Can the shortages of workers reported by the UK's food and drink sector be solved by making it easier to hire migrants? How will wages in these sectors change? And is there a conflict between short- and long-term fixes? **Alan Manning** sets out the trade-offs involved in answering these questions.

UK labour shortages and immigration: looking at the evidence

Employer lobbying on worker shortages unsurprisingly tries to talk up the seriousness of the consequences, often using emotive images – fruit and vegetables left to rot in fields (or given away for free) or healthy pigs slaughtered on farms rather than at abattoirs.

These claims may be accurate but they could also be exaggerated. Employers are likely to present their case as being in the national interest, but first and foremost, what they are asking for is generally in their interest. In many situations, what is 'best for business' is 'best for Britain', but not always. We would never have had the Equal Pay Act or the National Minimum Wage if we had uncritically accepted the arguments of business at the time suggesting that they were bad policies.

When immigration can be used to address labour shortages… and when it can't

Work migration policy cannot be used for generalised labour shortages. Immigration increases the supply of labour but as migrants spend their earnings, it also raises the demand for labour; any gap between the supply and demand for labour is the same.

To think that migration is a possible solution to generalised labour shortages is to fall into the 'lump of labour' fallacy – the view that there are a fixed number of jobs in an economy. The mistake is often made in recessions by those who are generally hostile to immigration when arguing that immigration causes high

levels of unemployment. But it is also made by those favourably inclined to immigration in a booming labour market who argue for immigration to solve widespread labour shortages.

But work migration policy can and should be used to address some localised shortages. There are a number of questions to reflect on: how serious is the shortage, what is the cause of the shortage and is it sensible to address the shortage through migration policy?

How serious is the shortage?

Not all labour shortages are equally serious. The more serious ones include shortages of workers who deliver key products and services, so limiting economic activity in other sectors. Shortages of doctors are more serious than shortages of bar staff. And shortages of HGV drivers can cause bottlenecks in the economy when shortages of bar staff don't.

Even where shortages are not of great concern from the perspective of the economy as a whole, they may have serious implications for the affected businesses.

The causes of shortage

Sometimes a shortage occurs because there are not enough people able to do the job. In other cases, it is a shortage of people who want to do the job, almost always because of poor pay and/or conditions.

For some of the sectors complaining about shortages – agriculture, food processing, hospitality, social care – the basic problem is some combination of poor pay and conditions and low status, which mean that these sectors struggle to compete for local workers with other sectors and look to the government to provide them with a source of migrant labour with fewer options.

In the case of HGV drivers, the appropriate licence is needed and there seems to be a shortage of the suitably qualified. But there may also be some issues with pay and conditions; a former editor of *Trucking* magazine claims there are 600,000 people in the UK with the necessary licence who do not drive for a living. Understandably the sectors prefer to emphasise that the shortage is the result of the lack of necessary skills or an unfair perception of the quality of jobs rather than low pay.

These claims need to be evaluated

> Work migration policy can, and should, be used to address some localised shortages

critically. Many of the affected sectors have long-standing issues with the recruitment and retention of workers, but these problems are more acute now. The pandemic is one cause. At the end of June 2021, there were still 1.9 million workers on furlough from 580,000 employers, some of them in the same sectors that are also reporting shortages.

Brexit has also played a role. The latest figures from the Office for National Statistics (ONS) suggest that the employment of European Union (EU) nationals fell from 2.5 million in January to March 2020 to 2.23 million in July to September 2021. The fall is among East European nationals. As workers from these countries are known to be more likely to work in the sectors complaining about shortages, these estimates, while subject to more uncertainty than usual, seem plausible.

It is understandable that many of these workers left the UK in the depths of the pandemic to move closer to family and where the cost of living is lower. Much of this would probably have happened even if the UK had remained in the EU. But now, as the economy reopens, it seems hard to persuade many of these workers

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back to the UK. Even before the Brexit vote, the business model that relied on a steady stream of new migrants from Eastern Europe was probably running out of road; the EU was not expanding, and options at home and elsewhere in Europe were improving.

For HGV drivers one other important factor seems to be HMRC's IR35 rule, which has forced many drivers to swap (bogus) self-employment for employee status, resulting in falls in income of up to 25%.

Solutions to shortages

If the shortage is caused by a lack of people with the necessary skills, then the best long-term solution is to increase training. But if the shortage is acute and it takes time to train workers, migration is a very tempting stop-gap. The risk, however, is that allowing migration removes the pressure to train more and a temporary policy becomes a permanent one.

