

Changes in the UK labour market brought about by immigration over the past 15 years always rank high among the public's concerns. **David Metcalf**, chair of the Migration Advisory Committee and an active CEP researcher for three decades, sets out the numbers on net inward migration and outlines recent changes in the regulatory framework and other major policy initiatives.

Immigration and the UK labour market

Net migration (immigration minus emigration) into the UK over the last seven years totals around one million. In the period since 1997, the annual immigration inflow has doubled from around a quarter of a million to over half a million. Relative to the size of the total population, such numbers are only matched by the inflows of the seventeenth century, when the Protestant Huguenots were expelled from France.

Figure 1 shows inward and outward migration over the last half-century. The statistics are based on the United Nations definition of a migrant: an individual intending to alter his or her country of

residence for over one year. In the UK, these data are collected by the Office for National Statistics (ONS) through its International Passenger Survey (IPS).

For the period 1964-82, net migration was negative except for one year. In the last three decades, net migration has been positive in all but three years. But the story is much richer than this: in the first half (1983-97), net inward migration was never greater than 80,000; by contrast, in the second half (1998-2011), it was always above 80,000. In four of those most recent years, the number was over 200,000.

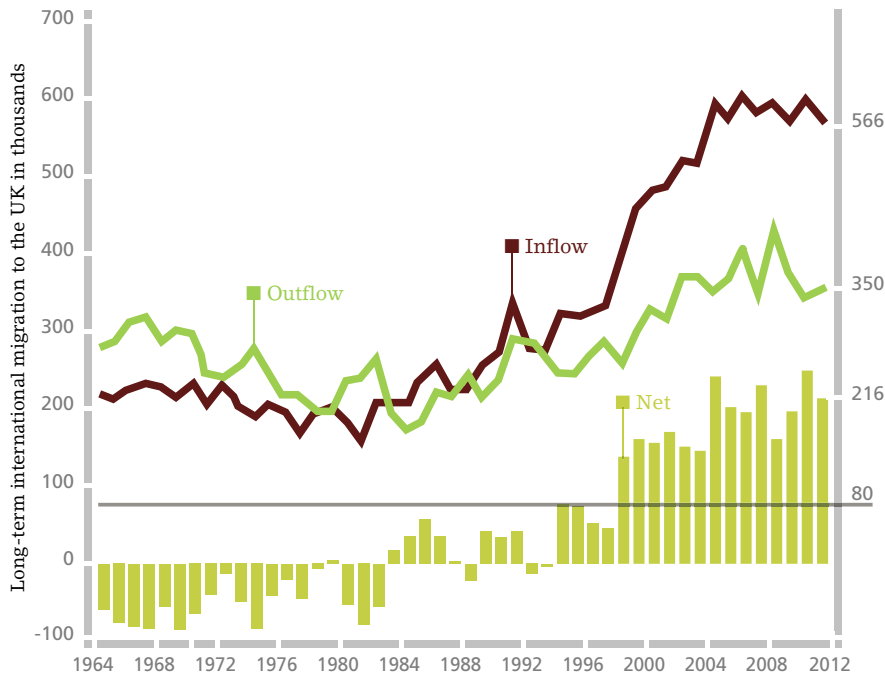
Initially, the higher inflow since 1998 consisted of more workers from outside the European Economic Area (EEA)

coming to jobs in restaurants, health and care work and information technology. Then in 2004, when eight central and east European countries (the so-called A8) joined the European Union (EU), work restrictions on their nationals were lifted, again boosting the inflow. Finally, in the period since 2005, the inflow of non-EEA students has doubled.

Institutions

Net migration is the outcome of three distinct reasons for migration – work, study and family (including asylum) – from three different geographical sources – the UK, the EU and outside the EU. This produces a three-by-three matrix and each of the nine cells has both an inflow

Figure 1:
International migration to and from the UK, 1964-2011



Notes: Estimates for 1964-90 are from the International Passenger Survey (IPS). Estimates for 1991-2011 are for 'long-term international migration', which include the IPS estimates as well as estimates of flows to and from the Republic of Ireland, asylum-seekers and migrant-visitor switchers.
Source: Office for National Statistics

and an outflow. The government can only directly control the flows in the three non-EU cells. In broad terms, the net inflow from the EU equals the net outflow of UK citizens – so the non-EU net figure is similar to aggregate net migration.

