



The UK and the European Union Insights from ICAEW – Employment



The issues at the heart of the debate

This paper is one of a series produced in advance of the EU Referendum on 23 June 2016 looking at the nature of the relationship between the UK and the EU for employment.

What the Remain Campaign says

If the UK left the EU, Britons may have to apply for visas to enter EU countries and those already living there may face integration rules before gaining long-term residency rights. Additionally, many public services and private sector companies depend on labour coming from EU Member States.

What the Leave Campaign says

Britain would gain full control of its own borders, with migration in and out of the country regulated solely by British law. That means it would be possible to impose the same entry restrictions on EU citizens as those currently faced by people from outside the EU.

On 23 June, the British people will have their opportunity to decide whether to stay in or leave the European Union (EU). ICAEW would like to see a wide-ranging evidence-based debate over the coming months so that our members, as well as the wider electorate, can make an informed choice when casting their votes. To achieve this, ICAEW has produced a series of reports focusing on the UK's relationship with the EU in three areas: trade, employment and financial services.

To analyse how a change in the UK's relationship with the EU might impact employment in the UK, our report looks at several indicators including: fiscal contributions of EU migrants; emigration from the UK; levels of non-UK EU nationals in employment; and the impact of non-UK EU nationals on entrepreneurship.

The impact of a UK exit of the EU on the labour market would depend, to a large extent, on post-UK exit negotiations. If the UK voted to leave the EU, there would be a two-year period during which the current rules governing movement of labour would not be altered. Further analysis should focus on what a tailored agreement between Britain and the EU would look like and how much it might impact the status quo.

Impact on employment and self-employment

The free movement of labour is one of the core principles of the EU's internal market and more than 14m EU citizens reside in another member state.¹ This represents nearly 3% of the total EU population. The European Commission reasons that one of the greatest benefits behind this freedom is that it provides employers with a wider candidate pool for hiring and problems of skill shortages and high unemployment can both be tackled more effectively.

The debate on immigration to the UK has proven one of the most heated in the lead up to the referendum on EU membership. The Labour Force Survey suggests that there over 3.1m people living in the UK who were born in other EU states and, in 2013, some 205,000 people are estimated to have migrated to the UK from the EU. This compares with an outflow of 105,000 people moving from the UK to another member state, continuing a trend of net inward migration into the UK from elsewhere in the EU. In fact, the last time that outward migration to the EU exceeded inflows from other member states was in 2003 according to the migration estimates from the Office for National Statistics (ONS).

Proponents of free movement see it as one of the most beneficial and defining aspects of EU citizenship and point to its ability to address skills shortages and reduce unemployment. However, those opposed to the free movement of labour point out that the EU's laws allow individuals to relocate to any member state even without the prospect of employment. This may place a greater burden on those countries that, like the UK, attract a high number of non-UK EU nationals. Furthermore, not having control over the nation's immigration policy makes it more challenging to accurately predict inflows of EU citizens from outside of the UK and can put greater pressure on the provision of public services such as schools and healthcare institutions.

In this section we examine the presence of non-UK EU nationals in the British labour market and the role these workers play in supporting the UK economy.

Non-UK EU nationals in employment

In the second quarter of 2015 there were just under 2.0m non-UK EU nationals working in the UK. This represents 6.4% of the total labour force.² This compares with around 1.2m workers from non-EU countries during the same period, or 3.9% of the labour force.

The prevalence of non-UK EU nationals in the British labour market has increased greatly over the past two decades. This is shown in Figure 1. A part of the increase can be explained by the fact that as the EU expanded to include new members, more and more people already in the UK were counted as non-UK EU nationals. However, in the first quarter of 2004, around 88% (564,000) of non-UK EU nationals were EU14³ nationals. As such, a considerable share of this rise has come from the growth in the number of people from the 2004 and 2007 accession states working in the UK. The total number of workers in the UK from accession countries has increased significantly, from 19,000 at the start of 1997 to 1.1m in Q2 2015. In contrast, the number of EU14 nationals employed in the UK has increased more steadily, from 418,000 at the start of 1997 to 838,000 in Q2 2015. This is slower than the increase seen in the number of non-EU employees in the UK, which rose from 491,000 in Q1 1997 to 1.2m in Q2 2015.

