BRITISH IMMIGRATION POLICY AND WORK

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Chair, Migration Advisory Committee
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Migration
Advisory
Committee

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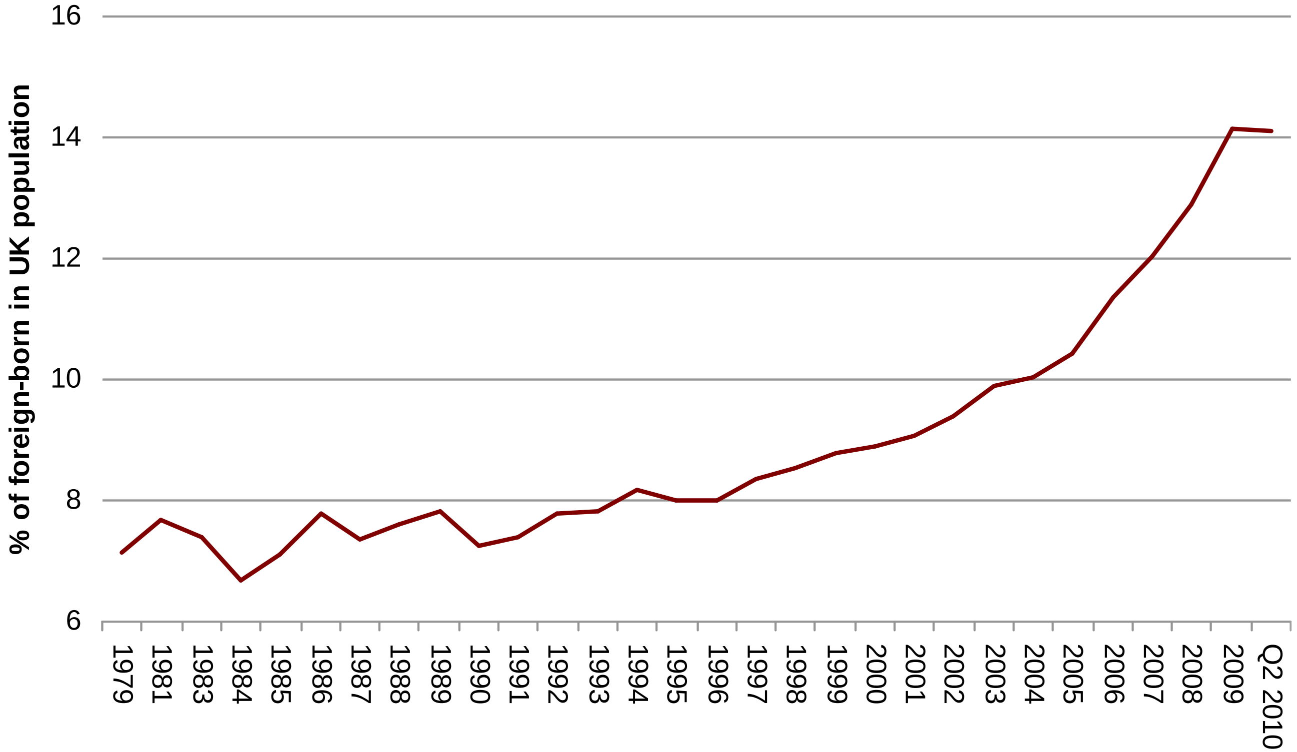
Stock: share of foreign-born in the UK working-age population, 1977 – 2010



- 14% of working-age population born outside the UK in 2010
- 2008 figure for UK is 13%; in comparison OECD average is 14% and world is 3%
- 70% of stock of working-age migrants are born outside EEA
- Employment rate of UK born is 71% compared to 67% for non-UK born (2010 Q2)

Note: Rate describes the proportion of working-age immigrants in the working-age population. The data are the average of the four quarters each.
Source: Labour Force Survey 1977 Q1 to 2010 Q2; OECD (2010); MPI (2010)

