migration effects to what may hold across the country as a whole. From past research we know that changes in Greater London employment or population levels on their own have very limited effects on London unemployment, because a very large proportion of the differential effect expected in London leaks out to the surrounding regions, which are effectively part of the same labour market. Only at the scale of the Greater South East as a whole[26] do we expect to find important effects from such changes on levels of worklessness.

To look for evidence of possible effects of immigration into London on worklessness in the city and region, we therefore carried out two parallel time series analyses (for the years 1984-2005), adapting a model previously used to examine the effects of broader changes in employment and the working age population on unemployment rates (Gordon, 1996). The first of these focused on the differential between the key variables (employment growth rates and current/lagged unemployment rates) in Greater London and the Greater South East as a whole – now adding in immigration to London as an additional factor. The second repeated this analysis for differentials between the Greater South East and the UK as a whole.

In the first case, the results were dominated by the interaction between the two regions, with evidence of a strong tendency to convergence in their (un)employment rates confirming the degree of integration of their labour markets. Neither differences in employment growth rates nor immigration into London were found to have any significant effect on the difference between

[26] Including the current South Eastern and Eastern official regions as well as London.

(un)employment rates in London. At the broader regional scale, integration was obviously much less, evidence of convergence was much weaker, and differences in employment growth rates were reflected in (un)employment rates. London immigration did not, however, appear to have significantly affected the level of unemployment across this wider region, though there was a (possibly significant) indication of lowered economic activity rates[27].

In other words, despite the large addition to labour supply represented by the volume of immigration to London during the later years, we find no evidence that this bears any responsibility for the particularly low employment rates within London. Further, nor has it impacted on unemployment across the wider region.

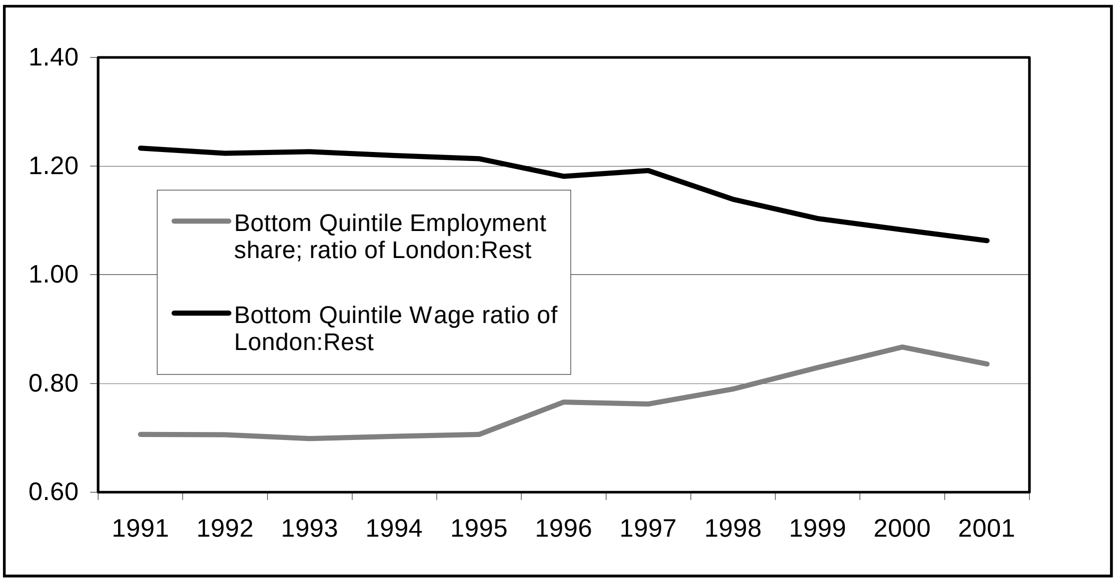
Impacts on the bottom end of the labour market

The fact that, despite qualifications levels which are above the London average, migrants from poor countries are disproportionately liable to find employment in their early years within the bottom quintile of jobs in pay terms (Table 5.3), may have significant effects on both the development of this quintile and on the pay of those who already work in it. In principle we should expect this to lower pay rates within the quintile, but if the number of jobs in this low paid sector does not increase disproportionately as a result, the insertion of new migrant workers may have additional effects, either serving to expel some of the existing workforce into unemployment, or allowing some of them to move upwards into better jobs.

In this study we can only investigate this issue in a preliminary way, rather than through formal econometric modelling. A simple charting of trends in the pay levels and employment concentration for lowest quintile jobs in London relative to the rest of the UK, however, provides some suggestive evidence. As Figure 5.1 indicates, since the mid-1990s the wage differential between London and the rest of the UK for those in this bottom tier of jobs has been very substantially eroded. In 1995 London wages were on average 23% above those for the same set of occupations in the rest of the UK; by 2001 this differential was down to 6%.

[27] The student's statistic has a value of 1.9 (significant only at the 7% level).

Figure 5.1: Trends in employment share and wages for jobs in the bottom quintile



Source: Analysis by Loannis Kaplanis (2007) of New Earnings Survey microdata.
Note: The bottom quintile is defined here in relation to a set of occupations, with 20% of employment nationally in a reference year, which had the lowest rates of hourly earnings across the country as a whole.

On almost any estimate of the relative costs of living (at least for those bearing their own housing costs) this means that their real earnings were actually below those in other parts of the country. No such change occurred for jobs further up the distribution, nor was it evident in earlier years. There must therefore be at the least a very strong suspicion that the real wages of those working in the worst paid set of jobs in London have been substantially reduced as a consequence of the influx of new migrants, many of who, though formally qualified for better jobs, have been unable to access them at the point of arrival in London.

As the lower part of Figure 5.1 indicates, there has been a positive knock-on effect, with the number of jobs in this segment of the labour market, which had been on a downward trend in earlier years, showing a substantial upturn, both absolutely and relative to trends in the rest of the UK. In fact by 2001 there were some 20% more jobs in this segment of employment (which includes many personal service jobs) than would be expected on the basis of past trends in London and current changes in the rest of the country.

In this case regression analyses relating annual changes in each region to the wage in the preceding year show a very clear (negative) statistical relation. This suggests strongly that the lowering of wages in this segment has actually generated additional jobs, absorbing a large part of the additional labour supply, and restraining any tendency for a growth in unemployment within London. This appears to be a substantial cost in terms of earnings to those existing workers who cannot climb out of this low wage sector to better jobs.

One interesting side-aspect of this development is the light it casts on developments in London's partner 'global city' New York during the 1980s. During that period, as was highlighted by Sassen (1991) there was a conspicuous growth in jobs at the bottom end of the pay scale, as well as a (larger one) in the top half of the distribution. This 'polarisation' of opportunities was attributed to the effects of the growth of global city roles, which made the city an uneconomic location for most kinds of routine jobs for less qualified workers, but with the exception of the kinds of (mostly low level) servicing job requiring face to face contact, and for which increasingly affluent high end business service workers had growing demands. This tendency was not actually evident in London during this period, however (Buck et al., 2002; Hamnett, 2003), or indeed in other leading European cities. Indeed estimates of data comparable to that in Figure 5.1 for this earlier period shows London's share of the bottom end jobs then falling, while earnings in these jobs were growing faster than in the rest of the country.

One suggested explanation of this difference in trends between London and New York during the 1980s was that, because of its much greater openness at that time to international migration, only New York City then had the kind of highly elastic labour supply for such servicing jobs to allow potential demands to be fulfilled at acceptable prices. The more recent trends in migration in relation to wages and employment in the low paid service sector of the London economy tend to bear that out. The key issue is, however, not that there has been an expansion of such jobs, in catering, cleaning and similar services. Rather it is that of the negative effects on existing workers of the downward pressure in wages that immigration has enabled to occur.

