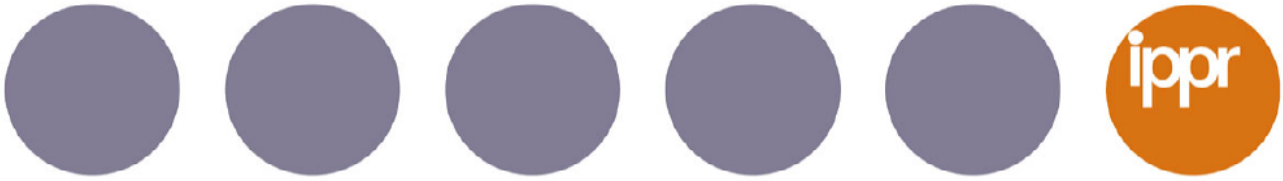

Selecting wisely

Making managed migration work for Britain

ippr submission to the Home Office consultation on
'Selective Admission: Making Migration Work for Britain'

NOVEMBER 2005

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This submission has been prepared by **Laurence Cooley**, **Macha Farrant** and **Dhananjayan Sriskandarajah**, with assistance from Clare Grieve and Anna Macdonald.

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Introduction

In February 2005, the Government published a five-year strategy paper entitled "*Controlling our borders: making migration work for Britain*". This strategy paper (Home Office 2005a) and a subsequent consultation paper (Home Office 2005b) set out a new labour migration system, to be composed of five tiers, with a points-based selection procedure to ensure that those who come to the UK to work are suitably skilled to meet the country's needs.

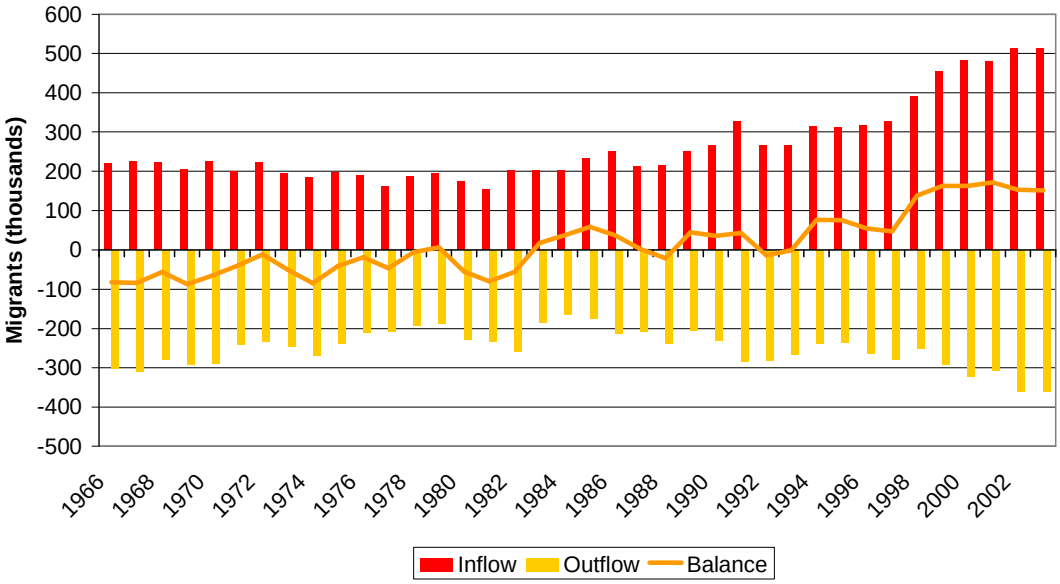
ippr welcomes the Government consultation on proposed changes to the managed migration system and the efforts taken by the Home Office to engage widely with a range of stakeholders.

In our submission, we would like to pay particular attention to the issue of skills. The opening sections of the submission look at current migrants, the sectors in which they work and their contribution to the UK economy. Subsequent sections consider the extent to which the skills mix of current labour migration is appropriate for the needs of the UK labour market and will consider estimates of anticipated future demand for skills. In light of this, this submission will then explore the extent to which Government proposals for a new managed migration system will address current and future labour market needs. A concluding section will outline several recommendations that we believe will enhance the proposed system to deliver even better results. These include merging Tiers 1 and 2, creating a unified points system, giving the proposed Advisory Board a remit beyond skills, and creating flexible and responsive low-skill migration channels.

The scale and history of labour migration to the UK

When viewed as a long-term phenomenon, it becomes clear that immigration levels are cyclical – rising and falling over time. There have been times when more people have left Britain than have arrived, and also times when more people have arrive than left. The interaction of immigration and emigration determines the net rate of migration, as shown in Figure 1.