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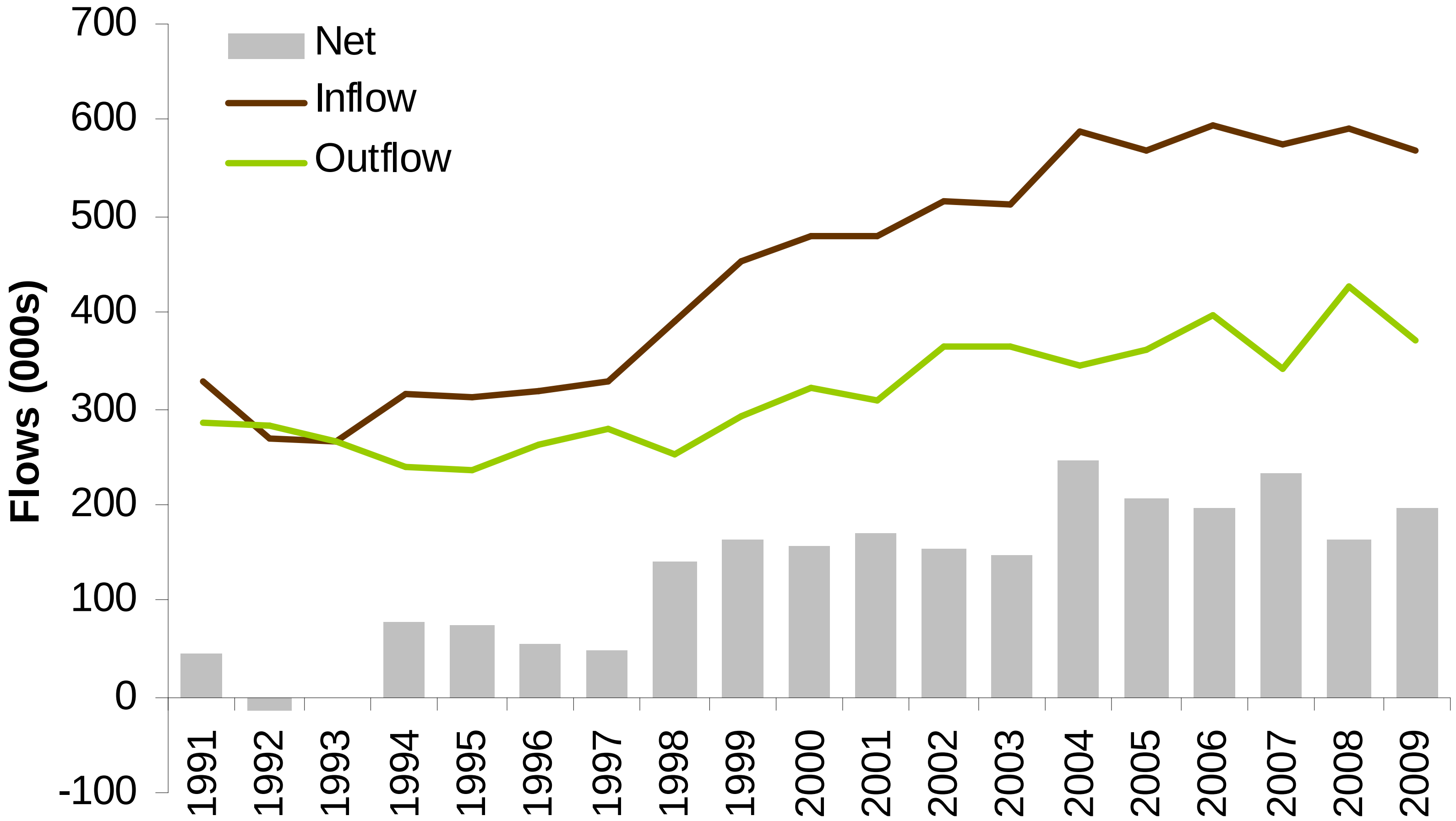
Historic Gross and Net Flows (LTIM)



Notes: Long Term International Migration (LTIM) estimates for 1991 to 2009 are based on the International Passenger Survey with adjustments made for flows to and from the Irish Republic, asylum seekers, and migrant and visitor switchers.
Source: Migration Statistics Quarterly Report, Office for National Statistics (UK), Feb 2011

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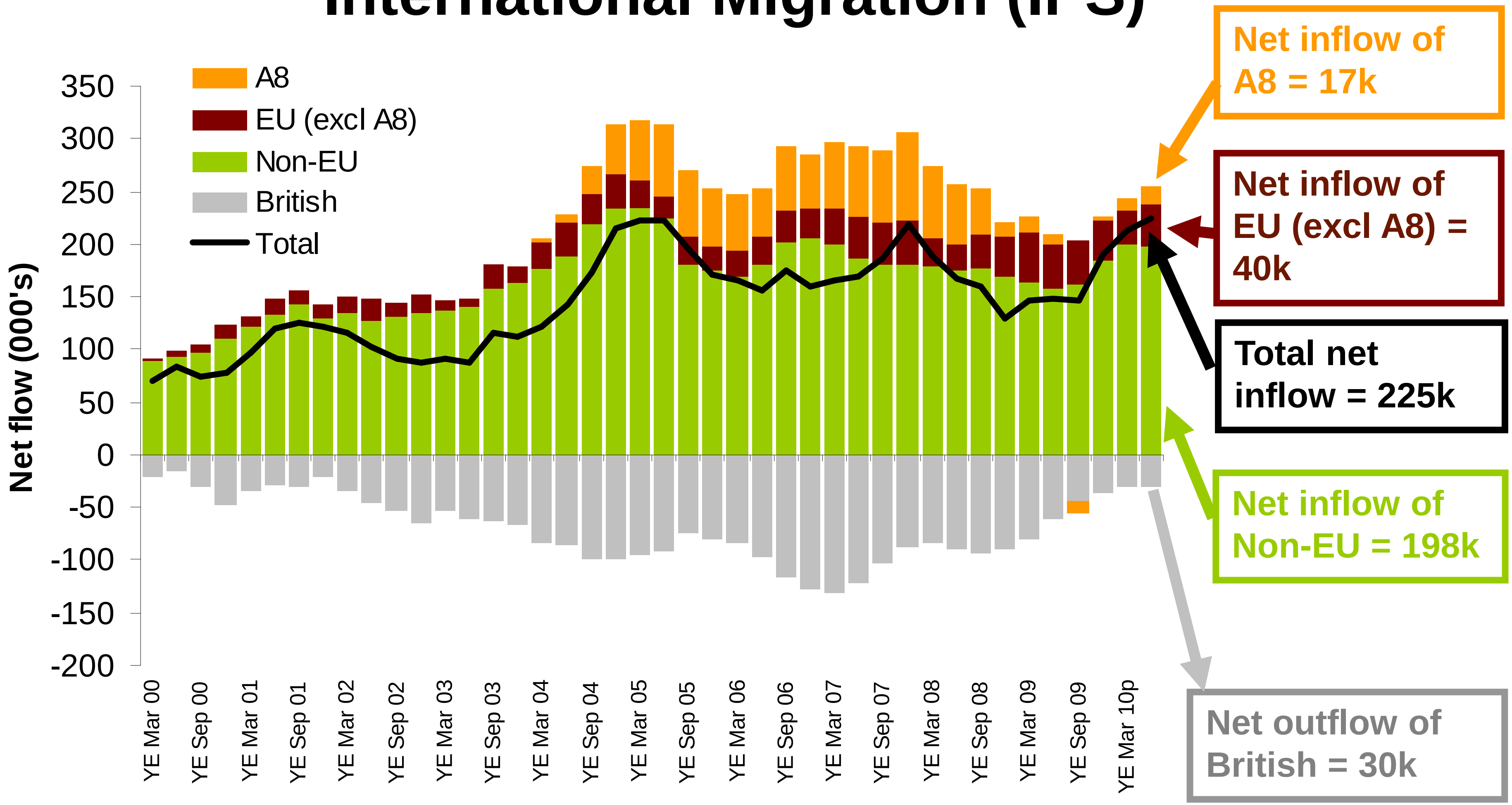
Historic Net Flows: Quarterly Long-term International Migration (IPS)*