¹ http://europa.eu/rapid/press-release_MEMO-14-9_en.htm

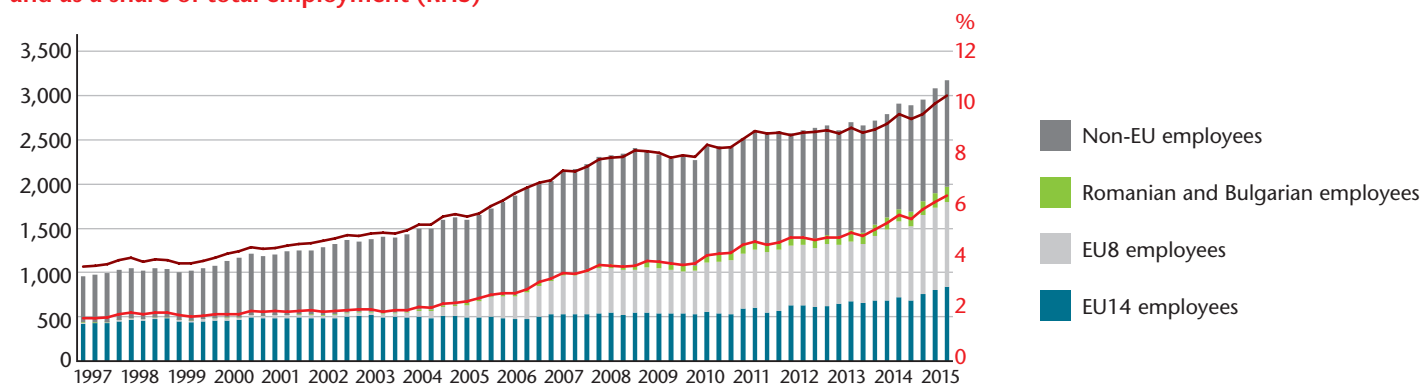
² Based on the Q2 2015 Labour Force Survey

³ EU14 represents the old member states (before 2004) excluding the UK - Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden



Figure 1

Number of non-EU and EU foreign nationals employed in the UK in 000s (LHS) and as a share of total employment (RHS)



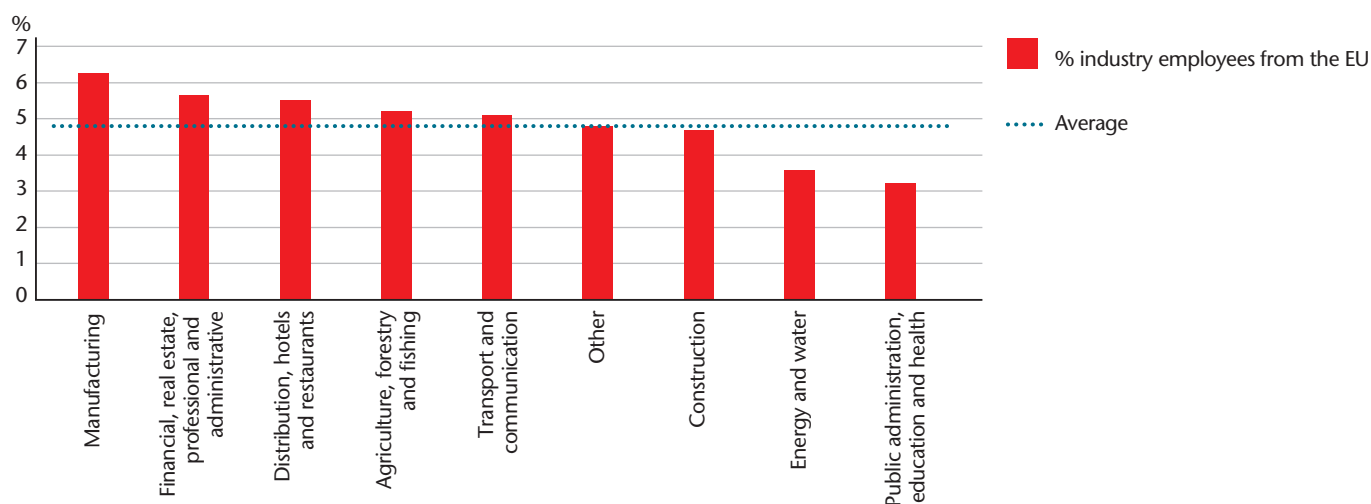
Source: Office for National Statistics, Cebr analysis

As shown in Figure 2, looking at the share of EU employees in England and Wales (which represents just under 90% of the UK workforce) by industry reveals that manufacturing and financial and professional services depend on EU workers the most. Based on 2011 census data, more than 149,000 manufacturing workers – 6.2% of the total workforce in the sector – were born in EU member states other than the UK. This compares with a UK-wide average of 4.8% of the total workforce in 2011 being born in other EU member states.