Figure 1. UK net immigration



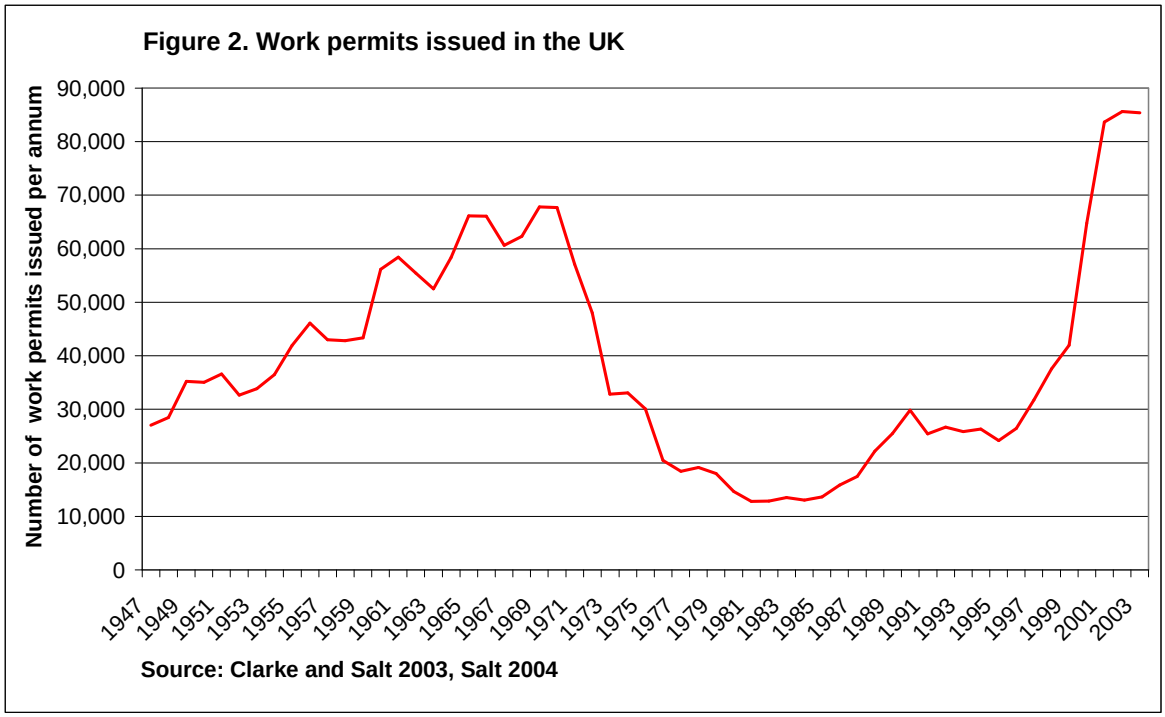
Source: International Passenger Survey

While Britain has always experienced inflows and outflows of people, it is clear that these flows have grown over time. At the global level too, there has been a significant increase in the scale of labour migration. This has largely been because, since the 1980s, many countries have actively sought to attract migrant workers. The result has been "the emergence of a global migration market, mainly for the highly skilled" (Dobson *et al*. 2001:3).

Figure 1 includes all types of immigration and emigration, including categories such as students and family reunion. Therefore, to examine the specific case of labour migration, it is useful to look at data on more specific routes of entry, such as work permit issuance statistics.

Data on work permit issuance are split into several categories – work permits, first permissions, extensions, changes of employment, supplementary employment, and a small 'other' category. The data in Figure 2 are for work permits plus first permissions, as this mostly closely represents immigration of people with work permits. Some analyses of immigration statistics also include other categories (see, for example, Migration Watch UK 2005), but this is misleading since work permit extensions and changes of employment clearly do not in themselves involve immigration[1].

[1] In fact, first permissions do not involve immigration either, since they are granted in-country, but they do involve a change in a person's immigration status to work permit holder, from student status for instance.



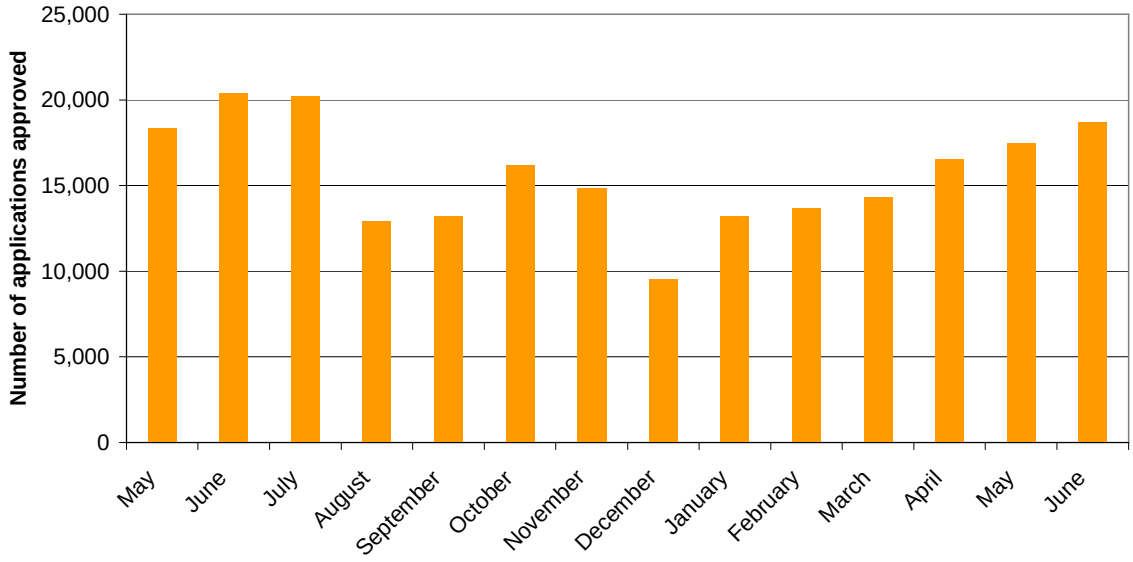
In addition to the work permits system, highly skilled migrants can now enter the UK under the Highly Skilled Migrant Programme. Data show that, since its inception in 2002, this scheme has been fairly insignificant in terms of the number of people it has enabled to migrate to the UK, with 1,197 approvals in 2002, 4,891 in 2003 and 3,234 in the first half of 2004. Indeed Clarke and Salt (2003:573) conclude that HSMP has had "little quantitative impact on the UK labour market. The main significance of the scheme is its deliberate policy of encouraging entrepreneurs to make the UK their home and the message that conveys about the UK's attitude towards skill acquisition and global competition in a broad sense".

In May 2004, citizens of the ten new EU Member States were granted access to the UK labour market. Those from the eight central and eastern European accession states (the so-called 'A8') are required to register under the Worker Registration Scheme (WRS). The vast majority of applications to the WRS are approved, as would be expected given that the UK has granted full freedom of movement rights to A8 nationals[2]. We expect that there is likely to be a steady decline in the number of registrations in the coming years, as the initial stock of people in the A8 who are willing to migrate is exhausted, but also think that it is likely that there will be some seasonality to the data, with more registrations in the summer months, when agricultural jobs are in plentiful supply and when students are on holidays and likely to be looking for temporary work in the UK.

Figure 3 shows the number of A8 nationals successfully applying to the WRS since its inception in May 2004. It seems to confirm the expectation that application follow a seasonal trend.

[2] Refusals have averaged 60 a month. Grounds for refusal include no evidence of employment, and insufficient evidence of citizenship of one of the A8 countries.

Figure 3. Successful applications to the Worker Registration Scheme by month, May 2004-June 2005



Source: Home Office *et al* . 2005

Data are also available on the other labour migration channels. Salt (2004) reports that in 2003, there were 7,808 approvals on the Sectors Based Scheme, well below the quota that was set, and that in the first half of 2004, there were 10,916 approvals, from which Salt suggests implies that the 2004 hospitality quota will have been met, but not the food processing quota. This year, the Home Office announced the closure of the hospitality scheme, as part of the phasing-out of the current low-skilled migration schemes (Home Office 2005c).