* These figures are estimates from the International Passenger Survey, and do not include the adjustments made for the LTIM figures (i.e flows to and from the Irish Republic, asylum seekers, and migrant and visitor switchers).
Source: International Passenger Survey 2000 Q1 - 2010 Q2, Office for National Statistics (UK)

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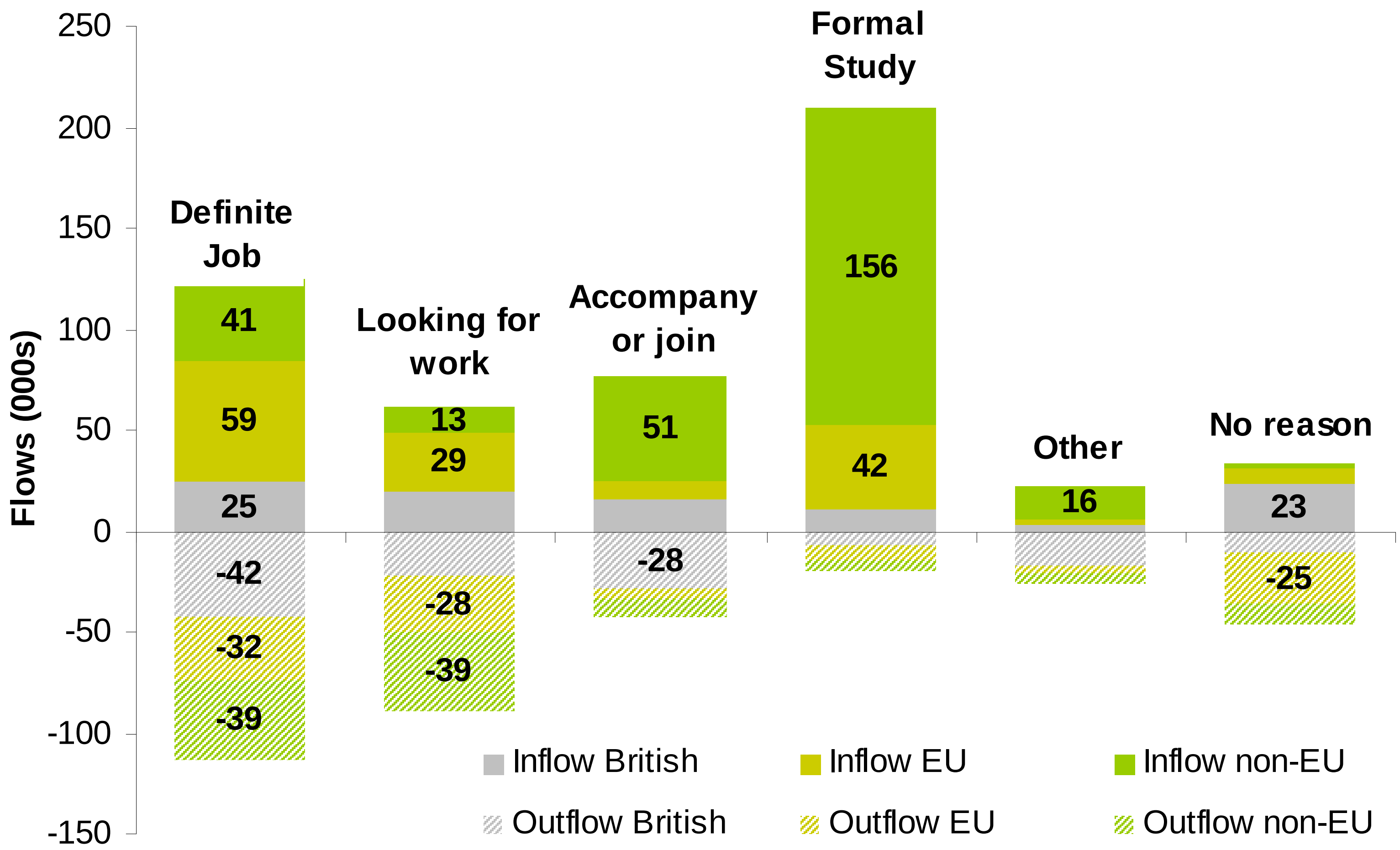
Inflow and outflows of long-term migrants, by reason for migration, 2009



Source: Estimates from the International Passenger Survey 2009, Office for National Statistics (UK)