In the mid-2000s, after almost a decade of rising inflows and substantially higher net migration, the then-government decided to alter both the regulations around non-EU migration and the institutions central to the often heated and sometimes toxic debate about migration.

First, the 'points-based system' (PBS) was introduced for economic migration incrementally from 2008. The PBS replaced the previous 80-plus immigration routes and it initially consisted of five tiers.

Tier 1 covered highly skilled workers who could come to the UK without a job offer to search for skilled work. This was a supply-side initiative designed to boost the stock of human capital in the UK workforce.

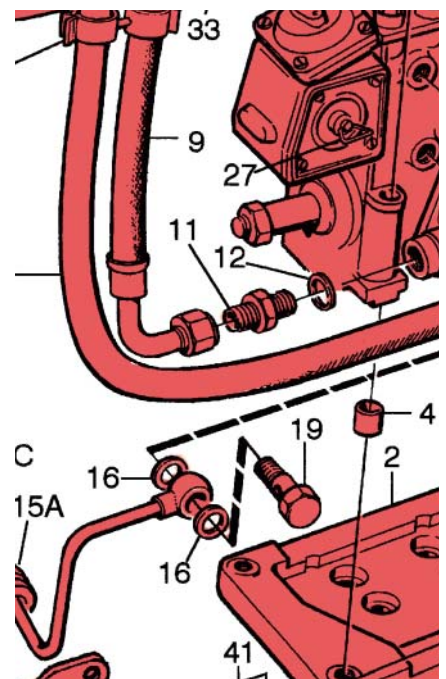
Tier 2 was a demand-side scheme, covering skilled workers with a job offer who filled a vacancy the employer otherwise could not fill from the UK and

EU labour markets. Tier 2 now has three main routes:

- The 'shortage occupation list' route as defined by the MAC (for example, MAC, 2011). This covers skilled jobs that are in shortage and where it is sensible to fill the vacancy with a worker from outside the EU. At present, the list covers jobs where the number of employees (not immigrants) totals less than 1% of the UK workforce.
- The 'resident labour market test' route. This is where an employer advertises the vacancy in the UK and/or the EU and if no suitable worker responds, the firm can then fill the vacancy from outside the EU.
- The 'intra-company transfer' route. Traditionally this involved, for example, a Japanese auto engineer from Toyota coming to work at the Toyota plant in Derby for a few years. But in recent years, the intra-company transfer route has been dominated by information technology workers coming mainly from India to work as third-party contractors.

Tier 3, which has never been activated, was for low-skilled workers. Tier 4 covers the study route into further and higher

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education. And Tier 5 covers temporary and youth mobility.

Each tier had points attached to characteristics. For example, for Tier 2, points initially varied according to age, qualifications and pay. The potential migrant had to pass a particular points threshold and have a 'certificate of sponsorship' (similar to the old work permit) from a sponsor licensed by the UK Border Agency.

The second change in the regulatory framework was the establishment of the Migration Advisory Committee (MAC) to provide independent, evidence-based and transparent advice on migration issues. The MAC is economics-oriented with four academic economists plus the chair. The UK Commission for Skills and Employment is also represented on the MAC.

The key to the MAC's modus operandi is that the government decides which questions and issues it wishes to be investigated. For example, successive governments have wanted greater selectivity in non-EU migration. The MAC was asked to implement this, not to debate whether such selectivity is desirable. Nevertheless, the MAC was centrally involved in each of the three major policy initiatives discussed next.

Major policy initiatives

Under the coalition government, there have been three major policy initiatives around non-EU work migration. These involve greater selectivity, limits on migrant numbers and a re-examination of the impact of immigration. The imperative is strong for the coalition government because it has set a target for net migration of below 100,000 by the end of this parliament in 2015. This implies nearly halving the most recent figure of 183,000 for the year ending March 2012.

Skill and pay thresholds

When the PBS was implemented in 2008, the minimum skill level for migrant jobs was set at NQF3 (which is roughly equivalent to two A-levels). Subsequently, the threshold has been ratcheted up, first in 2011 to foundation degree (NQF4) and in 2012 to degree level (NQF6). The minimum pay threshold for Tier 2 jobs has been raised in tandem with skills. All Tier 2 migrants now have a default minimum of £20,000 a year, but the codes of

practice specify substantially higher minima for many occupations and jobs.