Salt also reports on the number of approvals under the Seasonal Agricultural Workers Scheme. In 2002, 19,372 people came to work in the UK under the scheme. No data are available for 2003, although the quota was 25,000. In the first half of 2004 there were 18,887 approvals. Following EU enlargement, the annual quota has been cut by 35 per cent.

Finally, the data for 1999-2003 show that between 35,000 and 46,000 people were admitted to the UK annually during this time period under the Working Holidaymakers Scheme.

Socio-economic characteristics of labour migrants

Data on the characteristics of the existing stock of immigrants can be found in the Labour Force Survey, a quarterly survey of households in the UK that includes questions on country of birth, nationality, personal details and socio-economic status. The definition of a migrant for the purpose of this analysis is someone who was born outside of the UK, but is resident here. The March-May 2005 LFS reveals that the foreign born make up 9.1 per cent of the UK population. This is a relatively low proportion in comparison with other developed countries. By way of a comparison, the foreign born make up 5.3 per cent of Spain's population, 10 per cent of the French population, 12.3 per of the US's, 12.5 per cent of Germany's, and 23 per cent of Australia's population (OECD 2005).

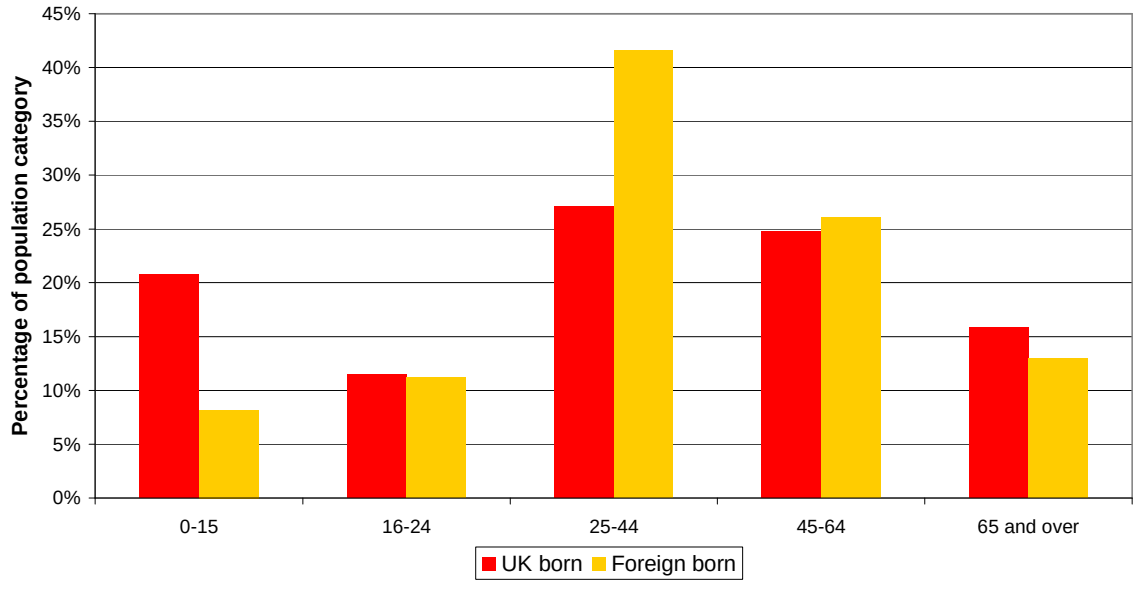
It would also have been possible to use the nationality data, but we have chosen to use country of birth to differentiate between immigrants and non-immigrants, in order to include immigrants who have been granted British citizenship in our analysis. Our analysis of immigrants therefore

includes a number of British nationals who were born overseas, for example the children of British military personnel posted abroad at the time of their children's birth[3]. For comparison, the proportion of foreign *nationals* in the UK population, according to the LFS, is 5.2 per cent.

A major caveat to consider when analysing Labour Force Survey data on immigrants is that the survey does not differentiate between routes of entry. Therefore someone who entered the country as an asylum seeker, was recognised as a refugee, and is now allowed to work, cannot be distinguished in the LFS from someone who entered the country on a work permit or on the Highly Skilled Migrant Programme, with the specific objective of working in the UK.

Figure 4 shows the age distribution of the UK and foreign-born populations. Migrants are disproportionately represented in the primary working age bracket of 25-44 years old, and under-represented in the 0-15 years old group – largely a reflection of labour migration, which by its very nature involves those of working age.

Figure 4. Age distribution of migrant and non-migrant populations, March-May 2005



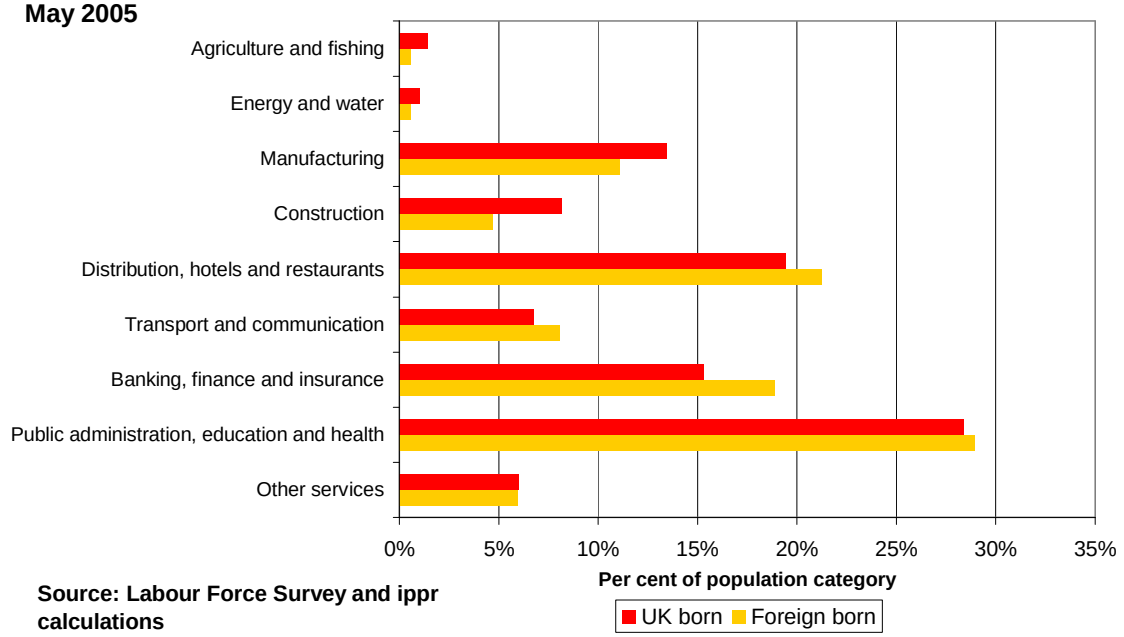
Source: Labour Force Survey and ippr calculations

The LFS data also confirm that there is a slighter greater preponderance of women amongst the foreign-born population in comparison to the UK born. During the sample period, 52.8 per cent of the foreign-born population were female, compared to 51.1 per cent of the UK born.