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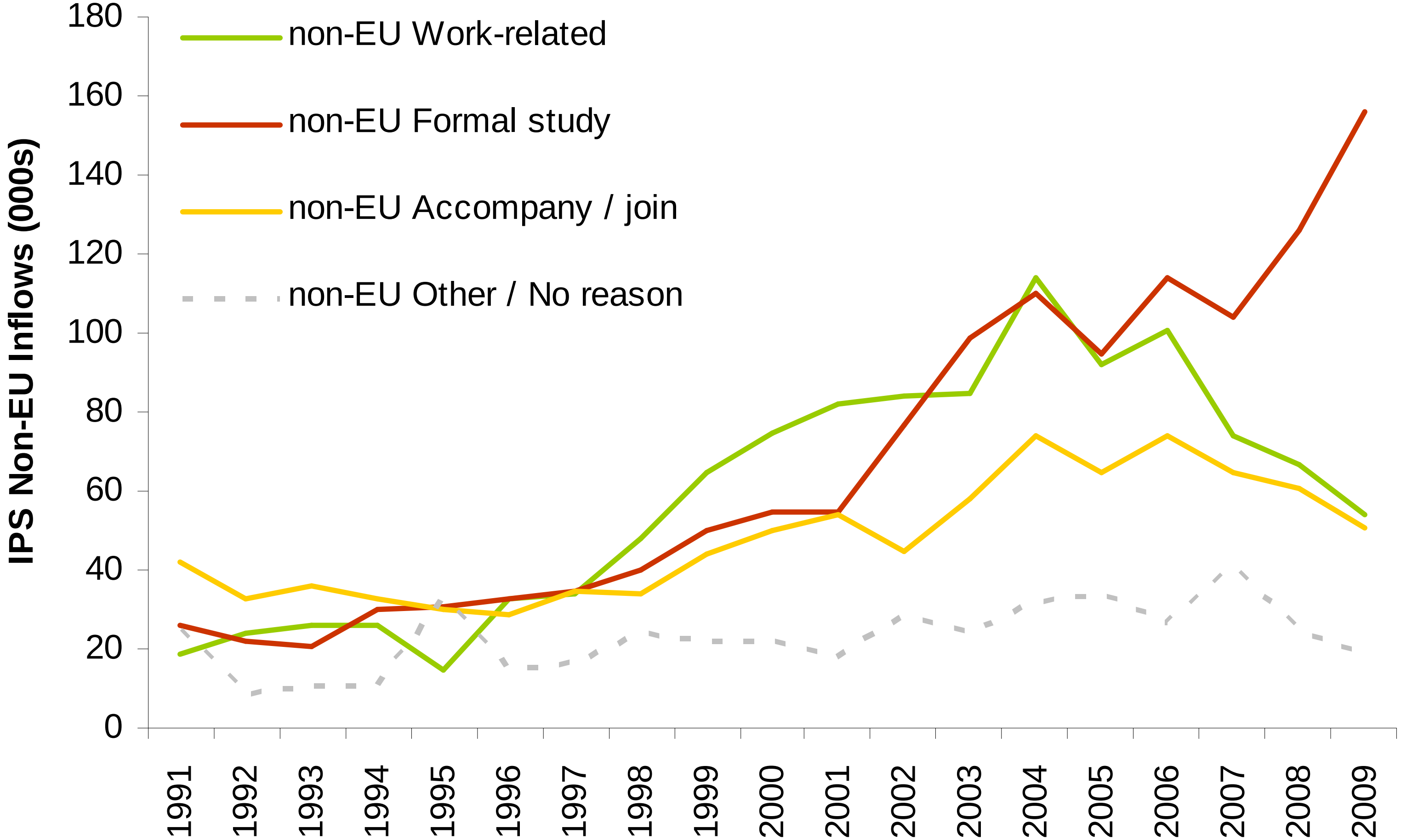
Inflows of non-EU long-term migrants, by reason for migration



Source: Estimates from the International Passenger Survey 2009, Office for National Statistics (UK)

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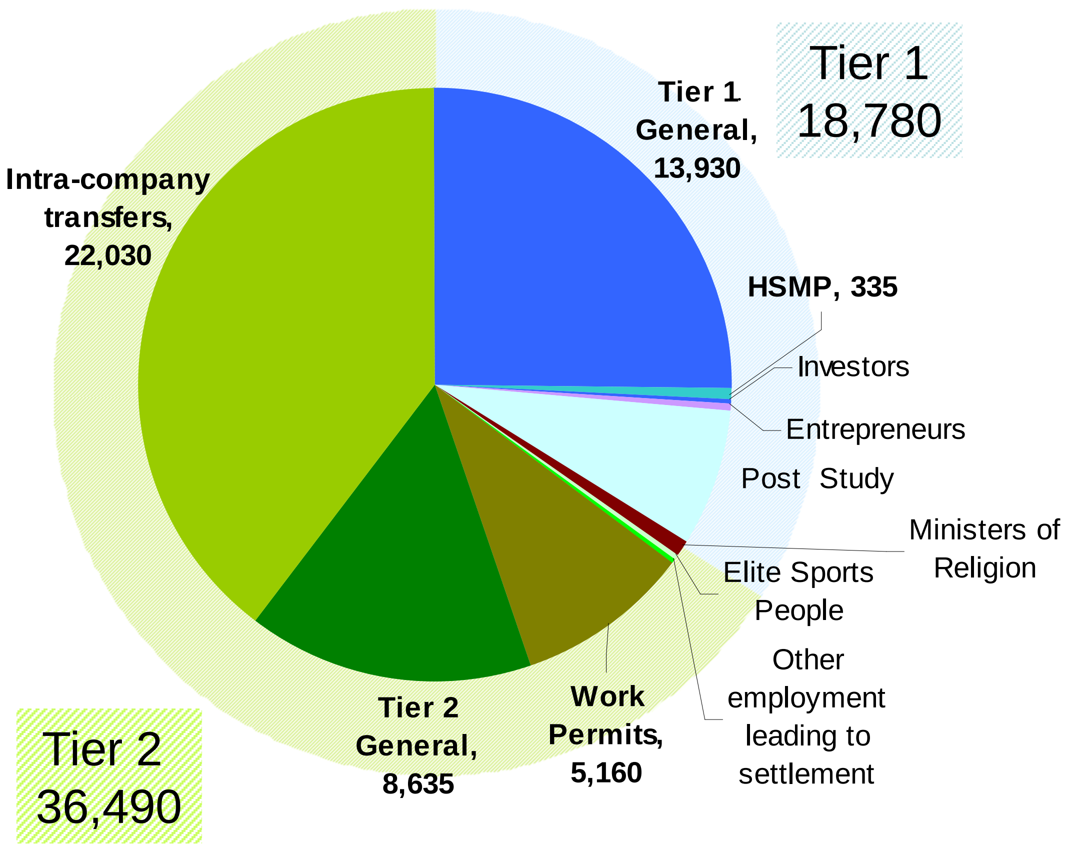
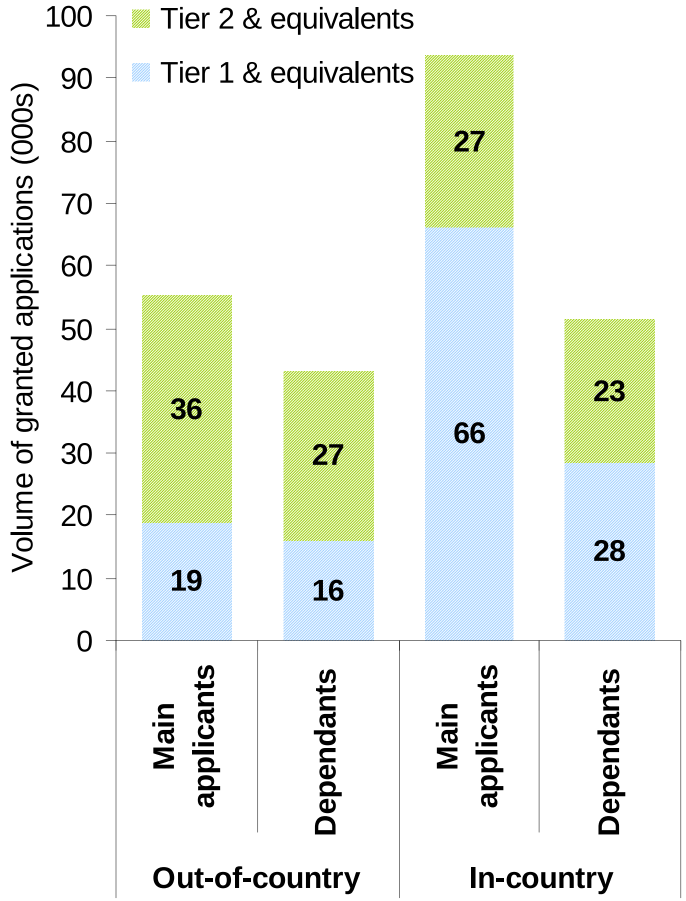
Tiers 1 and 2 applications granted, 2009