5.4 Entrepreneurship, innovation and competitiveness

Entrepreneurship

Historically there has been a strong association between immigration and entrepreneurship, in the sense of foreign-born communities producing more individuals who are prepared to commit their own resources to business ventures involving a high degree of uncertainty and some element of novelty. A number of factors have been seen as contributing to this link, including:

- the particular dispositions, abilities and character of those who willingly take on the risks of migrating to an unfamiliar country in hope of long-term gains;
- a superior knowledge among migrant 'outsiders' about the value of their own talents and knowledge, in situations where this is not fully recognised by employers in the host community; and
- the potential within a particular minority community that has strong internal networks sustaining trust and co-operation to mobilise financial and other resources in support of new businesses, more readily than may be possible in the majority community.

Examples can be found of all of these, but they clearly do not apply equally to all migrant groups. Indeed the story of migrant entrepreneurship is one which involves the experience of some migrant groups in particular (not all), and has been more conspicuous in some settings. Within the US, which offers the broadest set of comparisons, there have been large differences among groups with different national origins in the propensity toward self-employment (which is the simplest indicator of entrepreneurial tendencies), with the highest rates being found among those who also display the highest average earnings as employees (presumably reflecting their human capital resources)[28]. Comparisons of the entrepreneurial record of some groups from the same origin – European Jews at the start of the 20th century (Godley, 2001) and Jamaicans more recently (Foner, 1979) – sending migrants both to New York and London, in New York/the US against London/the UK also point to much stronger evidence of entrepreneurship among migrants coming into the culture where this is more strongly valued (i.e. the US).

In London, the incidence of self-employment among the foreign-born within the 25-45 year old population in 2005-6 was comparable with that for natives in the case of established (3 year plus) migrants from rich countries (at 14%) but significantly lower among both recent arrivals and the established migrants from poor countries (8% and 11% respectively). The main exception seems to be that of migrants from Eastern and Central Europe (including what are now the A8 countries), both new and established, with 23% self-employment in this age group.

Self-employment is, on its own, not an adequate indicator of entrepreneurial potential, however, as *Working Capital* found in reviewing the position of ethnic minority businesses in London:

> 'One case where social variables have been thought to be significant is that of immigrant groups (and their descendants) with particularly strong communal networks – for example the South Asian and Chinese communities in London, which are known to have higher rates of self-employment. It is not clear, however, to what degree this self-employment reflects particular resources of entrepreneurship, which can be combined with the distinctive skills, energies and connections of immigrant groups, rather than a defensive response to discrimination in the open labour market.

Clearly there are success stories, but the general picture presented by responses to the 1999 London Employer Survey is that a preponderance of businesses run by members of non-white groups are very small enterprises, oriented to limited local markets and facing particular problems in growing. This is particularly true of those groups (blacks, Pakistanis and Bangladeshis) in the weakest position in the general labour market, but even for Indians and Chinese, who are more successful, employment in minority-owned businesses (totalling 10% for all non-white groups) is clearly below their share in the population. Managers seemed generally optimistic about growth prospects, but reported particular constraints both in relation to finance and the competitiveness of their products (reflecting low rates of product innovation in the case of black and Pakistani/Bangladeshi businesses). Orientation to the national market is generally weak, and though there are some significant examples of businesses serving overseas markets (notably South Asian-owned hotels), the main bias is still toward direct sales functions in local or London-wide markets.

[28] See Gordon (1995), using data from Portes and Zhou (1995).

The one significant advantage evident in the survey was that Asian-owned businesses were less likely to perceive skill shortages as a constraint, perhaps because they have access to under-employed skills from within their own communities. Business success could offer much to these communities, but this will require stronger connections to the external market, and at present intra-communal networks are inadequate as a means of overcoming constraints' (Buck et al., 2002, pp.132-133).

These conclusions were based on evidence from the late 1990s, and referred to ethnic minority businesses rather than those owned by recent migrants of all origins. More recent data on the size of these businesses (from the 2005 London Business Survey) does suggest that most of these remain small, while there are still no systematic data on migrant-owned businesses as such. It is necessary to be cautious therefore, about the extent to which recent migration has served to boost the level of entrepreneurship in the London economy.

Innovation

Arguments about the potential for strengthening London's performance in terms of innovation through development of a culturally more diverse workforce are the hardest to evaluate empirically. We have been unable to find any London-based evidence which casts significant light on this. It is useful therefore to point to work elsewhere which indicates what kind of effects might be expected, and questions that might usefully be investigated in the context of London's post-industrial economy.

Two recent US-focused studies in particular argue that there are specific connections between the immigration of well-qualified groups and levels of innovation, at least in relation to scientific and high-technology activities. Anderson and Latzer (2006) focus on venture-capital-backed companies, reporting that 25% of all those founded in the past 15 years (with 400 thousand employees worldwide) had one or more immigrant founder. The proportion rose to 40% among those in high-tech and 47% among the latest wave of start-ups. The principal country of origin was India, with a quarter of the migrant founders, while a similar proportion came from Europe (almost half of these from the UK). Half had gone to the US as graduate students, typically founding their businesses 10 or so years later.

Businesses interviewed in the study believed that the potential for further growth of innovative enterprises had been constrained by the tightening up of US immigration controls in respect of temporary H1-B visas for highly skilled workers and long waits to acquire green cards for permanent residence. Other studies have suggested that the knock-on effects of this include diversion of some flows (e.g. of Latin Americans) to Europe and encouragement for off-shoring of more highly skilled jobs in sectors such as IT.

A complementary study by Chellaraj et al. (2005) focuses on patents as an indicator of technological innovation. It indicates that the dramatic growth in both highly skilled immigration to the US and in foreign graduate students recruitment had made a considerable contribution to increased rates of patenting, both in the university and commercial sectors. The message again, is one of concern about the impacts of tighter US controls since 2001 on diverting flows and innovation growth elsewhere, particularly in the context of Asian countries' investments in their own higher education sectors.

Findings of these studies clearly cannot be transposed directly to a UK context, or to London's service-based economy. They raise interesting questions, not only about the impact of skilled labour migrants, but also about the extent to which London's capacity to attract large numbers of high quality graduate students could produce comparable spill-over effects for some of its advanced producer and cultural services. Impacts of this kind could be very important for London's competitiveness, but this is a field where argument currently runs well ahead of solid evidence.

Labour quality and competitiveness

In London, the link between migration and competitiveness has been most directly seen in relation to the availability of very highly skilled staff with international banking experience in Y/Zen's (2005) study of international financial and related business services. They make the important point that not only is competitiveness/productivity factor, sustaining the continuing primacy of London and New York, but that this combination of skill and experience could only effectively be acquired in these centres. Specifically they argue that there is a virtuous circle linking:

- the boost to a career in international financial services provided to those who come initially to work in London: and
- the boost to London's own competitiveness provided by the contributions of this cadre of talented migrants (also including those from the English-speaking world, with more experience, who come to London for a taste of Europe).

The point to note here is not simply that the ability to attract international recruits is perceived as an integral element in the City's competitiveness. It is also that most of those involved are not expected to be permanent migrants to the UK, rather to figure amongst the turnover of well-qualified migrants from rich countries staying in London for a few years or so.

A subsequent study on recruitment into these businesses (Dawson et al., 2006) found that some 22% of graduate recruits into these activities were drawn from overseas, though they highlighted the role of European recruits, especially from France and Germany[29]. Beyond the simple consideration of enlarging the pool of well qualified applicants, they suggest that employers particularly valued some of the skills and experiences international students had to offer. In part this appeared to be a matter of self-selection, or selective efforts by recruiters which meant that they were more likely to see just the top end of foreign graduates. Beyond this, however, cultural diversity, languages, international experience and maturity were seen as particular strengths among the international recruits.

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[29] They suggest that a factor in these two countries was the relatively weak state of domestic demand.