The data indicate that the foreign born are most likely to be employed in the public administration, education and health sector, mirroring the employment pattern of the UK-born population (see Figure 5 below). Sectors where immigrants are disproportionately likely to be employed compared to the domestic workforce include banking, finance and insurance and distribution, hotels and restaurants. Migrants are particularly under-represented in the manufacturing and construction sectors.

[3] For more details on the complexity of defining the foreign born as immigrants, see Kyambi (2005).

Figure 5. Migrant and non-migrant employment by industry sector, March-May 2005

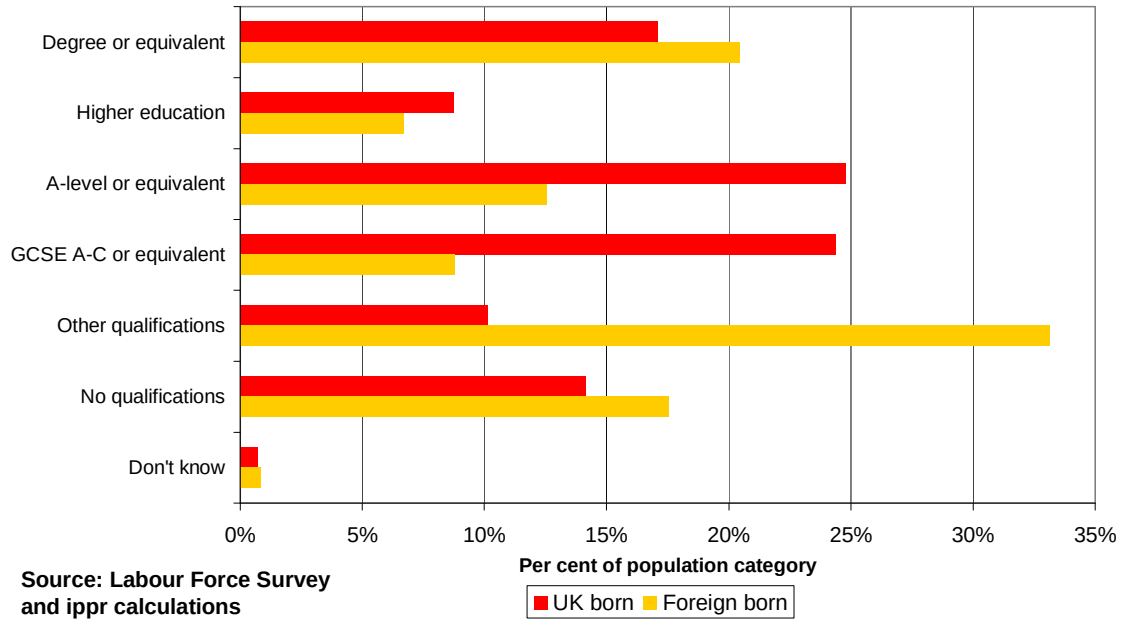


Source: Labour Force Survey and ippr calculations

Salt analyses LFS data on the skills of immigrants, and finds that it "confirms the generally more skilled character of the foreign workforce when compared with the domestic", but also that the data "do not show a uniform picture, indicating that different foreign groups have different roles in the UK labour market" (2004:37). He also finds that "foreign inflow is now relatively more concentrated in the lower skilled end of the labour market. This suggests an overall reduction in the skill level of immigrants".

Figure 6 shows the breakdown of the UK-born and foreign-born populations by highest qualification held. It shows that the foreign born population are more likely to either hold a degree or to hold no qualifications than their UK-born colleagues. However, the main problem with analysing data on migrants' qualifications is that a large proportion (one third) report holding 'other' qualifications in comparison to the non-immigrant population. This is likely to be because of the difficult LFS respondents face in categorising their foreign qualifications according to the British system. This perhaps points to one of the difficulties inherent in the process of efficiently matching migrants to skills-shortage vacancies.

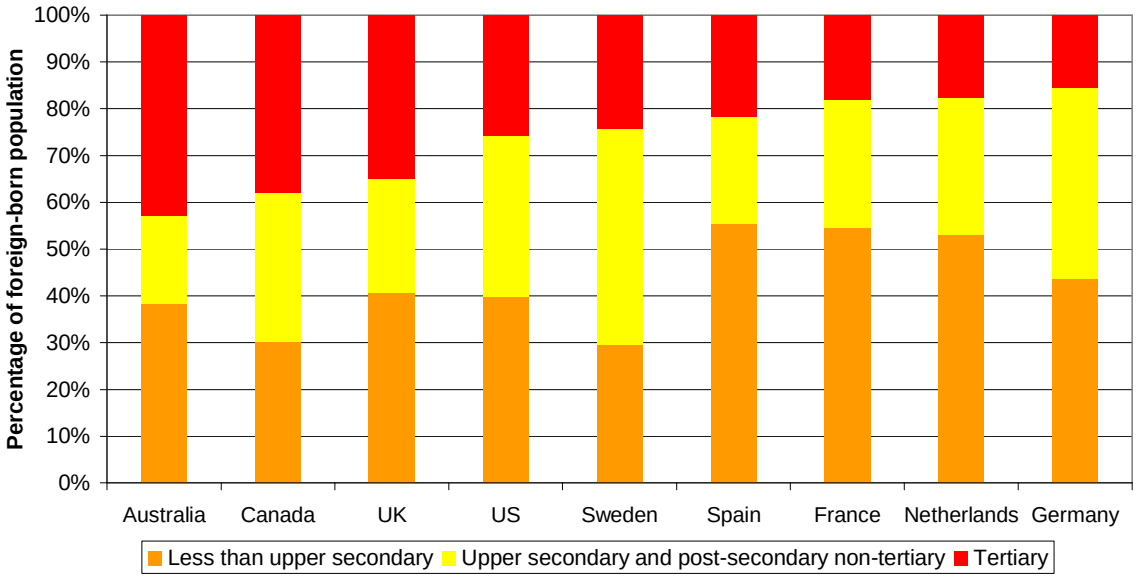
Figure 6. Migrant and non-migrant education levels, March-May 2005



Source: Labour Force Survey and ippr calculations

Figure 7 provides an international comparison of the education levels of the foreign-born population. It reveals a varied picture, with some countries having markedly higher proportions of their foreign-born population in the lower educated category than others – namely France, Spain and the Netherlands. Others, such as Australia and Canada, have higher than average proportions of highly educated migrants. The UK and Australia are noticeable for displaying a polarisation of education levels, with sizeable proportions of their foreign-born populations in the upper and lower categories, and fewer in the middle than other countries.