Occupations skilled to graduate level are defined by the MAC according to three measurable criteria: pay; the proportion of the occupation qualified to at least NQF6; and the skill level of the occupation as determined by the ONS (MAC, 2012c). On this basis, 97 of the 369 four-digit occupations in the 2010 Standard Occupation Classification count as skilled to graduate level. These 97 occupations employ roughly six million full-time workers.

There are around 28,000 job titles defined within the 369 occupations. Under the shortage route, stakeholders can argue that a particular job title is skilled to graduate level even though the occupation is not. Such arguments turn on innate ability and the training and experience required for a job. Examples include chefs at the top restaurants and ballet dancers in leading companies such as Ballet Rambert or the Royal Opera House.

The focus on skilled workers under Tier 2 is sensible. Skilled workers are more

likely than low-skilled workers to be complementary with capital and other labour. In addition, they may well have dynamic effects, for example, raising the productivity of colleagues and innovating. And on average they make a much stronger contribution to the public finances than the unskilled.

The emphasis on skills also suggests that the EU will continue to be the source for any non-UK, low-skilled workers. Some sectors that previously relied on less skilled non-EU migrants must now train UK workers or look to the EU. Previously, a high proportion of employees in, for example, Asian restaurants, care homes and work riders in racehorse training were non-EU migrants.

Limits on migrant numbers

As part of the initiative to reduce net migration, the MAC was asked in 2010 to recommend a limit on numbers entering the UK for work under Tiers 1 and 2. We suggested that the work route take its pro rata share of any reductions in immigration (with the family and study routes taking their pro rata shares) and that any such reductions were spread equally over the four-year period 2011-15 (MAC, 2010).

We recommended that the number of entry clearance visas issued in 2011/12 for Tiers 1 and 2 combined should be reduced by between 6,000 and 13,000. (Any cut in entry visa numbers is larger than the reduction in the IPS numbers because some visas are not used and some migrants come for under one year.) We recommended that between 37,000 and 44,000 entry clearance visas be available. Drawing on stakeholder evidence, we suggested that Tier 1 should have a larger proportionate cut than Tier 2.

The government essentially adopted the MAC's recommended reduction in aggregate, but the cake was cut a little differently.

First, the government largely shut down Tier 1. This route was designed for highly skilled people without a job offer, but it also permitted any student graduating with a bachelor degree to stay in the UK for two years to search for a skilled job – the 'post-study work' (PSW) route. There was some tentative evidence that many Tier 1 entrants and PSW students were working in low-skilled jobs.

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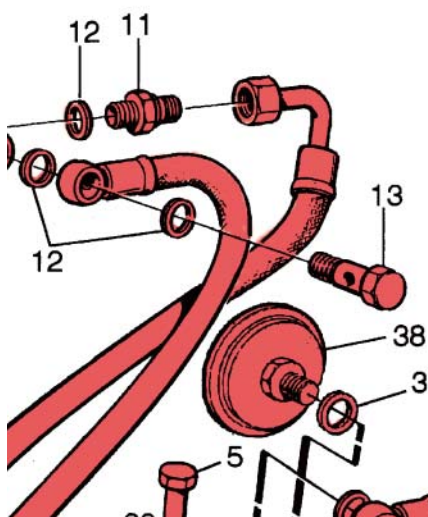
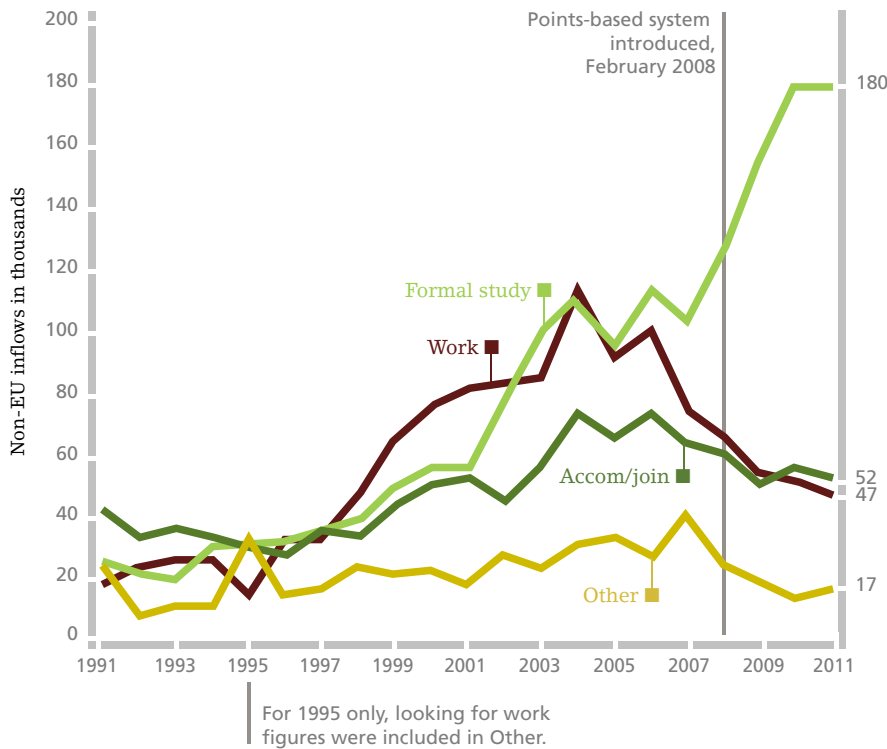