Looking a bit more widely, a broadly based mail survey by LCCI (2004) of London businesses reported a high level of satisfaction with the work produced by 'migrant workers'[30]. Reasons given for satisfaction included not only their readier availability and greater willingness to do the job, but also (from a quarter) their higher level of education. This is not inconsistent with the evidence reported earlier about qualifications levels, but probably also reflects the fact that currently much of the migrant workforce seems to be employed at below the level of similarly qualified locals. The incidence of language problems, reported as the only significant weakness of migrants, would be part of the reason for this element of overqualification/underemployment.

Another (national) poll for the Institute of Directors (2007) found majorities of their members reporting migrant workers as also being superior in terms of productivity, reliability, low sick leave and (especially) their work ethic – though they acknowledge that there were no controls for the relative youth of migrants[31]. In fact, both polls seem to relate primarily to more recent migrants, rather than to settled groups. This was the case too with Dench et al.'s (2006) more representative survey, directed toward use of migrant worker schemes, which reported similar kinds of perceived advantages, but concluded overall that:

> 'Generally, across all sectors, employers expressed no real preference for either migrant or domestic workers... Many argued that they simply reacted to the pool of available labour and sought to recruit the best qualified applicants, regardless of nationality. There was little, if any, variation between the characteristics that employers were looking for in migrant workers compared to domestic workers (as they were both required to fill the same type of job). The only difference was that migrants were more prepared to accept certain jobs. The importance of good English, previous work experience and qualifications varied between employment sectors and the nature of the job' (p. vi).

5.5 Conclusions

The most basic effect of international migration to London, over the last decade in particular, is that it has brought to the city a very large additional, youthful supply of labour, with an above average level and range of qualifications at a time when an unusually sustained period of growth was producing a rather tight labour market, especially for highly skilled occupations. As such it has undoubtedly relaxed some constraints on growth associated with skill bottlenecks and allowed employers of the more specialised skills to select from a wider pool of talent – even though such effects are hard to demonstrate, and not directly addressed by existing research focused on this city.

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[30] Though it is not clear what this term means, the proportions of firms' workforce falling into this category tend to be well below that of foreign-born workers in the overall London workforce. It seems to relate only to more recently arrived groups of migrants.

[31] It should also be noted that this poll may especially reflect recent experience with Polish workers where 54% of respondents report as employing, three times the proportion for the next largest group (namely Indians).

In some contrast to earlier waves of migration, those coming to London in this period have found jobs in a very widespread set of activities. It is clear, however, that the potential of parts of the new labour force have been rather under-exploited in its early years, with rather low employment rates, earnings levels and qualitative under-employment for some years for many of those coming from lower wage economies. Formally at least this is not a low skill labour force, although one requiring some adaptation, but a substantial proportion have started off in low skill jobs in activities where there are fewer barriers to entry.

Though the distinction is not a very clear-cut one, the flows from rich and from poor countries appear to have played rather different roles, partly because of differences in migrants' intentions with regard to staying in the UK over the long-run. The particular contribution of those coming from rich countries, many of whom come and go, seems to have been to provide more flexibility in hiring, to enlarge the recruitment pool for specialised jobs and to facilitate internationalisation. Those coming from poor countries on the other hand, who represent more permanent additions to the London labour force, seem rather to represent a quantitatively elastic supply of labour facilitating growth in employment where it might otherwise be constrained.

The start of the peak period of immigration coincided with a couple of years of substantial net employment growth in London at the end of the 1990s, when that role would clearly be important. Since then, however, continuing output growth has been accompanied by more or less stable employment levels in London. Supply growth thus seems to have outstripped demand, though immigration does not actually appear to have raised unemployment within London, at least partly because of a further growth in outward commuting. Across the wider Greater South East, however, there is some evidence that it has tended to depress overall labour force participation rates to some extent.

We have not seen any evidence that migration has significantly depressed either employment or general earnings levels for existing workers in most of the London labour market. At the bottom end of the labour market, in occupations employing the lowest paid 20% or so of the workforce, it does, however, seem that pay levels have been quite substantially eroded since the mid-1990s. This is probably as a consequence of the crowding of the most recent arrivals from poor countries into these jobs.

A positive side effect, keeping up employment rates, has been a substantial upturn in employment in this sector, as lower costs increased the affordability of a range of personal and support services demanded particularly by those in the growing number of highly paid professional jobs. There seem likely to have been substantial penalties for those existing workers in these jobs who could not move on up the jobs ladder.

Over the long-run an increasingly diverse labour force, as well as a larger and more highly skilled one, is expected to provide a qualitative boost to a host city's competitiveness, via increased entrepreneurship, innovation and productivity. Indications of such effects have been reported elsewhere from comparison across sets of cities. Such comparisons are probably more difficult in the UK, since London's position is unique in many other ways – while time lags in competitiveness effects mean that we should probably not expect to find evidence of them simply by tracking changes over time in London.

In any event, we have found little evidence which could be used to assess how far such benefits are actually accruing to the London economy. Available indicators of business ownership show nothing significant, while suitable indicators of innovation performance are lacking. In relation to productivity, employers have, however, been notably positive about the benefits of employing migrants. It is not clear how far this may be simply a matter of being able to access and afford a better class of worker from this source, as distinct from achieving qualitative improvements in the production process.

6 Migration, diversity and London government

The radical increase in UK in-migration during the past two decades has had its most substantial and concentrated impacts in London, both in quantitative and qualitative terms, with the city acquiring a much more cosmopolitan character. London is also the place where, on the whole, people have responded most positively to increased internationalisation, with younger residents in particular reporting the mixture of people as one of the best things about life in the city. As we have seen in the last two chapters, there are, however, some real conflicts associated with high rates of immigration, both in respect of access to resources allocated outside the market (notably social housing) and of the effects of a shifting balance of supply and demand on wages and prices (notably on the real earnings of those in entry level jobs). For governments in the city, migration presents both opportunities and challenges: to make the most of the potential for boosting London's competitive position; to cope with a new and more diverse set of demands, both for services; to mitigate the particular disadvantages which some groups of migrants may experience; and to reconcile or mediate some of the conflicts which are engendered in order to maintain both social cohesion and political support.

Few of these kinds of issues are actually seen as 'migration' as such, both because the local authorities have no real influence over the number or type of international migrants who come, and because issues are more familiarly seen in terms of ethnic minorities, tenure groups or those with particular health, social or economic needs. Indeed the current waves of migrants are so diverse in their characteristics, in their engagement with the city, and the social/political supports they have available to them that it makes little sense to treat them as a discrete group.

Significantly, the nearest approximation to a migrant-focused set of policies in London, have been ones constructed around the concept of 'diversity'. These seek to bring together established lines of action to promote equal opportunities for disadvantaged groups (such as black and minority ethnic groups), with more positive/optimistic ideas about the potential of diversity as an economic resource in an era of more qualitative competition.

In this chapter, we first sketch some of the significant differences between groups of migrants which have a bearing on the engagement of local governments with them. We then discuss how the diversity agenda is being pursued in London, before considering some of the more specific kinds of service needs which various migrant groups raise, together with the financial issues, which these engender.

6.1 Different types of migrant

This study has identified three broad types of migrant. The first group is made up of internationally mobile people working in finance, business and other highly-paid activities. The second type consists of skilled or semi-skilled individuals who move to London to fill jobs where there are shortages of labour within the UK. The third type includes refugees, asylum seekers and other individuals or families who come to Britain in search of protection for themselves and their families. Inevitably, these groups do not fully describe all migrant types, while there is an overlap between the categories.