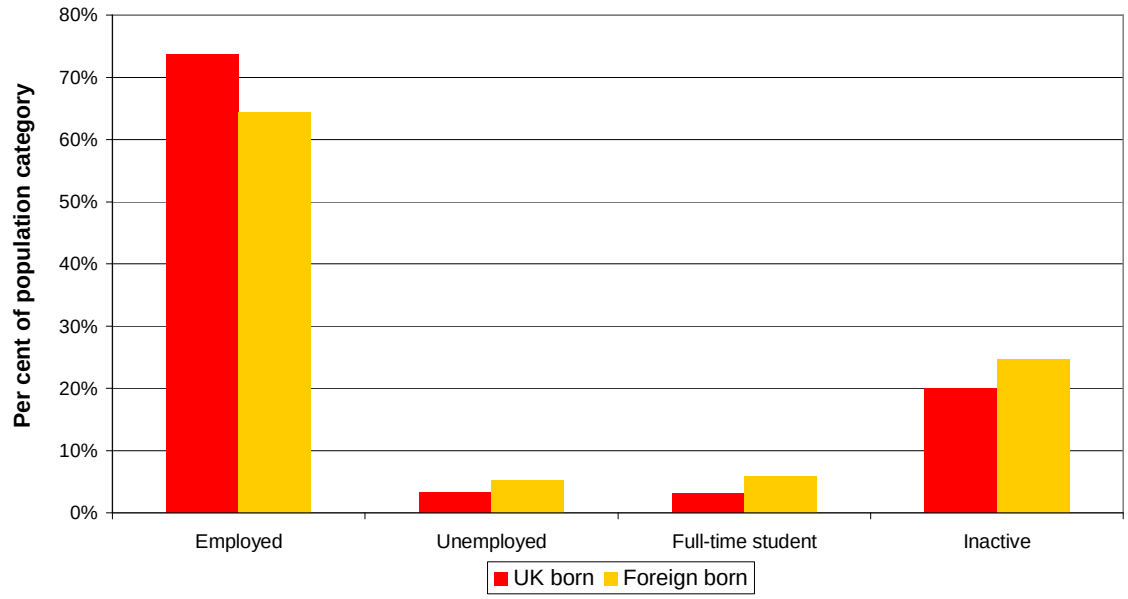
Figure 7. Distribution of foreign-born population by education level, selected OECD countries



Source: OECD 2005a

Figure 8 shows the employment status of the working age UK and foreign-born populations. The foreign born are less likely to be in employment than the UK born. The difference in employment rates between the migrant and non-migrant populations is accounted for by a higher unemployment rate (5.2 per cent versus 3.3 per cent for the UK born), a higher proportion of students amongst the foreign born than the UK born (5.8 per cent versus 3.1 per cent), and a higher proportion of migrants being inactive (24.7 per cent versus 19.9 per cent), which is largely due to family migration.

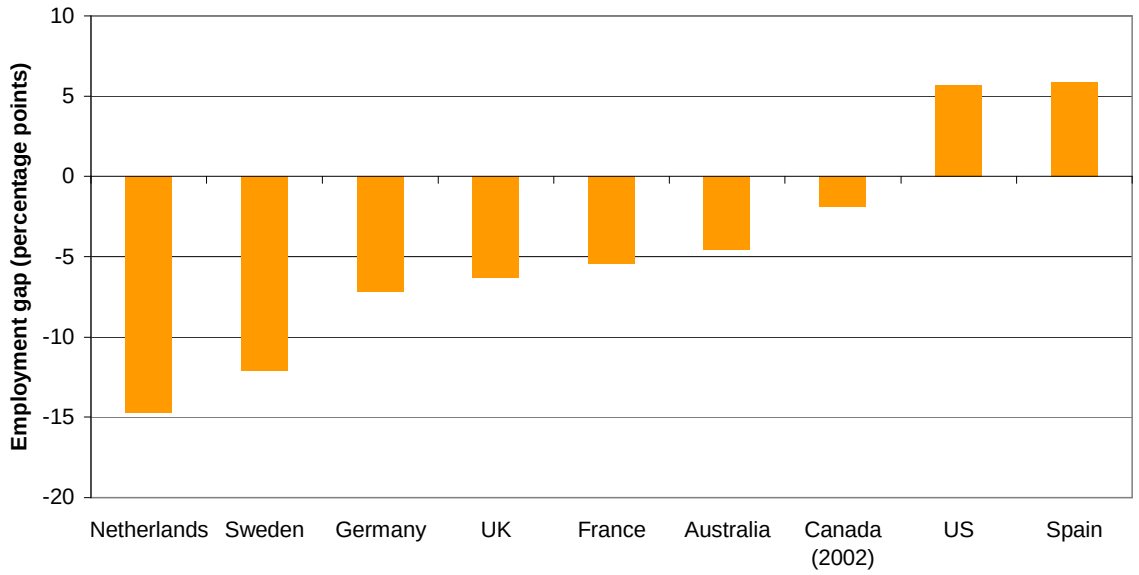
Figure 8. Migrant and non-migrant employment rates, March-May 2005



Source: Labour Force Survey and ippr calculations

Figure 9 shows the employment gap (the employment rate of natives minus the employment rate of foreign-born) between the native and foreign-born populations of selected OECD countries. In the majority of countries the employment rate of the foreign born is lower than that of the native population, for a variety of reasons. A proportion of immigrants to all countries do not choose to move for work-related reasons, but for protection from persecution, and hence may not be allowed or able to work. Also, there tends to be a preponderance of students amongst immigrant populations in comparison to the native born. This is particularly relevant in the case of the UK, which has been particularly successful in attracting international students in recent times.