The hospitality, agriculture, and transport sectors also employ a higher than average share of non-UK EU born workers. Among public administration, education and health workers, only 3.2% are non-UK EU nationals, suggesting a lower dependence on EU immigration. However, due to the larger size of this sector this still means that some 243,000 public administration, education, and health workers were born in other EU countries.

Figure 2

Non-UK nationals born in EU countries as a share of total workforce in England and Wales, by industry (2011)



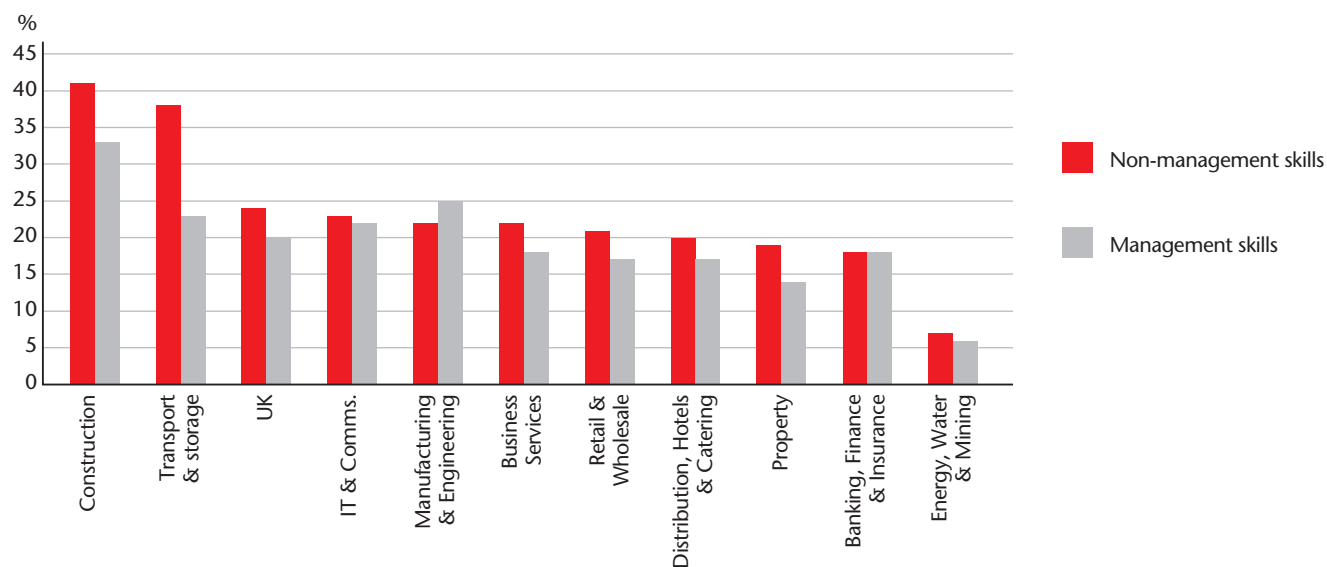
Source: 2011 Census, Cebr analysis



The high share of workers from other EU nation states working within the manufacturing sector may represent a natural response to the needs of businesses to recruit workers with skills that are not readily available in the domestic labour market. Despite output in the manufacturing sector contracting through the first three quarters of 2015, the share of firms in the sector reporting that the availability of skills has become a greater challenge over the past 12 months remains relatively high at over 20% for both management and non-management skills. Data from the *ICAEW/Grant Thornton Business Confidence Monitor* have also pointed to considerable skills issues within the construction industry in recent years – 41% of businesses in the sector reported in Q4 2015 that the availability of non-management skills had become a greater challenge over the past year. Given the combination of skills shortages and growing demand for labour, it is likely that the share of non-UK EU nationals in the construction industry has grown since 2011. Similarly, the transport and storage industry, a sector that already had a relatively high reliance on labour from the EU, has recently shown signs of a growing shortage of relevant skills in the domestic labour market.