The 'internationally mobile' group largely comprises people with well recognized skills of an advanced kind, an international outlook, and an adequate command of English. This group comes to work in an internationalized sector of the economy (much of it now foreign-owned), where their contributions are highly valued and their legal status is secured through a combination of employers' efforts and public policy priority for highly skilled and/or entrepreneurial migrants. The existence of the City has clearly influenced conditions that appear to make London an attractive place for rich migrants from many countries. The arrival of substantial number of individuals from Russia, India, the Middle East and the US suggests the mixture of financial, cultural and political institutions in the city together encourage the settlement of a new kind of mobile elite within it.

The 'skilled/semi-skilled' groups include a wide range of people. They range from the less qualified/experienced migrants from other relatively rich economies, and large numbers from many poorer countries with some marketable skill, work permits, and varying degrees of social support from employers who may have recruited them or established migrant communities from their areas of origin. Their employment prospects and conditions are more variable, not least because they may be subject to some forms of racial or religious prejudice, and may need to overcome some degree of language or cultural barrier.

One of the latest examples is the influx of A8 migrants, notably from Poland. Such migrants have been given a clear right to work in the UK, who can draw on some significant support from community institutions and informal networks built up by post war migrants. They have achieved very high employment rates and a positive reputation, but often in poorly paid jobs below their skill potential. In some respects they may have taken over roles occupied by Irish migrants, before Irish GDP per head overtook that of the UK and the flow of migration went into reverse. Migrants from the Caribbean and South Asia can draw on some of the same institutional resources, including rather more informal and voluntary bodies part-funded by local authorities, but have variable access to employment and reputations.

As with the first group (i.e. the internationally, affluent, mobile), however, it appears that majorities of both these groups move to London as a matter of personal choice and, once they have arrived, require relatively little assistance from the public authorities, though they will often have some distinctive service needs to be met. In the newest case of the A8 migrants, a number of councils have reported issues such as residential overcrowding, and exploitation or destitution among migrants from these countries, though there is little evidence of substantial public service need.

It is the third group of migrants that has attracted most attention and have required substantial government and local authority intervention. Because of the preponderance of new migrants within London, any problems and public service costs have inevitably been concentrated in the capital.

Major cities such as London have long been a magnet for those fleeing persecution, seeking personal freedom or simply wishing to start a new life. The combination of political security, employment opportunities and anonymity offered by London has long made it a popular destination for refugees and asylum seekers. Global trade, regional conflicts, cheaper travel and the emergence of a more powerful human rights lobby have together led to an increase in cross-border movement. Britain, by virtue of its trading history and international political position has, as shown in this report, seen a significant rise in in-migration since the 1980s. Reforms to the country's labour market and economy have probably encouraged the sharp rise in migration during the 1990s and 2000s.

Poorer migrants may, like more affluent and skilled ones, move immediately into employment. Others may be unemployed and may also have dependents. Once people are legally settled in the UK, they have rights to access public services. Even those who are seeking right of abode and/or who are living illegally in the country may access public services. Local authorities are required, by law, to provide many services that new migrants may use. Housing, translation services, employment assistance, schools, colleges and the costs of securing social cohesion may all be increased by the arrival of new migrants. In some cases, of course, migrants may, by their aspiration, willingness to settle in and communal supports, reduce service costs. It is to the issue of migration, the government's response and public services that we turn next.

6.2 Ethnicity, discrimination and the diversity agenda

A significant difference in the context for the new, post-1980s waves of migration into cities such as London is that these are widely seen as integral to the development of culturally vibrant and competitively successful urban economies, rather than as primarily sources of replacement labour for either public services or uncompetitive manufacturing industries which could not keep up with market wages. Diversity is now a watchword in the pursuit of competitive advantage. Some racial/ethnic prejudices persist (while some religious ones may have intensified) and in any case, there is clearly a period of settling-in and adjustment for most new migrants. The Mayor of London's Economic Development Strategy outlined a number of problems:

> 'London's refugees and asylum seekers, for example, face a number of specific barriers not only concerning discrimination and language, but also difficulties in obtaining recognition for non-UK qualifications and a concern among employers about the legal status of potential employees' (MoL, 2005, 4.3).

There is nothing very new in such a statement, indeed such concerns have led to a series of initiatives over the past thirty years or more, and remain rather more focused on minority ethnic populations than on migrants as such. Refugees and asylum seekers have been given some priority, but migrants as a whole have not been the object of major employment oriented policies.

More specifically relevant initiatives include the LDA's *Migrants Qualification Project* which is intended to enhance the employment opportunities of 2,000 migrants in key sectors of the London economy such as medical, engineering and construction. The project identifies the transferable skills and qualifications of migrant workers and supports them to fulfill their potential in the employment market.

Policy interventions designed to increase the political and economic power of refugees have also been proposed by the Mayor of London. The aims of refugee integration work in the capital is, according to the Mayor, 'equality of opportunity for refugees, allowing them to contribute fully to the development of the city, in safety and dignity' (Board for Refugee Integration in London, 2007). The political and human rights needs of refugees are clearly seen as being of at least as much importance as their need for access to the labour market. Moreover, many initiatives suggest services for refugees, asylum seekers and other migrants are badly fragmented, with a need for greater integration and consistency (London Asylum Seekers Consortium, 2006, Section 2).

Refugees and other poorer migrants face barriers to accessing education, training and employment services. Services are all too often inaccessible to refugees being unfamiliar with the UK job search culture, having little or no understanding of the English language or work experience. Those who already have skills or professions may have to retrain to become employable. Employer attitudes and lack of knowledge as well as the restrictions imposed on employing refugees can create additional problems (London Asylum Seekers Consortium, 2006, Section 3).

At a broader level, the London Development Agency's *Diversity Works for London* initiative is concerned with 'campaigning to engage private, public and voluntary sectors in promoting equality' while 'championing workforce and supplier diversity'; 'enabling businesses to ensure that all levels of their workforce reflect the diversity of London's population' and 'seeking out and promoting business good practice' (LDA, 2007). Migrants as such are not the specific focus of this programme, but it reflects a new more positive attitude toward migration in its emphasis on diversity as a potential economic asset at both business and city level, which employers need to find more effective ways of exploiting. This orientation is reflected elsewhere in London agencies, for example in the Mayor's Plan for Tourism in London, which sees cultural diversity as a key resource on which to draw in, promoting a more vibrant London tourist experience.

6.3 Public service needs

As mentioned above, some sets of migrants will make particular demands on public services. There will be a number of demands for higher expenditure (than would otherwise have been the case) related to basic services such as electoral registration, the need to re-register council tax payers, planning service costs and the turn-over of pupils in schools. Poorer migrants may increase demands on social housing, language services, council tax benefit costs and the need to inspect premises. In extreme cases, there may be costs associated with destitution and homelessness. Calculating the costs of these for individual boroughs or in total for London is very difficult (London Councils, 2007).

In the longer term, there will need to be significant growth in infrastructure and other public service provision, though much of this additional demand will result from London's projected rising population – caused by natural growth – rather than migration *per se*. The city's population is expected to grow to 8.1 million by 2016 and from then onwards towards 9 million.

As we have already seen, the impact of in-migration on local services depends on the type of migrant. English speaking visitors/migrants from richer countries can be expected to put relatively few demands on publicly provided services. Lower income and non-working groups, particularly refugees and asylum seekers who initially often have no rights to work, however, put additional pressure on local services.

In a related project (Travers et al., 2007) members of the team analysed the impact of household mobility, much of which will involve migrants (in London), on local services. This research showed clearly that on average migrants use services less often than native households. They are less likely to register with doctors – or indeed for other services including the electoral register/council tax registration; less likely to have children who will need school places; less likely to need social housing; less likely to use social services.

There is, however, a subset particularly among those who do not speak English and who have no family with whom to stay, who will use local services disproportionately at least for some period. The most important impacts identified by local authorities and other agencies were seen to be on:

- Translation services and associated costs of information – compared with earlier waves of in-migration to the UK which were predominantly from English speaking countries, new migrants are more likely to arrive from non-English speaking nations.