Figure 9. Employment gap between native and foreign-born populations, selected OECD countries, 2003



Source: OECD 2005b and ippr calculations

The UK's employment gap stood at 6.3 percentage points in 2003, down from 8 percentage points in 1995[4]. There is a wide variation in the employment gaps of European countries, with positive gaps in Spain, Italy and Greece, which tend to attract large numbers of low-skilled migrants, specifically for employment purposes, and negative gaps in the Scandinavian and northern European countries, possibly reflecting the higher proportion of asylum migration in total migration to these countries.

Analysis of the March-May 2005 Labour Force Survey shows the average gross weekly earnings of the total UK population is £384.52. Breaking this down by country of birth reveals that the UK born earn an average of £380.49 per week, and the foreign born considerably more at £424.80.

Figure 10 shows the distribution of gross weekly earnings from the LFS respondents' main jobs, for the UK and foreign born. The chart indicates that migrants are disproportionately represented in the higher earnings brackets (over £700 per week), and also in the £200-299 category.

[4] Note that this reduction is in variance with the findings of Kyambi (2005), who finds that there has been a slight increase in the employment gap between 1994 and 2004, albeit with a different definition of the immigrant population which excludes the Irish born.

Figure 10. Distribution of gross weekly earnings from main job, March-May 2005

Source: Labour Force Survey and ippr calculations

Data on the socio-economic characteristics of migrants entering the UK through specific channels is more difficult to come by than aggregate-level survey data on the existing stock of immigrants, which include people who have entered the UK for reasons other than employment. However, Work Permits UK does maintain a database of work permit holders, which includes data on nationality, age, earnings, industry sector and length of permit. The following charts are based on a sample of 2,177 randomly selected entries from the database, for work permits issued between January 2004 and August 2005.

Figure 11 shows the nationality of applicants granted work permits during this period. The largest nationality groups are a mixture of countries with long histories of sending migrants to the UK, such as India and Pakistan, and less traditional source countries such as the Philippines and China.

Figure 12 shows the age of work permit holders at the time of application, and indicates that more than 70 per cent of applicants are under the age of 35, with the most common age band being the 25-29 group. The proportion of total work permits issued to those over the age of 50 is very small.

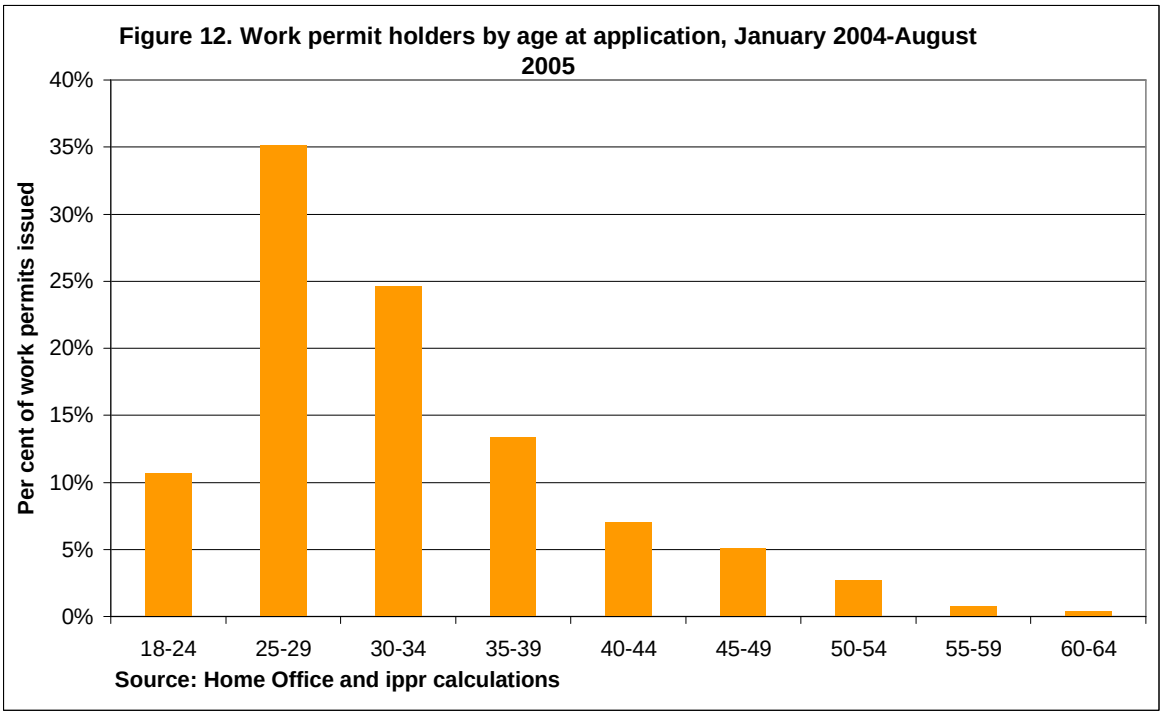
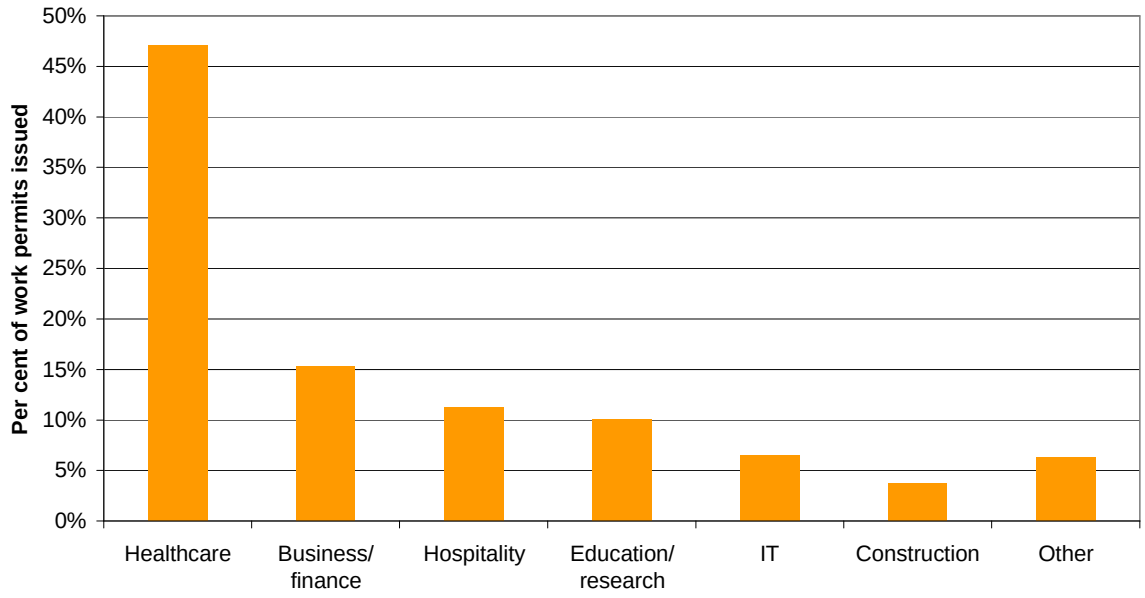