Figure 3

Share of companies for whom the availability of skills has become a greater challenge over the past 12 months (Q4 2015)



Source: ICAEW/Grant Thornton UK Business Confidence Monitor

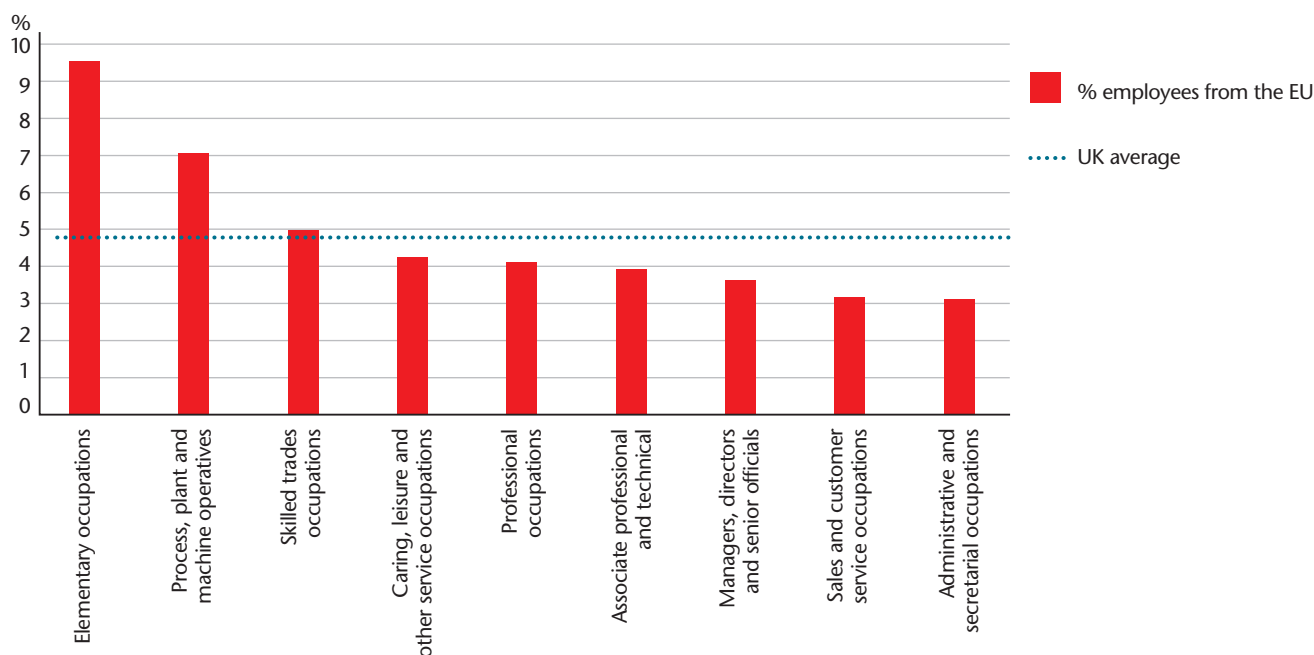
Looking at the occupations held by employees from other EU countries working in the UK, it is clear that labour from the EU forms a significant share of the workforce in elementary occupations, which consist of simple and routine tasks. However, skilled trade occupations and machine operative roles have an above average share of workers from other EU countries.

Despite the nature of these roles, the educational background shows that workers from other EU countries tend to have higher-level qualifications than the typical UK national. Only 14.8% of people born in other EU countries and residing in the UK have no qualifications. The comparable figure for those born in the UK is 23.4%. At the other end of the scale, 31.2% of people born in other EU countries and residing in the UK have Level 4 qualifications (representative of an undergraduate degree) and above. For UK-born residents the comparable share is 25.9%. Clearly, despite the fact that there are no immigration controls between EU member states, the majority of people coming into the UK from other EU nations are qualified.



Figure 4

Non-UK nationals born in EU countries as a share of total workforce in England and Wales, by occupation (2011)