- Housing administration, management and enforcement costs – among both new migrants and those who have settled in London there are a significant proportion who require assistance with housing in the short-term, or on a longer term basis will require secure social housing. The pressures on housing services add additional costs.

- Services associated with asylum seekers and refugees – large numbers of such households do not go through the (centrally-funded) national system but rather go to family friends or support agencies – most of who live in London. A proportion of these households are likely to put additional pressure on, housing and social services.

- Homelessness provision and administration – some 65 thousand households in London are officially categorised as homeless. These are categorised by ethnicity and household type but not migration status – except to the extent that they come from A8 or A10 countries. The numbers of such households presenting as homeless is still very small, but is growing rapidly. To the extent that migration has increased demand for and pressure on the lower end of the housing market, it is clear that there are increased costs.

- Housing provision costs – Chapter 4 identifies the extent to which migration adds to the total demand for both social and total housing. Migration is directly associated with the majority of the additional housing required and an even larger proportion of the social housing. This is a figure which comes out of a large number of gross inflows and outflows – many of the identified demands would not disappear if international migration fell.

- Education – initially migrant costs here are lower than average, but over the next few decades the majority of children in London will be born to migrant mothers and it is clear that a younger population generated by in-migration increases the demands for education services.

- Social service costs – the most important source of additional costs is associated with children and therefore mainly with those migrants who remain for some time in the country. The costs for older people are still much lower than average for native Londoners – although this will change over the longer term.

- Registration costs – while a smaller proportion may actually register either for the electoral register or for council tax, there are higher costs associated with increased mobility, as well as with the information costs linked to more complex household backgrounds, and the need to follow up to increase coverage.

- Impacts on social cohesion – there is general recognition that migration, mobility and diversity can test the social cohesion of neighbourhoods, with associated costs to maintaining services and reducing social exclusion. On the other hand, there is also recognition among local authorities and agencies that incomers can help to improve services and bring increased opportunity to the area. In particular, there is a strong feeling that the increased diversity of incomers is helping to break down concentrations of particular groups and so to reduce inter-group tensions.

Concerns about cohesion can often be directly related back to issues about access to services and the priority often given to new entrants to the area because of need. In this context, rapid in-migration as well as rapid mobility can lead to a need for political management of public expectations and opinion.

Overall the most important pressures appear to relate to concerns about access to housing because of the enormous shortages of social housing, and particularly larger units, available across London. There are also growing concerns about the increasing importance of 'Buy-to-Let' housing in some areas – which may be let to concentrations of homeless households or to particular mobile groups.

While it is relatively easy to identify the sources of cost increases, it is not easy to say which are associated with migration as opposed to mobility, or indeed ethnicity. Moreover, there is surprisingly poor data on the direct costs to these services, in terms of additional staff, more investment and lower compliance with regulation. These are clearly significant, but by no means all of them are net increases, because we do not know what would be happening without the current experience of migration.

From the point of view of the competitiveness of London's economy the two main effects lie with (i) the quality of local services available to those either working in London or thinking of doing so and (ii) the bills that people have to pay to live in London through council tax. On the first the evidence is limited, with both pros and cons from additional migration. There is, however, clear general concern about the extent to which all services including in particular education, housing and transport are overstretched. This relates mainly to problems of under-investment in infrastructure widely defined and to the maintenance of that infrastructure – both of which are associated with the size of the capital and its population as well as the rate of change in that size rather than specifically to migration.

6.4 Resource allocation and population measurement

The 32 London boroughs, the City and the GLA operate within a highly centralised system of public finance. Despite London's huge economy and tax-take, the city itself has little access to its own resources: over 95% of all tax revenues in the UK are paid to the Exchequer. Council tax, the sole tax source determined beyond the centre (by local government), raises only 5% of all government income. In addition, council tax is, in effect, capped. The London boroughs, the City and the GLA thus have little direct access to the many billions of tax revenues raised from businesses and residents.

London authorities, in common with those elsewhere in England and, indeed, other public bodies, receive funding either through centrally-determined distribution formulae or as the result of bidding systems. Because London has a complex and rapidly-changing population of almost 8 million, the accuracy and fairness of formulae and bid-based allocation methods is significantly dependent upon the quality of data and other information available to official statistical agencies at the centre. Funding formulae allocate billions of pounds each year to London's boroughs, the GLA, schools, housing, the NHS, and for learning and skills.

The quality of data in relation to migration and the impact this may have for needs-based resource allocation systems is a matter of significant concern to London boroughs and the GLA. As a large proportion of all migrants to the UK locate themselves in London, any weaknesses in the measurement of migrant numbers will have a disproportionate impact on the grants allocated for local government, schools, the NHS and other purposes.

Where national allocation formulae accurately reflect the need to spend on particular services from authority to authority (and region to region), and if the numbers used within the formulae are both accurate and timely, the costs of particular spending needs will be properly measured and thus funded appropriately by the formula concerned. If the system worked effectively, national funding formulae would react to expenditure requirements within individual councils and move resources to meet them in broadly the way an authority might if it were deciding its own spending.

In circumstances where the formula and/or data were inaccurate or badly out-of-date, there will be a time-lag between the emergence of new spending needs and a borough's capacity to meet them. There is much evidence that the local government, schools and health formulae currently in use in England are based upon data whose accuracy is open to significant challenge.

There has been growing controversy about London boroughs' population totals since the first release of figures from the 2001 Census. A number of boroughs challenged the published data, leading to some substantial adjustments being made. More recently, efforts to improve the quality of data about the number of migrants arriving and staying in London have led to further criticisms of the boroughs' population totals. New figures have been produced that change the estimated number of migrants in each borough, and thus their overall populations. This issue is discussed earlier in this report. The ONS has accepted there are difficulties in measuring the London population as a result (at least in part) of migration (ONS, 2003).

The Formula Grant (part of the Revenue Support Grant (RSG)), which is used to take account of spending need variations and for differences in the tax base, is thus most unlikely to reflect the expenditure requirements of the rapidly-changing migrant population within individual boroughs or even at the GLA level. The formula currently takes account of factors such as 'children in black ethnic groups' and 'low achieving ethnic groups'. These indicators, which do reflect the needs of some sections of the population, do not, of course, pick up the particular needs of migrants.

Indeed, the existing Formula Grant does not explicitly attempt to measure the costs of new migrants or the transience traditionally associated with mobile big-city populations. Research conducted for London Councils in early 2007 identified the difficulty of even measuring some of the transience costs associated with migration and mobility. No systematic evidence could be found about how new migrants impact on the boroughs' costs. It was only possible to make a number of broad estimates of some of these costs (Travers et al., 2007, Section 3).

Changes implemented in recent years to the Formula Grant system will have further limited the possibility that the rapidly-changing spending needs inevitably generated by relatively high levels of in-migration could be reflected in the allocation of resources. As a result of turbulence caused by regular changes to the grant, the government has largely frozen the formula actually used. In addition to this change, so-called 'damping' mechanisms have been put in place to restrict the changes in grant received by an individual authority from one year to the next. Schools' funding has been ring-fenced and is now allocated using a formula that produces a broadly 'flat' increase in funding from year to year. Changes in pupil numbers, but not social needs, are fully reflected in allocations. As a result of the changes outlined above, there is far less scope than in the past for newly-generated spending needs to be reflected in funding allocations.

The overall impact of the RSG arrangements as they impact on authorities with a high migrant population is likely to fall well short of a full reflection of the higher allocation of resources needed to meet the needs of the heavy flow of migrants into the city. This will also be true in authorities such as Slough and Manchester, and even more rural ones in parts of Lincolnshire, which also have significant numbers of new migrants.