Note: Out-of-country visa categories within the scope of limits are shown in bold and approximately total 50,000
Source: Control of Immigration Statistics, 2009

UK policy on labour immigration
Points Based System (PBS) plus Limit

- Tier 1 Highly skilled individuals to contribute to growth and productivity (supply-side). From April 2011, severely restricted.
- Tier 2 Skilled workers with a job offer to fill gaps in the UK labour force (demand-side)
- Tier 3 Low skilled workers to fill specific temporary labour shortages (suspended)
- Tier 4 Students
- Tier 5 Youth and temporary: people coming to UK to satisfy primarily non-economic objectives.

Note:

- PBS involves: (i) numbers or scale; (ii) selection or composition; (iii) rights, e.g. extensions, ILR
- Re (i): Tiers 1 (highly skilled) and 2 (skilled) have limit (from April 2011); Tier 3 set at zero
- Re (ii): focus on skilled workers, except for some of Tier 5
- Re (iii): migrant initially admitted temporarily
- Important to consider (a) inflow and (b) duration of stay. These two factors determine stock of immigrants.

Why Skilled Workers?

- What are the economic objectives of labour market immigration policy?
  maximise gain to natives
  minimise adverse distributional impact on lower paid

- Greater complementarity with
  capital, e.g. skill-biased technical change
  other labour
  therefore larger potential 'immigration surplus'
  [efficiency]

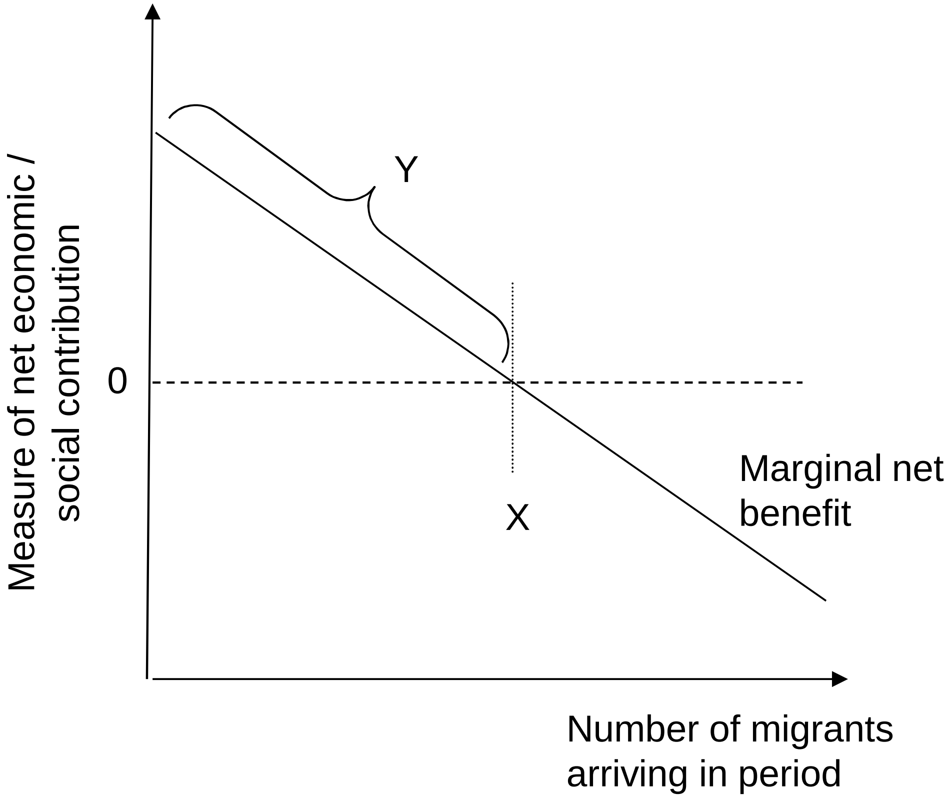
- Dynamic effect: over time productivity up
  raise other workers productivity (externality)
  innovation (spillover)