Figure 2:
International Passenger Survey estimates of non-EU inflows by main reason for entry, 1991-2011



Sectors that have relied on less skilled non-EU migrants must now train UK workers or look to the EU

Notes: International Passenger Survey estimates do not include flows to and from the Republic of Ireland, asylum-seekers and migrant-visitor switchers. The 'other' category includes those responses where no reason was given.

Source: Office for National Statistics

Closing Tier 1 provided extra headroom for Tier 2.

Second, a limit of 20,700 was put on Tier 2 General (shortage and resident labour market test routes), but the intra-company transfer route was not limited by quantity but by price. The minimum annual pay thresholds were raised from £20,000 to £24,000 for intra-company transfer workers coming for under a year and to £40,000 for those coming for more than a year.

In the event, only half of the 20,700 certificates of sponsorship available were taken up in 2011/12 (roughly 1,500 for the shortage route and 8,500 for the resident labour market test route). Therefore, the MAC recommended that the limit be unchanged for 2012/13 (MAC, 2012b). The government adopted this recommendation and also announced that this limit would remain for 2013/14.

Figure 2 shows the impact of the policy initiatives on selectivity and limits. Between 2004 and 2011, non-EU work immigration more than halved – from 114,000 to 47,000. By contrast, inflows for study almost doubled – from 95,000 to 180,000.

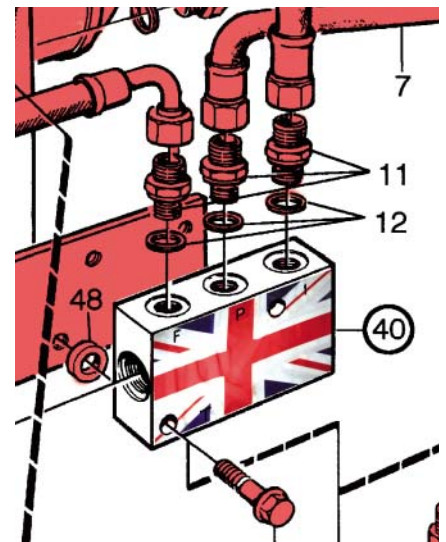
The impact of immigration

Most government policy initiatives require an 'impact assessment'. The MAC was asked to analyse the approach taken in recent immigration impact assessments (MAC, 2012a). Our recommendations, which have been adopted, will not influence immigration levels in the immediate future, but they may well do so over the longer term.

Impact assessments concerning alterations to immigration had previously focused on GDP and therefore suggested gains from greater immigration and losses from lower levels. This approach neglected two key features of immigration: it involves a change in population as well as output; and most of the gains go to the migrant.

The MAC therefore suggested a more nuanced approach that focuses on the gains or losses to UK residents (however defined). This will normally involve analysing five questions:

- What are the dynamic benefits? These include innovation and raising the human capital and productivity of co-workers. Such benefits are elusive to measure, but they may be of major importance.
- What is the contribution of the migrant



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to the public finances? Skilled workers generally contribute more than low-skilled workers and those coming for family reasons. The duration of the stay matters too.