There is another important issue relating to the operation of the RSG. The near-full equalisation arrangements built into the RSG system mean that London authorities do not receive additional tax yield as a result of any growth in their council tax or non-domestic rate yield that comes from the economic growth that may result from migration. The grant system operates in such a way as to equalise away any increase in an individual borough's tax-base.

As a result of this attribute of the grant arrangements, London faces costs as a result of relatively high and sustained levels of international in-migration, yet its authorities cannot derive the tax benefit that flows from this growth. London must cope with public service costs while the Exchequer receives tax-yield benefits via national taxation. Such a split between costs and benefits is, given the incapacity of the 'needs' part of the grant system to react to higher spending requirements; a recipe for social cohesion problems in areas with high additional costs but no way of deriving benefits from higher tax yields.

The position in London is radically different from in a city such as New York where the local authorities can capture much of the tax growth that occurs as the population and economic activity grows. In PLANYC, published earlier in 2007, Mayor Bloomberg projects a growth in tax yield of up to $13bn p.a. in the years up to 2030 which he plans to use to provide a flow of revenue to fund infrastructure improvements (Mayor of New York, 2007, p6).

Under the current local government funding arrangements in London, neither the Mayor nor the boroughs have any such capacity. There is a small and limited potential to capture part of any above-trend increases in the non-domestic rate base through the so-called Local Authority Business Growth Incentives scheme. The recently-published Lyons Inquiry report into local government made proposals to increase the tax incentives given to councils (Lyons, 2007, Chapter 9). There is no immediate sign, however, that the government will allow London authorities to keep a larger share of their growing tax-base.

Consequently, for the foreseeable future, any public service costs associated with the disproportionate number of relatively poor migrants who locate in London will continue to have to be met by the boroughs, the GLA and other public service providers. Only if the formulae and other grant-allocation mechanisms can immediately respond to changes in population numbers and composition will London be in a position to meet the needs of its new residents (and, indeed, those who already live in the city). There could be significant implications for social cohesion if London has to continue to meet all the public service costs of migration while the Exchequer enjoys all the tax gain benefits.

7 Conclusions

7.1 The new migration into London

The 'new' large scale migration into the UK on which this report focuses took off in the late 1980s but has really burgeoned in the last 10 years. London has been a major focus for this recent influx, which has brought approaching 200 thousand people per year into the city, with net gains of about half that size. Both quantitatively and qualitatively this differs from what had been experienced in any previous period. London has doubled the proportion of foreign-born in its population, and now rivals New York and Toronto for the diversity of its population.

The migrants themselves, though typically young, are otherwise very diverse, in terms of their origins, skills, and the circumstances in which they came to London. One important general distinction in relation to their potential impacts on London's economy is between those coming from richer countries and those from poorer countries. Both are relatively well qualified but most of those from richer countries are liable to leave the country at some point – often quite soon; those from poorer countries are more likely to remain longer, thus contributing to long-term population growth both directly and through their UK-born children.

In popular discourse there have been tendencies to equate migrants in general with the particular phenomenon of asylum-seeking; to confuse in-migrants with ethnic or religious minority populations; and to assume that all those entering the country except on private visits are 'immigrants' who will remain more or less permanently. An important aim of this report has been to cut through such confusions and identify the different ways in which groups of migrants engage with the London economy, particularly in relation to housing and labour markets, and local service provision.

7.2 What we have learned

Education, employment and productivity

Migrants from all types of country tend to be better qualified than the average of the country they leave and indeed more qualified than the average Londoner. A large proportion, especially from poorer countries, initially only achieve jobs with a status/income significantly below that of the equivalently educated UK population. Over time this differential is reduced until migrants and indigenous workers generally obtain similar incomes for similar education and experience.

Migrants are employed in all sectors of the London economy, but those from poorer countries tend to be employed disproportionately in lower paid and less stable sectors including hotels/catering and construction. Even when the level of education is taken into account, migrants are on average less likely to be in jobs. Recent A8 migrants are an exception, with notably high employment rates.

Since 2000, despite continuing output growth in London, high rates of immigration in London have not been matched by substantial employment growth. There is evidence that new in-migrants increase the elasticity of supply of workers in lower paid occupations to the point where wage levels there have been seriously eroded as compared to the rest of the UK and the cost of living. This has a positive effect on the competitiveness of the London economy but there are also costs for existing workers in the industry who are worse paid and have less opportunity to move on to better paid jobs.

Migration and the housing market

Net in-migration is a major source of the projected increase in households that need to be accommodated in London. New migrants, however, are less likely to form separate households than the indigenous population with similar attributes. They are also more likely to be in the private rented sector. On both counts new migrants on average consume less housing per person.

The lower incomes that newer migrants earn also mean that they consume less housing. As incomes increase and households become more stable, demand for housing also increases. Many migrants from richer countries will return home, however, and be replaced by others with lower demands. Migrants from poorer countries are usually in lower paid jobs. They are therefore, more likely to remain in private rental or to enter the social rented sector. Entry into the social sector is a function of family circumstances and income rather than of ethnicity or migrant status.

Private sector rents have risen quite slowly over the last few years. This suggests that the elasticity of supply has been enough to take up the increased demands from migrants. At the top end of the market it is clear that foreign (not primarily migrant) investment demand is generating additional pressure on house prices.

Overall, the impact of migration on the housing market depends significantly on their incomes and on how rapidly migrants turnover as well as on how many other households are displaced to other parts of the country. In the main migrants increase the efficient use of London's housing stock. They are also, however, a major factor determining London's requirements for additional housing, and because many migrants are poorly paid they also significantly increase the need for social housing.

Migrants, public finance and local services

Migrants can either increase or reduce public expenditure, depending on their needs. Single and more affluent immigrants may use few services, while poorer ones with families may require help from local authorities, the NHS and other providers. In the early years, many migrants tend to use few services compared to the indigenous population, though those that become more established, for example if they have a family, may come to increase their service needs.

A minority of migrant households, particularly those asylum seekers and refugees that are enabled to remain in London, may make significant demands on local public services, notably through a need for housing, language assistance, health services and social security. There is evidence of a developing conflict between traditional needs-based service allocations and a perception that in-migrants are moving ahead of established residents in the queue for services. This conflict has implications for social cohesion, including the possibility that voters may turn to extremist political parties.

A key difference between the public service impacts of in-migrants to London and those to American cities such as New York is that the system of public finance in Britain means local authorities do not benefit from immigration through higher tax yields. Costs associated with in-migration are concentrated at the local level, while the Exchequer enjoys any additional tax payments resulting from increased economic activity.

There is also a policy mismatch between central government's control of immigration and the local need for policies to deliver integration and 'social cohesion'. National politicians oversee the UK's border controls, yet local councillors face most of the demands for management of the issues thrown up by in-migration.

7.3 What we still need to know

The current data on migrant flows are surprisingly limited and of varying timeliness and accuracy. They do not allow detailed analysis of most of the questions that commentators wish to examine. The definition of 'migrant' on which most numbers are based, mixes together flows of the UK-born and foreign-born, and takes as its criterion whether people believe on entry that that they will stay in the destination country for at least a year. This is not most people's understanding of the term migrant, nor does it have any particular meaning in relation to housing or labour market processes.

In order for policy-makers, and the electorate, to respond intelligently to the opportunities and challenges presented by the likelihood of continuing large scale migration into London, we need to know much more about a number of things. Basic among these are the actual mobility patterns of migrants (within the country as well as across national borders) and how these vary between different groups. We also need a stronger base of longitudinal data with which to understand the processes of adaptation in migrants' housing and labour market careers, and in their human capital and productivity.