- Stronger net fiscal contribution
  less likely to be unemployed than unskilled
  pay more in taxes

- Larger supply of skilled/qualified workers leads to a lower relative wage for this group [equity]

Potential rationales for any limit: Economic

- **Marginal Cost = Marginal Benefit**
- Limit set where marginal economic and social cost (MC) of additional migrant is equal to marginal benefit (MB).
- Where MB = MC the marginal net benefit (MNB) = 0.
- In chart: admit X migrants per period, with selection criteria designed to admit those in area Y.
- In practice, it is both conceptually and practically difficult to estimate.
- Costs and benefits will also vary substantially across different types of migrant.



- **Balances fiscal contributions**
- A limit could be set in order to make sure that the fiscal contribution of immigrants is balanced across different routes. For example:
- The amount of visas available for non-EEA economic migrants (i.e. Tiers 1 and 2) could be set to offset the impact of immigration via routes the UK is less able to control (or wishes to maintain) and are more likely to be a net fiscal burden. Therefore, non-EEA economic migrants are admitted up to the point where there net fiscal contribution is expected to be zero.

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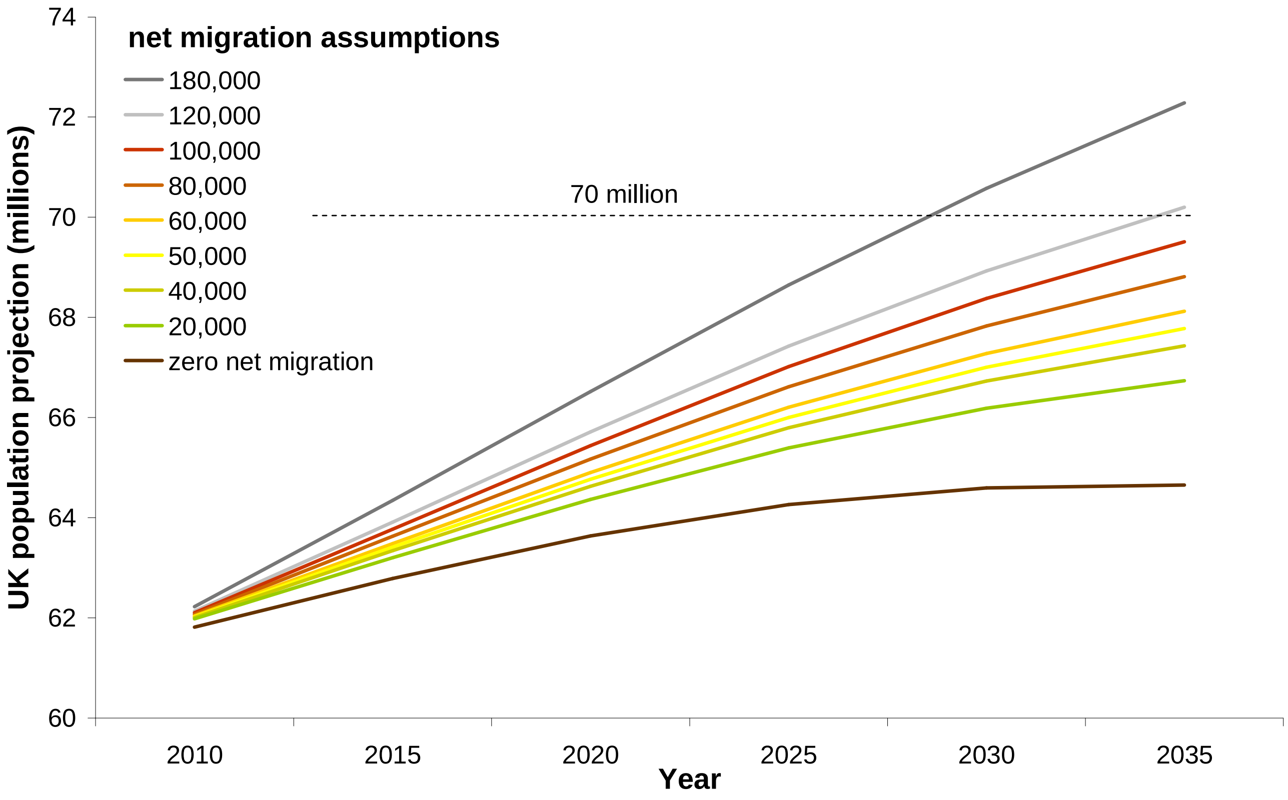
Potential rationales for any limit: Population

- **Could set cap to achieve (or avoid) certain population targets.**

- UK population projections include an assumption about net inflows to the UK. Current assumption under principal projection is 180K.
- Principal projection shows population exceeding 70m by around 2030.
- Parliamentary Question: what level of net migration would need to be assumed to force population model to project below 70m towards end of century? Answer: 50K.