Figure 13 shows the occupational distribution of work permit holders, grouped into seven categories, and indicates that around 47 per cent of the sample of work permits issued between January 2004 and August 2005 were for healthcare professionals. This figure includes nurses and doctors, who accounted for 24.4 per cent and 4.6 per cent of all work permits issued respectively. The second-largest category is business and finance, which is largely composed of management-

level employees. Other notable occupations include chefs (9 per cent of work permit holders), IT specialists (6.5 per cent) and teachers (4.6 per cent).

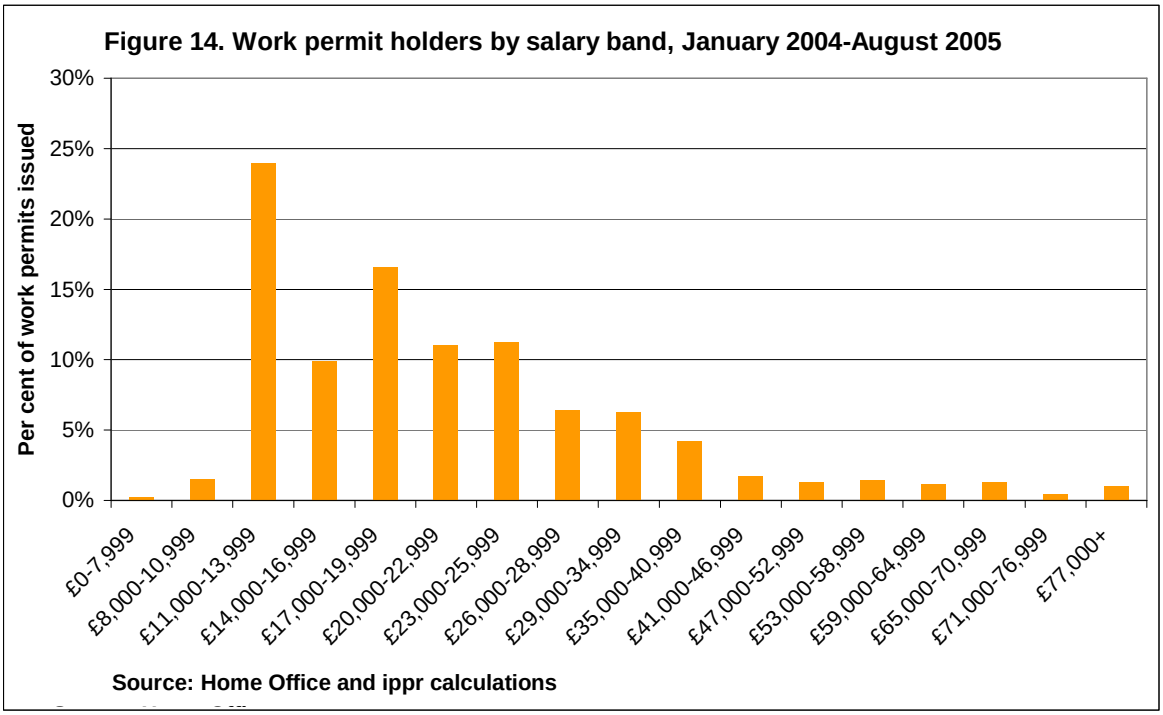
Figure 13. Work permit holders by occupation category, January 2004-August 2005



Source: Home Office and ippr calculations

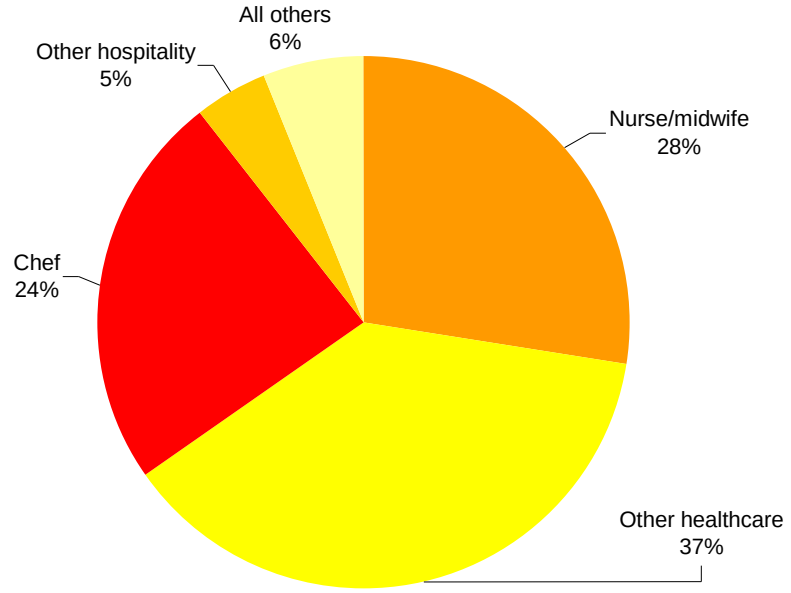
It is interesting to note the relationship between occupation category and nationality. Nationals of some countries are fairly evenly spread across occupations (for example there are Indians with work permits employed as nurses, doctors, computer programmers, chefs, architects, accountants, and so on), whereas nationals of other countries are more concentrated into certain occupations. For example, over two-thirds of Zimbabwean work permit holders are nurses.