A key point is that these migrants are diverse and cannot be seen simply in relation to one or a few stereotypes of their position in labour or housing markets or in relation to the city more generally. One group about whose situation and impact some general things could be said are those new entrants concentrated in the lower end of the labour market. There are still some very important questions to be addressed about this minority particularly in relation to their crowding into the bottom rung of occupations and the rather low employment rates of many. We need to understand much more about how their potential might be better used and how the perverse distributional effects of this crowding can be mitigated – whether by stronger promotion of a London Minimum Wage (as identified by the Mayor) or by easing access of the new migrants to the kinds of jobs that their formal qualifications should support, or by some other initiative.

Beyond this group, however, it requires substantially more effort to understand how the integration of the majority of migrants into a wide range of roles within the London economy, affects the full range of labour and housing market outcomes, the productivity of London businesses and the stability of the economy. Some of this can probably only be pursued through careful econometric analysis, both at the aggregate level and with micro-data. For many questions, the key will be get beyond the stereotype of the 'migrant', with case studies focused on particular groups and niches.

7.4 Two perspectives on the recent migration to London

In thinking about the net contribution of the new migrants to the London economy, it is useful to distinguish two quite different perspectives on how this migration could be expected to contribute to the economy. The first is in terms of its impact on the size of the city – what might be called the growth perspective, while the second involves its effect on the city's population mix – the mobility perspective.

The 'growth perspective' appears the simpler, being just a question of numbers, though the potential benefits it suggests involve a combination of two ideas. First, that there are dynamic economies of scale to be exploited with a continuously growing labour force; and secondly that a more elastic supply of labour permits continuing growth without risking a wage inflation that might undermine competitiveness.

The obvious downsides to migration according to this perspective are that competition for limited sets of opportunities or resources may impose costs on existing residents and/or generate price inflation, and that a more elastic supply of labour may depress wages, at least for those natives in most direct competition with migrants. The existing literature, both internationally and in relation to the UK as a whole suggests that any effects in relation to earnings or employment are likely to be small. In the London case at least it does, however, seem that there are rather strong downward pressures on earnings of those at the bottom end of the labour market. Some will see this result as a bad thing, others as a positive one.

In relation to the housing market and the demand for a constrained supply of space within the city, the issues are different. There appear, however, to be effects on inflation and the need for social housing to set against potential gains from growth, of which there is little clear evidence.

The 'mobility perspective', on the other hand, sees London's competitive position as resting essentially on its ability to continue to attract (and train) the best and the brightest talent, to secure creativity through deploying the broadest sets of skills and cultural backgrounds, to sustain its global economic role through securing people with high level international experience and links, and to be able to respond rapidly and flexibly to shifting market opportunities and pressures.

Given what we know about the comparative performance of cities, and the subjective responses of those most closely involved, this offers a very credible perspective on the contribution that high rates of in- and out-migration could make to London's future dynamism, and the quality of life it could offer its residents. It is the key argument that city leaders and others adduce in favour of immigration, and there is no doubt that the vibrancy and sense of excitement offered by the leading global cities of today rests, in part, on the existence of a large and changing migrant population. Much more work, however, is clearly required to establish exactly how and to what degree diversity and mobility, in their various forms, actually contribute to innovation, competitiveness and the quality of life in London; and on the other side of the picture, what the costs are, who bears them and how these should be mitigated. These are complex issues, on which existing research barely scratches the surface. They are extremely important, since it is in these terms, rather than in relation to quantitative growth within a physically constrained city, that the net benefits of international migration and mobility are likely to be found.

Appendices

Appendix 1: Official statistics

In UK official statistics there are currently two basic sources of data on migration, feeding into the ONS' Total International Migration (TIM) series[32]:

- The International Passenger Survey (IPS), a voluntary questionnaire covering a sample of all those passing through designated international ports and airports – other than asylum seekers (respondents include some 45 thousand foreign arrivals and 100 thousand or so UK departures); and

- Home Office administrative records, covering asylum seekers plus those who formally change their residence status subsequent to arrival in the country.

The IPS distinguishes migrants (in and out) from visitors on the basis of their intended duration of stay in the destination country, applying the internationally agreed (UN) definition of a long-term migrant, as someone staying in a country for a period of a year or more. (This includes around 5% of the foreign arrivals surveyed by the IPS but only 1% of the UK departures). Visitor switchers are those who subsequently extend their period of stay beyond a year, while (conversely) migrant switchers are those who originally intended to stay for a year, but actually leave before then. In terms of their relationship to the housing and labour markets, the significance of this distinction is obviously not clear-cut.

Visitors are by no means all tourists, students or family friends housed in hotels, halls of residence or spare beds, but often accommodated within the mainstream housing market, as tenants in their own right (if not as owners). Similarly, by no means all visitors are economically inactive, since this category includes people on short-term attachments or working holidays, seasonal migrant workers, students working part-time and other types of transient worker. On the other side, others staying for over a year (but not permanently) may very well live in student halls/spare rooms and suspend involvement in the labour market for the period of their stay. The UN now distinguishes a category of 'short-term migrant' staying in a country for between 3 and 12 months for purposes other than recreation, business, visits to friends, treatment or pilgrimage. There are no published UK estimates at present for the size of this group, but IPS data suggest that the number of short-term migrants (on this UN definition) coming into the country is about 4 times that of the longer term migrants appearing in the current statistics, while the number of short-term UK out-migrants is about 5 times the currently recorded number of (long-term) out-migrants.

Application of these categories to counting of the different groups is complicated by their legal rights. For example, EEA citizens do not require work permits, which can affect declared estimates of duration of stay – though there are transitional arrangements for citizens of the 10 EU accession

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[32] Going back to 1991, before which continuous data are effectively limited to figures from the IPS.

(or A10) countries. Irish flows are also treated separately because these are not effectively covered by the IPS (or passport control), and are covered primarily from the Irish National Household Survey. The case of asylum seekers is particularly complicated, since some family members may be covered by multiple applications and outflows of failed asylum seekers (other than by removal) may or may not be captured by the IPS[33]. For all types of migrant, elements of estimation are required to supplement and interpret the basic sources, but these are less readily applied to those leaving the UK (whether primary emigrants or return migrants) who are not directly covered by any UK surveys other than the IPS.

The latest available TIM estimates are for 2005, when the total international inflow into the UK as a whole is estimated at 565 thousand, of whom 501 thousand come from the IPS count and Irish inflows, while 27 thousand were asylum seekers (much below the peak levels of 1999-2002) and another 38 thousand represented the net effect of switches between visitor and migrant status. The corresponding outflow was estimated at 380 thousand, of which 343 thousand came from the IPS/Irish flow figures, with 15 thousand returning asylum seekers and a net shift of 21 thousand from visitor to migrant status. The net inflow (on a TIM basis) is estimated by the ONS at just 185 thousand. On a country of birth basis, the IPS data suggests a net inflow in 2005 of some 258 thousand people who were born abroad, alongside a net outflow of some 90 thousand of the UK-born.

A range of supplementary sources allow some cross-checking and/or provide contextual information on the flows indicated by these basic sources – though none actually distinguish ‘migrants’ in the same way. In particular, for Population Census years, this source provides what should be complete data on all of those ‘usual residents’ of the UK who had been living outside the country 12 months previously. The LFS offers a comparable array of data covering only a sample of the population (and excluding those in non-private establishments or who have arrived in the last 6 months), but allowing the stock of earlier migrants (identified by year of arrival) to be distinguished. In addition, there are data on new registrations with NHS GPs (Flag 4), and issues of new National Insurance numbers (NINOs), while counts are also available on a local basis for certificates issued to employed A8 migrants/visitors under the WRS[34].

Official immigration series do not currently attempt to estimate the scale of illegal migration into the UK, but it is believed that the great majority of such migrants are likely to be covered by statistical censuses and surveys (including the LFS). On this basis, an official review of potential methods of estimating the size of the illegal/unauthorised immigrant population (Pinkerton et al., 2004) led to adoption of a version of the US’s Residual Method – whereby

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[33] In the light of such issues, the methodology for estimating Total International Migration (TIM) was substantially revised from 2003, though data on the new basis are available only for years from 1991(ONS, 2003).