Source: Projections produced by the Office for National Statistics (ONS), published in Migration Advisory Committee (Nov, 2010)

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Potential rationales for any limit: Other

- Return to a historical level – i.e. base on **“desirable” era**, e.g. 1994:
  - How to determine which year?
- Determine cap using similar method to **other countries** that operate similar system:
  - But what method do they use? Is it explicit? Should it apply to the UK?
- Or use data for other comparable countries to calculate a metric e.g. set net migration as **% of population to OECD average**:
  - But which are “comparable” countries, and how comparable are they really?

Comparing 2009 with 1994 “Desirable year”		
	1994	**2009**
Net immigration (LTIM)	**+77K**	**+198K**
Net non-EU immigration (LTIM)	+85K	+184K
…of which work*	+1K	+14K
…of which study*	+9K	+122K
…of which family/join*	+17K	+41K
Non-EU Inflows (IPS)	**1994**	**2009**
Work related	26K	54K
Study	30K	156K
Family/join	33K	51K

The number of visas issued in the **health** and **IT sectors** has grown significantly

Higher and **further education ‘exports’** have expanded substantially

*Calculated from the IPS (not LTIM) using inflows by ‘reason for migration’ and outflows by ‘usual occupation prior to migration’. This will still overstate net migration of ‘study’, as many will become employed in the UK before leaving.

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Inflows by route

- IPS measures long-term migration (over 1 year) by main reason for migration
- Work-related migration has halved since 2004, while migration for reasons of formal study has increased substantially

	Non-visitor visas issued, 2009	Per cent of total	Non-EU IPS inflow, 2009	Per cent of total
Work-related			55,000	20
…Tier 1	18,800[†]	4		
…Tier 2	36,400[†]	7		
…Tier 5 and permit free employment	52,500	10		
Study (Tier 4 and students)	273,400	52	163,000	60
Family (inc. dependants)	144,500	27	54,000	20
Total	525,700	100	292,000*	100

* IPS total includes other and no reason

[†] Tier 1 and 2 totals include all routes; those routes within the scope of limits total 50,000

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Limits for 2011/12

(1)	**Total reduction required** LTIM net migration	196,000 (2009) minus 50,000 (assumed 2014/15 target)	= 146,000 over 4 years = 36,500 per year
(2)	**Tier 1 and 2 contribution** to the 36,500 per annum reduction in net migration	**Option A** Tiers 1 and 2 bear all of the reduction in non-EEA work migration (20%) = 7,300 per year	**Option B*** Tiers 1 and 2 bear only a proportionate share (10%) of the required reduction = 3,600 per year
(3)	**Convert (2) into visa numbers** for Tiers 1 and 2 main applicants out-of-country (i.e. divide by 0.58)	Reduction in out-of-country visas = 12,600 (25%)	Reduction in out-of-country visas = 6,300 (13%)
(4)	**Required limit for Tiers 1 and 2** combined i.e. subtract (3) from 2009 baseline for Tier 1 and 2 visas of ~50,000	2011/12 limit on out-of-country visas = 37,400	2011/12 limit on out-of-country visas = 43,700

*Government chose Option B. Limit on Tier 1 much more stringent that Tier 2.

Rationale for lower or higher limits?

	Smaller work reduction (i.e. higher limit)	Larger work reduction (i.e. lower limit)
Net migration	Aim for above 50k e.g. 80k	Aim below 50k, or to reach 50k by e.g. 2013
In-country policies	Rapid and significant action to reduce extensions / switching	No or limited action on extensions / switching
Family and student routes	Greater than proportionate share e.g. economic route higher priority?	Less than proportionate share
Post-study work	Reduced flows or route closes	Flows remain at present level or increase
Dependants	Dependant to main applicant ratio falls	Ratio increases
Settlement	Weaken link between Tiers 1 and 2 inflows and settlement	-

Government Response on Tier 1

	Previous → Govt policy	MAC → recommendation	New Govt Intentions
Tier 1 General	Admission without job-offer, **points** awarded for mix of: qualifications, previous earnings, age, UK experience, language plus a maintenance requirement	**Keep Tier 1**, but favour Tier 2 in limits calculations, based on employer evidence. Keep points criteria, but **make more selective**.	**Closed** route to new applicants. New **"exceptional talent" route**, not points-based. Applicants with 'outstanding achievement' (criteria TBC), administered by governing bodies, eg. Royal Societies.
Limit: (out-of-country, main)	**No limit.** Approx. 14,300 visas issued in 2009	**8,000 - 11,000** in 2011/12 plus further cuts in future	**1,000** per annum
Investors and Entrepreneurs	Entrepreneur: **Require £200K** investment + language + maintenance Investor: **Require £1m** investment	Not in scope of MAC report.	**TBC:** More generous requirements **Not limited.**
Post Study Work Route	**Require bachelors-level** qualification from recognised institution + language + maintenance	Repeated call in MAC (2009) that route should be **made more selective** by course / institution	Govt. consulting on **closing route** as part of reform of student immigration system

Key: **Points-based** | **Requirement-based** | **Limited** | **Closed**

Government Response on Tier 2

	Previous Govt policy →	MAC recommendation →	New Govt Intentions
Limit on Tier 2 in 2011/12	**No limit.** 35,700 visas in 2009	**29,400 – 32,600** Include ICTs in limit	Limit of **20,700** Exclude ICTs and jobs >£150K in limit Points to prioritise: **1st: SOL** **2nd: RLMT (PhDs)** **3rd: RLMT**
…Resident Labour Market Test (RLMT)	Admission with job-offer, **points** awarded for mix of: Qualifications, prospective earnings, language plus maintenance requirement	**Keep points criteria**, but make more selective. Skill level could be raised.	Abolish qualifications criteria. Salary threshold of £20k. **Restrict to NQF4+ occupations**. Increase English language requirement.
…Shortage Occupation List (SOL)	Occupation on shortage list	Skill level could be raised.	
Intra-company transfers	Admission with job-offer, **points** awarded for mix of: qualifications, prospective earnings, language, plus a maintenance requirement	**Keep points criteria**, but **limit** in proportion to other routes and make more selective. Skill level could be raised.	Salaries £24 – £40K restricted to <12 months. **Restrict to NQF4+ occupations**. Salaries > £40K may obtain leave of up to 3 years. **Restrict to NQF4+ occupations**.