Source: 2011 Census, Cebr analysis

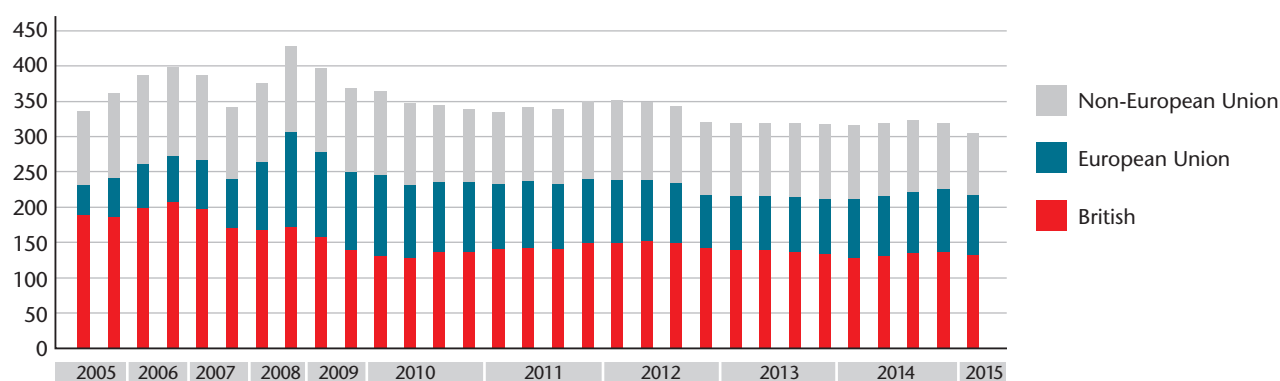
Emigration from the UK

UK citizens also have the right to emigrate to the EU. Many choose to exercise this right and indeed many others emigrate to destinations around the world. However, these numbers have been falling in recent years and the latest figure is just above 300,000 compared to 427,000 in 2008, which was the highest emigration figure on record. Since 1993, inbound migration has exceeded outbound migration in every year. This has made the net migration impact on the UK population positive since that date.

Numbers emigrating from the UK can be split into UK citizens and others. Many of the 'others' emigrating are returning to home countries, either in the EU or further afield. The fall observed in recent years has affected all three groups, but compared to 2008 the greatest percentage fall has been in the EU category, for which emigration is now 36% lower. In terms of motivation, the main reason people give for emigration is classified as 'definite job', meaning they have secured employment in a foreign country.



Figure 5
Emigration from the UK, by emigrants' country of citizenship

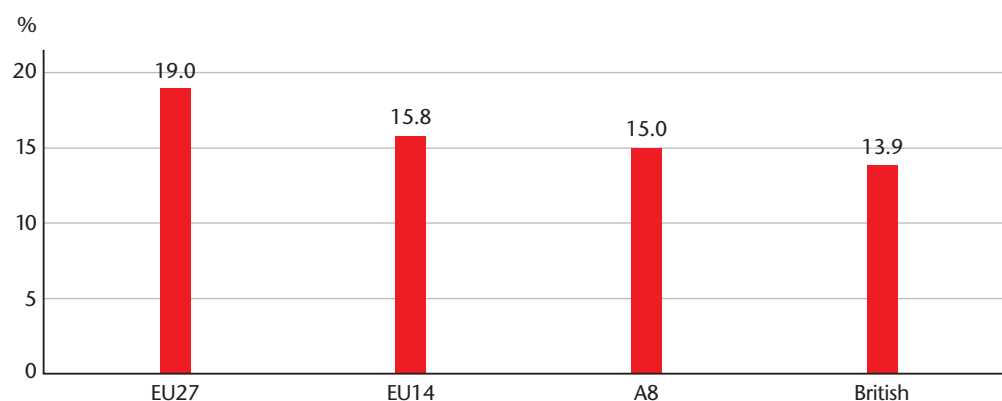


Source: Office for National Statistics, Cebr analysis

Impact of non-UK EU nationals on entrepreneurship

One feature of the non-UK EU nationals residing in the UK is that self-employment is more prevalent among this group compared with British citizens. Still, as shown in Figure 6, only around 19% of non-UK EU nationals employed in the UK are classed as self-employed (using the ONS definition). While higher than the comparable rate among British citizens, 13.9%, the majority of working migrants are in traditional employment. While nearly 60% of Bulgarian and Romanian immigrants to the UK are self-employed, it is clear that, in contrast to popular belief, in terms of other new members, the nationality of those in self-employment is not strictly limited to states that have more recently joined the EU, as is often assumed. In fact, the share of the self-employed among nationals of the EU14, which reflects the older EU member states, is slightly above the corresponding share for the A8, a group of more recent joiners.