■ Do the migrants displace UK workers? This is a controversial area. The MAC report suggested evidence of displacement in recession periods.

■ Do migrants impose 'congestion costs'? This involves examining any extra burdens on the UK's health, education, housing and transport systems.

■ What are the distributional effects on UK residents of particular migrants? This is a rather neglected topic, but we need a better understanding of whether it is high- or low-income groups that gain or lose, or whether distribution is unaffected. Similarly, the distribution of gains between capital and labour are important.

Other policy changes

The MAC has produced a number of other reports whose recommendations – adopted by the government – will influence immigration and the labour market.

Regulations around settlement ('indefinite leave to remain') in the UK have gradually been tightened. On the issue of work routes to settlement, the MAC was asked what level of pay a migrant should be earning if and when he or she applies for settlement after five years or so working here. We suggested a range between £31,000 and £49,000, reflecting different points on the pay distribution of skilled workers. The government opted for £35,000, a higher pay threshold that may raise the outflow of migrants.

Immigration for family reasons can have an indirect impact on the labour supply. The MAC was asked to recommend a minimum income level required to sponsor a spouse, so that the new family unit would not be a burden on the state. We analysed the pay at which income-related benefits terminate (£18,600) and the pay required for a neutral impact on the public finances (£25,700). The government chose the lower figure, but even this pay requirement excludes nearly half the current sponsors.

When the A8 countries joined the EU in 2004, the UK put no restrictions on their nationals' right to work. Because most other EU countries did restrict work rights, the A8 inflow was much greater than

expected. Therefore, restrictions were put on Bulgarians and Romanians when those countries joined the EU in 2007. In two reviews (required by EU law), the MAC recommended retaining these restrictions on the grounds that lifting them would potentially exacerbate the already seriously disturbed labour market.

But all such restrictions must end in December 2013. This raises a conundrum. The main source of work for Bulgarians and Romanians is the 'seasonal agricultural workers scheme' (SAWS), largely picking fruit and vegetables. The National Farmers Union is concerned that when the restrictions are lifted, the SAWS workers will instead choose to work in other sectors, such as construction and hospitality.

The NFU is therefore suggesting a replacement scheme involving non-EU workers, perhaps from Ukraine. This would imply a de facto opening of a less skilled labour route – albeit only for temporary migration – at a time when 25 million people are unemployed in the EU. The MAC will report on this matter in the spring of 2013.

Conclusions

Non-EU work immigration is under control. Greater selectivity has boosted the skill level and cut the numbers. This greater selectivity, coupled with the recession, largely explains why only half the certificates of sponsorship available for Tier 2 are currently being used. Intra-company transfers in the information technology sector continue to require careful monitoring, but limiting them by price (minimum pay thresholds) is operating well.

The MAC has been commissioned to analyse whether there should be a sunset clause for jobs on the shortage occupations list for more than a certain period of years. Thus, skills policy remains central to ensuring that business, health and education can meet their labour requirements.

Finally, the new focus on gains from immigration to UK residents, rather than simply GDP, puts the onus on firms and analysts to demonstrate that dynamic and fiscal benefits from skilled immigration outweigh any displacement and congestion costs.

David Metcalf is an emeritus professor at LSE, a research associate in CEP's labour markets programme and chair of the government's Migration Advisory Committee.

This article summarises a longer report, *Work Migration from Outside the European Union: Fifteen Years of Turnabout*, which will be available in 2013.

Further reading

Migration Advisory Committee (2010) *Limits for Tier 1 and Tier 2 for 2011/12 and Supporting Policies*, November.

Migration Advisory Committee (2011) *Fourth Review of the Recommended Shortage Occupation Lists for the UK and Scotland*, September.

Migration Advisory Committee (2012a) *Analysis of the Impacts of Migration*, January.

Migration Advisory Committee (2012b) *Limits on Migration: Limit on Tier 2 (General) for 2012/13 and Associated Policies*, February.

Migration Advisory Committee (2012c) *Analysis of the Points Based System: List of Occupations Skilled at NQF Level 6 and Above and Review of the Tier 2 Codes of Practice*, October.

All these documents are available here: www.ukba.homeoffice.gov.uk/mac

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