To give one example, in 2016, the Migration Advisory Committee considered whether nurses should be placed on the shortage occupation list (SOL) to receive priority in the allocation of work permits. The Department of Health (as it then was) argued that this was needed as a short-term measure before their ambitious plans to train more nurses came to fruition. To nobody's great surprise, this did not happen, and nurses remain on the SOL to this day.

For shortages in the food and drink sector, HGV driving stands out as the job where there might be a shortage of people with the necessary licence. But getting an HGV licence takes much less time than training to be a nurse or doctor; in normal times about eight to 10 weeks. The pandemic has led to a bottleneck in obtaining new licences. But the long-standing shortages in this sector are probably the result of a training model where workers have to find the time and money themselves and do not consider that the pay and conditions are worth it.

Where the shortage is caused by poor pay and/or conditions, the obvious solution is to improve them. That should increase the supply of people who want to work in the sector, but may also raise prices and reduce the demand for workers. There is a long-standing academic debate about the link between immigration and wages; the many current reports linking a lack of migrants to labour

shortages and rising wages probably shifts the balance of evidence a bit towards the view that migration can sometimes affect pay.

But the economics leads us to expect bigger impacts in the short run than in the long run. Over time, business models adjust, leading to a smaller rise in wages. Workers in these sectors currently being offered higher wages might be well advised to take advantage of the current situation as it may not last forever.

Sectors where shortages are caused by poor pay, conditions and low status are unable to recruit and retain workers in the open labour market; people who could do these jobs vote with their feet and go elsewhere. This is why these sectors like visa schemes, which provide them with a ring-fenced supply of migrants who are unable to leave for more attractive jobs. These schemes need to be justified by an argument that one wants to give privileged access to labour for the sectors covered.

So far, the government has announced a handful of ring-fenced schemes – for drivers, poultry workers and pork butchers. These may be one-offs or the start of a new trend.

The return of the guest worker?

Temporary work permits for low-paid migrants are best thought of as a guest-worker programme, extensively used in many European countries in the 1950s and 1960s and still common in the Gulf, Singapore, Canada and Australia, among other countries. The phrase guest worker (translated from the German *gastarbeiter*) is a strange one – we normally think of a guest as someone we are doing something for, whereas this is really the other way round. Servant worker might be a better term.

The classic guest-worker scheme involves hiring migrants temporarily with no path to settlement, no right to bring dependents, on contracts with severely limited employment rights (for example, no right to change jobs) and very limited, if any, access to welfare benefits. The proposed new visas tick all these boxes.

The pros and cons of guest-worker schemes

It is reasonable to infer that guest-worker schemes are good for many employers, given how hard they lobby for it. The

schemes may be good for consumers of the products produced by the guest workers – either because they mean lower prices or, in crises, more availability. And the schemes may be good for the migrants if the only alternative is not to be able to migrate at all. Organisations like the World Bank have argued for more such schemes as an effective development policy.

But there is a trade-off. The worse the conditions under which the migrants are hired, the worse it is for the migrants, but probably the better it is for employers and their customers. And these schemes are probably not so good for any local workers who remain in the sectors – as pressure to improve pay and conditions is reduced or removed.

Guest workers are also a part of our society – while any individual worker may only be here a short time, there can be large transient populations. These groups will almost certainly be the poorest people in our society, which becomes more unequal as a result.

Historically, there has also been a tendency for guest-worker programmes to become permanent. Although there is some work that is very seasonal, restricting the length of an employment contract is artificial in many cases. At the end of the visa period, the migrant wants to stay, the employer wants them to stay and there is lobbying for this to be possible. And once the length of stay increases, labour market rights are expanded – you can't keep people trapped in a job forever. And longer stays lead to demands to allow families and then access to welfare benefits, otherwise their children may grow up in extreme poverty.

With more rights, the migrants leave the sectors where the pay is so poor, some of them perhaps even become unemployed. Many of the guest workers who came in the 1960s went on to have high unemployment rates for a number of reasons: low skills, discrimination and poverty among them.

Conclusion

There are pros and cons to using migration to resolve shortages. They have to be understood to arrive at an informed decision; too often attitudes seem decided by whether someone is generally for or against immigration.

> Visa schemes that provide low-pay sectors with a ring-fenced supply of migrants who are unable to leave for more attractive jobs need to be justified

This article first appeared on the LSE Business Review blog as: 'UK labour shortages and immigration: looking at the evidence' (https://blogs.lse.ac.uk/businessreview/2021/09/10/uk-labour-shortages-and-immigration-looking-at-evidence/) and 'Return of the guest worker: guest or servant?' (https://blogs.lse.ac.uk/businessreview/2021/10/11/return-of-the-guest-worker-guest-or-servant/).

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