Figure 6
Share of those employed who are in self-employment, by nationality (Q1–Q3 2013)⁴



Source: Office for National Statistics, Migration Observatory

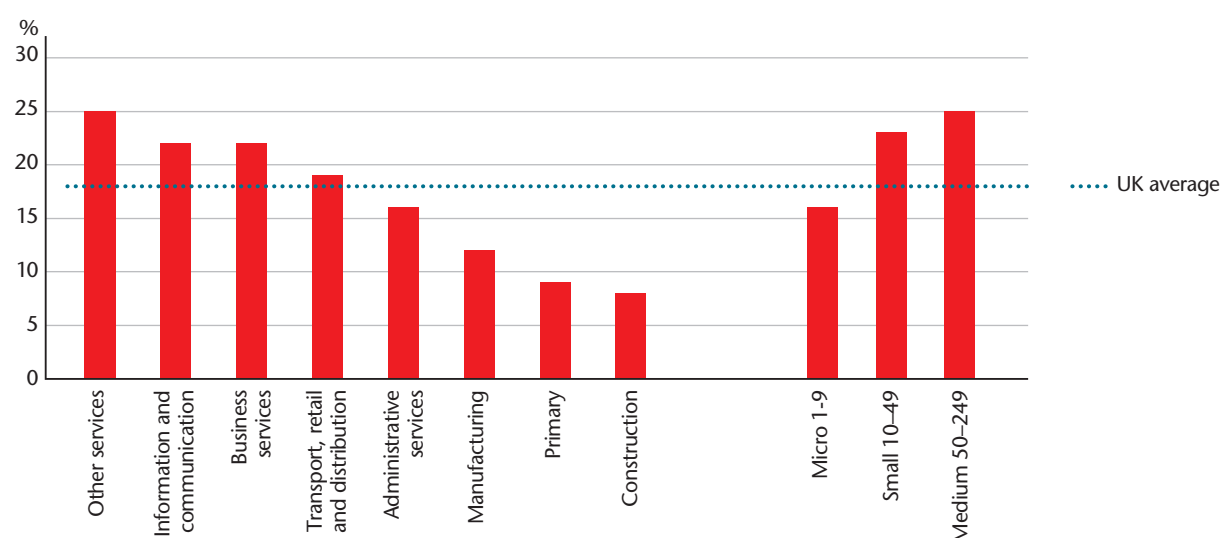
⁴ EU28 – All member states apart from the UK. A8 – Newer members of the EU excluding Romania and Bulgaria (Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovakia, and Hungary)



The higher levels of self-employment do not necessarily reflect informal employment and, in part, reflects some entrepreneurship. Figure 7 shows that just fewer than 230,000 (18%) small and medium-sized businesses in the UK had owners or directors born outside of the UK. The highest concentration of these businesses was found in the service sector, with over a fifth of SMEs in industries such as business services and information and communication having owners or directors born outside the UK.

Figure 7

Share of SMEs with a non-UK born owner/director, by sector and firm size (2014)



Source: Department for Business, Innovation and Skills, Cebr analysis

Fiscal contribution of EU migrants

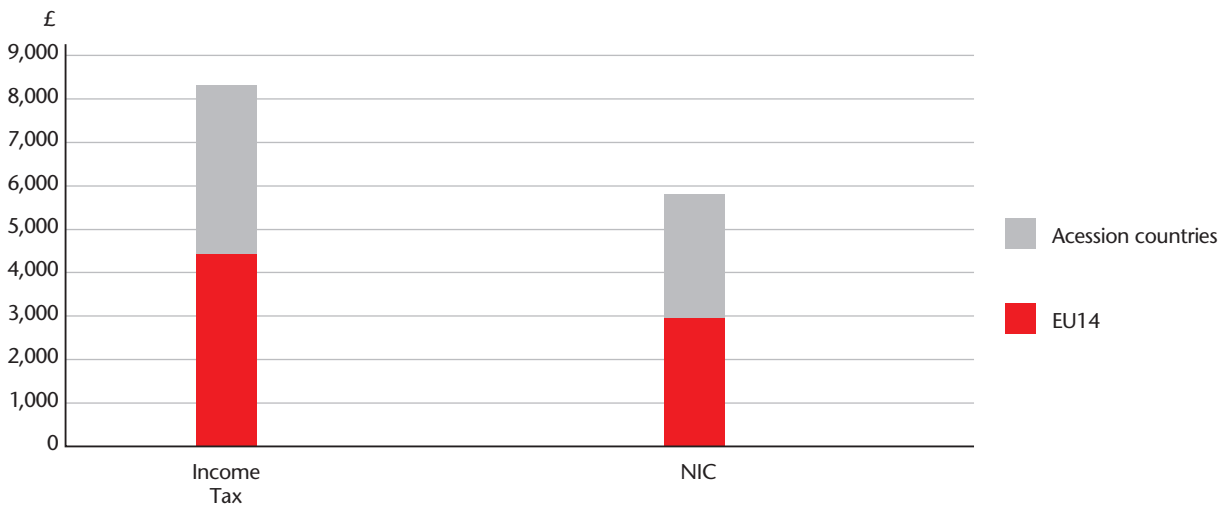
By living and working in the UK, migrants from other EU countries make contributions to the UK exchequer through payments of income tax, VAT and other taxes. However, migrants also create demand for public services such as healthcare and education and are eligible to claim working-age benefits – all coming at a cost to the UK's public finances. While the complexity of the tax and benefits systems make it difficult to definitively calculate the net impact of EU migrants on the UK fiscal position, we will consider a range of issues in this section including income tax contributions and demand for working-age benefits in order to shed some light on the extent to which EU migrants positively or negatively contribute to the UK exchequer.