[34] The WRS data unlike the other sources counts jobs (one certificate per job) taken by nationals of A8 countries (the eight EU accession countries from central/eastern Europe), with exemptions for those who have already worked continuously for 12 months in the UK (as well as for the self-employed). It is not clear, therefore how it should relate to either the stock or flow of A8 workers in the UK

estimates of the total foreign-born population based on the Census (with some allowance for the potential margin of undercounting of illegals) are compared with independent estimates of the legally resident foreign-born population – to generate estimates for 2001 of the stock of illegal migrants in the population (Woodbridge, 2005). On ONS advice, these assumed that the Census missed between 0 and 20% of the unauthorised foreign-born population, leading to an estimate that this group would have accounted in 2001 for between 310 and 570 thousand people, representing between 9 and 15% of the total foreign-born population in the UK[35]. This is substantially less than the estimated numbers of temporary and quasi-legal immigrants, which are put in the range 716 to 772 thousand.

MigrationWatch UK, the leading independent critics of immigration policy, make the point that the UK-born children of illegal migrants are excluded from these estimates. More importantly, they suggest that since 2001 the population of illegal migrants is likely to have grown by some 200 thousand because of the large number of failed asylum seekers, rather few of whom appear to have left the country (MWUK, 2005). What is at issue here, is, however, primarily the legal status of recent immigrants to the country rather than their numbers[36]. Overall, MigrationWatch accept that:

> 'the (2001) Census should provide an accurate snapshot of immigration to the UK. The ONS international migration methodology, having been independently compared against the census output, should also be quite robust' (MWUK, 2007, para. 20).

Translating estimates of migrant flows to a regional or local basis presents particular difficulties, since destinations within the UK reported to the IPS may well turn out not to be the final, permanent ones where in-migrants settle. A particular case is that of asylum seekers requiring public support with housing, whose recorded location is that to which (since 2000) they have been 'dispersed' – away from areas of excess housing demand – though an uncertain proportion of these are believed to filter back toward London. A much more general issue for London follows from the fact that for over 80% of in-migrants the point of arrival in the UK is within the London metropolitan region. The recording of a temporary address somewhere within London (often in central areas) for migrants who rapidly settle elsewhere seems the most likely explanation for a large discrepancy between the IPS and the (post-move) Census or LFS in the share of UK immigrants attributed to London.

In 2000-1, for which all sources are available, the IPS estimated London's share at 35%, as against 30% in both the Census and the LFS (Rendall et al, 2003). In subsequent years the LFS has continued to record a significantly lower London share than the IPS. It now seems to be accepted by official statisticians that the IPS (and thus the TIMs series also), significantly over-estimated international migration into London (both gross and net), leading to inflated estimates of

[35] The equivalent US estimate (using the same methodology, but after several amnesties for illegals to regularise their position) was around 9 million (Pinkerton et al., 2004), representing about one quarter of the foreign-born population.

[36] MWUK (2005) argue that the ONS is over-optimistic in its assumption that 10% of this group have left the country, which would have some small effect on the TIM estimates.

population in several London boroughs which then had to be revised down when 2001 Census results became available. A central/local working party (Central Local Government Information Partnership Sub-Group (CLIP), 2006) recommended revisions for each of the years 1999-2002, reducing London's share of the gross inflow by between 3 and 5% (i.e. by 14-25 thousand p.a.), and indicative estimates have now been presented of forthcoming revisions to post-Census population estimates 2002-5 ONS (2007b) which involve reductions of 10-22 thousand p.a. in the estimated inflow into Greater London (principally affecting Westminster, Kensington and Chelsea).

In this report, we lean heavily on the LFS as a source of data on the impacts of international migration in London. A major reason is that concerns with sampling error in the IPS have inhibited publication of any sub-national information from this source about the origins, age, occupations and qualifications of migrants. The sample of one-year migrants in the LFS is actually rather smaller (though increased with its consolidation in the new APS. Its particular strength, however, is that it also distinguishes those who have moved into the country in each preceding year, thus both extending the numbers of migrants for whom substantial information is available, in relation specifically to their post-migration characteristics – and also some indirect information about likely differences between the migrants who move away again, and those who stay in the UK.

Appendix 2: Definitions

Migrants: Those moving to another country for a stay of one year or over. For counts at the time of entry this relates to the stated intention of the mover, which may or may not prove accurate. On a proposed United Nations (UN) definition, this group would be labelled 'long-term migrants'. There are no operational measures of permanent migrants, i.e. people moving to a new country and remaining there for the rest of their lives. Migrants into a country may include people born there (and/or with its nationality) if they have lived elsewhere for a year or more.

Operational definitions for UK migration

International Passenger Survey (IPS) estimates are based on samples of travellers (other than asylum seekers) stating their intention to stay a year or more;

Total International Migration (TIM) adds to this estimates of new asylum-seekers, together with travellers to/from Ireland and corrects retrospectively for switches between migrant and visitor status;

Post-migration surveys, including the Census, Labour Force Survey (LFS) and Annual Population Survey (APS) record numbers present among a population excluding most types of visitor, who entered the country during a specific prior period (one year for the Census). The LFS/APS estimates that we use include only foreign-born migrants into the UK.

Visitors: Those moving to another country for a period of less than one year. A proposed UN definition would distinguish among these between those who stay for less than 3 moths and/or come for purposes of recreation, business, visits to friends, treatment or pilgrimage – representing a more restricted category of 'visitor' – and all others staying for less than a year who would be classed as 'short-term migrants'. Such short-term migrants may be functionally indistinguishable from those staying over 12 months and thus being counted as migrants.

Asylum seekers: Migrants claiming a right to enter the country under the UN convention protecting refugees with a well-founded fear of persecution in their home country, and whose case to remain has yet to be determined.

Refugees: Formally those who have succeeded in their application for asylum, but more generally all those arriving as asylum seekers who remain in the country, whether with recognition as refugees, given special leave to remain, still awaiting determination of their cases, or notwithstanding the failure of their cases.

Foreign born: All those born outside the UK, irrespective of when they arrived in the country. If visitors are effectively excluded, these represent lifetime migrants, some of whom will have been in the UK for decades. This group excludes children of foreign-born parents, born in the UK subsequent to their parent's migration.

Mobile households: Those that have moved in the last year. This category includes those who have moved within and between areas, as well as those who have moved from outside the UK. International migrants who subsequently move from one area to another within the country will not then be identified as international migrants.

Ethnic minorities: People identified as (or identifying themselves as) members of a particular ethnic group, other than 'white British', irrespective of their own place of birth or citizenship. A majority of the members of such minorities in the UK are not themselves migrants, though most will be 2nd or 3rd generation descendants of migrants. Most (foreign-born) migrants into the UK will be members of ethnic minorities in the broad sense (i.e. not white British by descent), but a large proportion of recent migrants will not be members of non-white ethnic minorities.

Abbreviations

A8	The 8 eastern and central European accession countries of the EU25, i.e. Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia
A10	the 10 new accession countries of the EU25 (A8 plus Malta and Cyprus)
APS	Annual Population Survey
EEA	European Economic Area (the EU plus Iceland, Lichtenstein and Norway – plus, for migration purposes only, Switzerland)
EU15	The 15 nations of the EU prior to the 2004 expansion
EU25	The 25 current member nations of the EU
IPS	International Passenger Survey
LFS	Labour Force Survey
NES	New Earnings Survey
NINOs	National Insurance Number registrations for overseas nationals
TIM	Total International Migration (the current official migration series, including asylum seekers, and adjusted for status switchers)
WRS	Worker Registration Scheme (applied to A8 migrants)

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