Key: Points-based | Requirement-based | Limited | Closed

Summary of Limits

Visas issued to out-of-country main applicants for Tier 1 and 2 routes within scope of limits

	2009 flow	Government policy	MAC report
Tier 1 General / Exceptional Talent	14,300 (General)	1,000 (Exceptional Talent)	Option B: 43,700 (Requires action to cut Tier 5 and permit free employment)
Tier 2 Intra-company transfers	22,000	22,000 (not limited, but restrict by price)	
Tier 2 General	13,700	20,700	
Total	50,000	**43,700**	**43,700**

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Labour market impact of immigration:
Introduction

- Most adjustments focus on employment and pay (i.e. factor prices) of natives; but there are 2 other adjustment mechanisms:
  - composition of output, e.g. ethnic restaurants, A8 gardeners
  - production technology, e.g. labour intensive flower picking.

- The studies have to deal with the <u>no counterfactual</u> problem

  they study pay change or employment change before/after immigration

  but really should compare such changes with what would have happened with no immigration

  the missing counterfactual is dealt with by <u>identification</u> assumptions e.g. slice LM into areas which do/do not experience immigration

  but immigrants choose where to go, e.g. to region with higher growth in pay then get spurious positive association: immigration causes pay growth

  overcome this problem using <u>instruments</u> OR

  might slice by occupation/skill/age

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Labour market impact of immigration:
Employment and unemployment

- **Lump of labour fallacy**

  aggregate number of jobs is not fixed so there is no one-for-one displacement

  e.g. consider baby boom cohorts

  – if number of jobs fixed, when they entered LM unemployment would rise. Did not happen. Instead

  – employment rose.

- **Unemployment**

  Portes and Lemos, 2004-06

  A8 influx,   inflow >500 000

  409 districts (study builds on two similar previous studies)

  no association between immigrant inflow and rise in claimant unemployment

  this holds even for possibly vulnerable groups, such as younger workers or the lower skilled

- **Employment**

  Dustmann 2005

  1% point increase in share of migrants in working population has no statistically significant impact on employment rate of non-migrants.

  However, displacement of some workers is not necessarily inconsistent with net job-creation in the UK labour market as a whole.

"Unite is concerned about the way in which the Intra Company Transfer system is being used by companies in the ITCE sector resulting in the potential for substitution and/or displacement of settled skilled workers and the possible undercutting of pay rates …We continue to receive complaints from Unite workplace representatives that resident or permanent employees are bring substituted or displaced, with the potential or real threat of redundancy."

Unite submission to MAC Tier 2 report

Labour market impact of immigration:
Pay

- **Real wage level, average impact**
  Dustman (up to 2005) small positive, e.g. because of:
  - immigration surplus
  - immigrants paid less than MP and surplus captured by natives

  IPPR (up to 2007) small negative: A8 non-complementarity?
  Specific occupation, e.g. impact of intra-company transfers on IT sector pay
  Wadsworth: biggest impact possibly on previous immigrants

- **Distribution of pay**

  Dustman: gains at top of distribution, losses at bottom

  Nickell: clear trade-off between immigration and pay in less skilled occupations, e.g. care homes

  Portes: A8, 2004-06, >500 000 mainly less skilled jobs – no wage effect because less skilled protected by NMW

  PBS emphasises skilled immigration. This presumably lowers skilled relative pay cf what would otherwise have been

  If supply of capital not perfectly elastic some of the immigration surplus will go to capital, impacting on distribution between pay and profits

- **Wage inflation** Bank of England (up to 2007)

  Immigration reduced the NAIRU due to adjustments in labour and product markets and fear of displacement

Impacts of Tier 1 and 2 migrants

Economic

- Clearly positive impact on GDP
- Impact on GDP per head less clear cut but small positive in the short run
  - MAC estimates of the static impact of a reduction of 10,000 Tier 1 and Tier 2 net migration per year indicate that (holding all else equal)* :
    - GDP may be lower by approximately 0.04 percentage points (or £559m) in the first year and approximately 0.22 percentage points (or £2.8bn) over 5 years.
    - GDP per head may be lower by approximately £6 in the first year and approximately £28 over 5 years.
- Potentially, larger effects on the micro-economy and in the longer run, but may be mitigated if employers adjust to reduced migration (e.g. upskilling and changed production methods)
- Unlikely that average pay or employment of UK workers is negatively affected
- Inflation less relevant
- Likely to be positive net fiscal contributors, but decreasingly so with length of stay
  - HMT evidence to the MAC estimated that a reduction of 10,000 Tier 1 and Tier 2 net migration per year, holding all else equal, may increase net borrowing by £150 million in the first year, if spending is assumed to remain unchanged*.

*These estimates are based on assumptions about the employment rate and productivity of Tier 1 and Tier 2 migrants. They assume that all other factors remain the same, and do not include any dynamic and ‘spillover’ impacts from migration. Full details are provided in the MAC Limits for Migration report (2010).

Impacts of Tier 1 and 2 migrants

Public service	Social
• Important role in provision of some public services (health, education and social work) • Longer-run impact will depend on upskilling and wages in public sector • Likely to be light consumers of most public services in the short-term • Consumption increases with length of stay (e.g. health) and dependant children (education)	• Positive net migration has substantial impact on population in the long term • Some impact on housing market: private rented sector in the short run, house prices in the long run • Likely to generate above average congestion due to location in London • Likely to have only small impact on crime • No clear evidence of strong effect on social cohesion