With almost 2m non-UK EU nationals employed in the UK, the government is likely to receive a considerable contribution each year from the income tax and national insurance contributions taken from the salary of these workers. Using data on the occupations of EU migrants and the associated salaries for these roles, we have estimated the contributions made by working EU migrants to the UK exchequer in the form of income tax and national insurance contributions.



Figure 8

Contributions of EU migrants to UK income tax and NIC revenues, £m (2014/15)

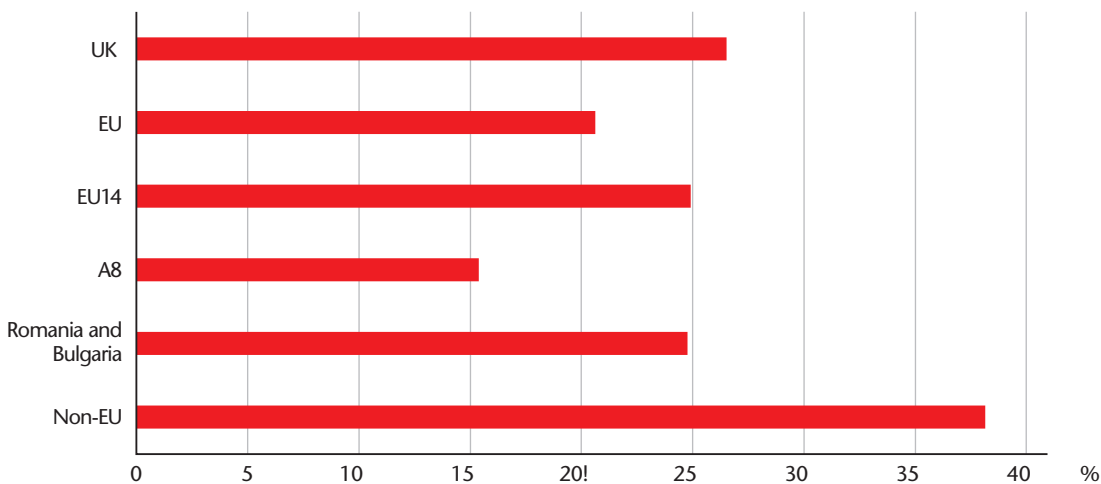


Source: Office for National Statistics, Cebr analysis

As shown in Figure 8, workers from other EU nations are estimated to have contributed over £8.3bn to UK income tax receipts in 2014/15 and around £5.8bn in national insurance contributions. It is also unlikely that the burden of EU migrants in terms of unemployment and other out-of-work benefits is higher than that for the typical UK national. As shown in Figure 9, the share of working-age EU migrants either inactive or unemployed in the second quarter of 2015 was lower than the comparable share for both UK nationals and migrants from outside the EU.

Figure 9

Share of working-age population either economically inactive or unemployed (Q2 2015)



Source: Office for National Statistics, Cebr analysis



The fiscal situation is complicated by the role played by in-work benefits such as tax credits. While a high share of migrants might be in work, many of their earnings could be subsidised by these forms of benefit payments. While data for EU nationals have not been made publicly available, data from HMRC shows that some 16% of people claiming in-work tax credits in 2013 were born overseas. This is the same as the 16% share of the working-age population that was born overseas, suggesting that foreign nationals are no more likely to claim in-work benefits.

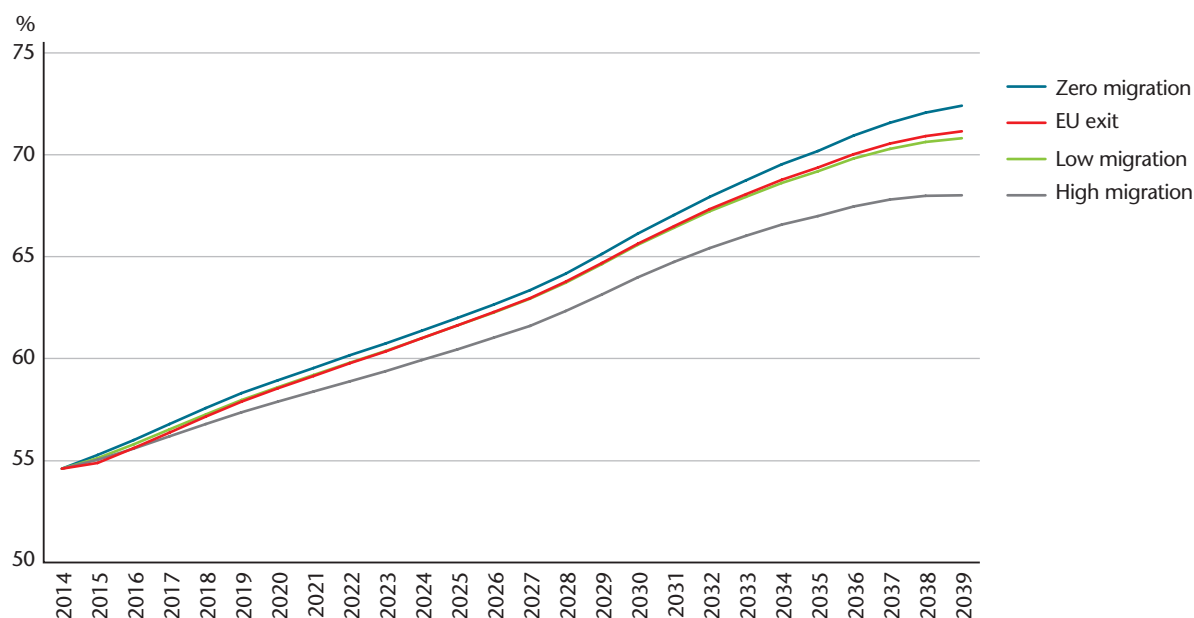
Impact of EU migration on demographics

The dependency ratio is the ratio of dependent people – those younger than 15 or older than 64 – to the working-age population (15–64). Currently in the UK this stands at just under 55%. However, the ratio has increased over the past decade and is forecast to rise under a range of scenarios projected by the ONS.

The dependency ratio is a key determinant of both economic growth and fiscal sustainability, particularly with the UK's increase reflecting an ageing population. Notably, the more people that move into retirement, the more the government has to spend on a state pension and other related benefits. At the same time, a smaller share of the population is paying employment-related income taxes, placing greater pressure on the public finances.

Figure 10

UK dependency ratio under different scenarios



Source: Office for National Statistics, Cebur analysis

The official projections show that migration will help to limit the rise in the dependency ratio over the next 25 years, with migrants boosting the number of working-aged people in the UK. Given the movement of people across the EU represents a considerable share of the UK's net migration – EU citizens accounted for an estimated 48% of total non-British inflows in 2014 – an EU exit would probably accelerate the rate at which the UK's dependency ratio increased over the next 25 years, as shown in Figure 10.



Implications of an EU exit

One of the challenges in assessing the impacts of the UK exiting the EU on migration and the labour market is that we do not know what kind of relationship the UK would retain or negotiate in terms of migration and the movement of individuals across the EU. The UK could follow the examples of Norway and Switzerland, which have both implemented free movement as part of their economic agreements with the EU. With such an association in place, a UK exit of the EU could have a relatively limited impact on UK migration. However, such a position would probably permit the UK Government to impose more stringent eligibility requirements on access to benefits and, while data shows that a high share of EU migrants are able to find work in the UK, the lack of a safety net could potentially reduce inward flows compared with their current levels.

The alternative scenario following a UK exit of the EU would see the free movement of labour between the UK and EU end. The UK Government would then be able to control the flow of inward migration to the UK, probably through the implementation of admissions requirements as currently in place for non-EU citizens. The current standards placed on non-EU citizens would be hard for many potential EU migrants to meet, with the minimum salary required in most cases for a Tier 2 visa rising to £35,000 in April 2016. With such obstacles in place, inward migration from the EU would probably fall fairly considerably under such a scenario.

If British voters decide to leave the EU, the UK will have to strike a new arrangement with the remaining 27 EU member countries. Much of the impact on employment will therefore depend on what this deal entails and those wishing to explore this issue further should discuss what a post-UK exit landscape would look like.

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