It is generally assumed that work permit holders are highly paid, and their average salaries are indeed above the national average, but Figure 14 indicates that this assumption hides a more complex picture. The salary data in the work permit database sample is banded, and the most common salary band is £11,000 to £13,999 per annum, followed by the £17,000 to £19,999 band. Despite these two clusters, almost 48 per cent of work permits holders earn over £20,000. The banding makes calculation of the mean salary of work permits holders difficult, but we estimate it to be around £23,500. It is important to note, however, that these data represent salaries at the time of work permits being granted, and since income tends to rise with time spent in a job, the average salary of all work permit holders currently present in the UK is likely to be higher than this figure.



The clustering of people in the lower salary bands is rather unexpected, and merits further investigation. Figure 15 shows the occupation of those work permit holders earning less than £14,000 per annum. The most commonly represented occupations at this level of earnings are nurses and midwives, other healthcare workers (including a small number of doctors) and chefs. The hospitality sector is particularly over-represented in this low-earnings group, accounting for 29 per cent of all work permits issued to those earning under £14,000, compared to its share of 11 per cent of the total number of work permits issued. Again we need to bear in mind that the data here are for salary at the time of a work permit being issued. Some work permit holders, such as nurses, may be promoted or receive substantial pay rises as they complete training or probationary periods.

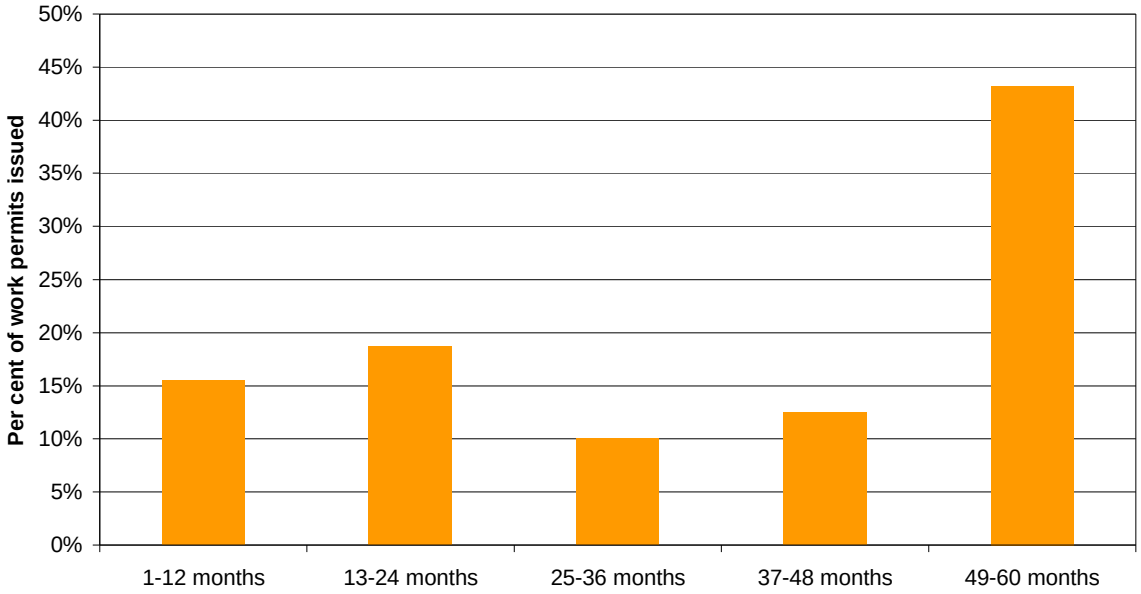
Figure 15. Work permit holders earning below £14,000 per annum by occupation, January 2004-August 2005



Source: Home Office and ippr calculations

Figure 16 shows the length of work permits issued in the period covered by the sample. Around 43 per cent of work permits issued are for 4-5 years, with the second most commonly issued permit being for 1-2 years. The average permit length is just over 40 months.

Figure 16. Work permit holders by length of permit, January 2004-August 2005



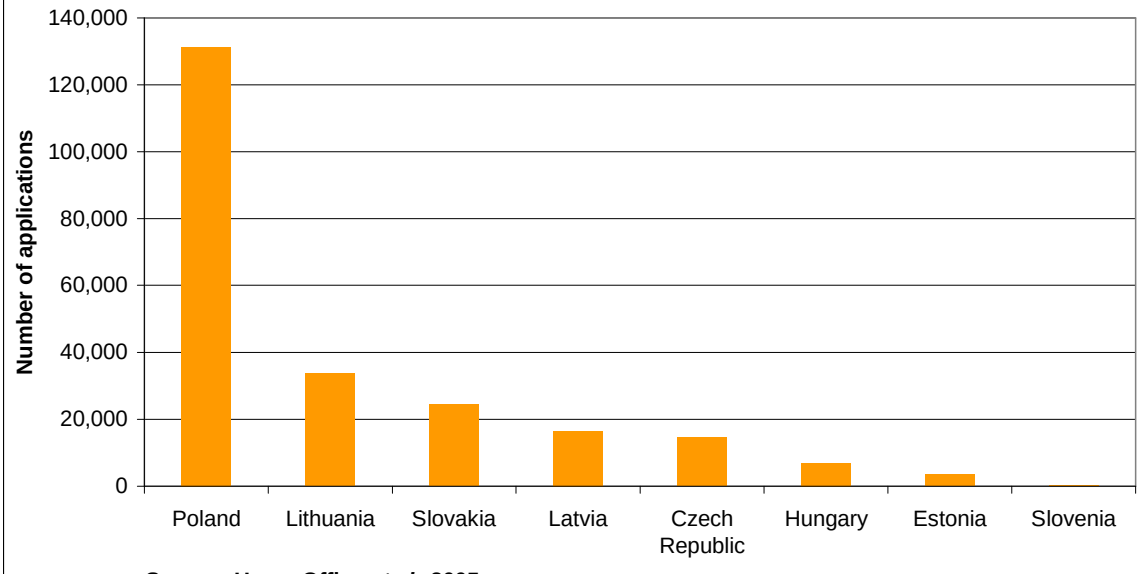
Source: Home Office and ippr calculations

In addition to work permits, skilled immigration is also facilitated by the Highly Skilled Migrant Programme. The number of applications made to this scheme is far lower than to the work permits scheme, with 4,891 application approved in the latest full year that data are available for – 2003 (Salt 2004). The countries with the highest number of approved applications to the HSMP have been India, the USA, Pakistan, South Africa and Australia.

While applicants to the HSMP do not need to hold a job offer, some data are available on the broad occupational categories of the applicants. Clarke and Salt (2003:573), based on data for the first six months that the programme operated, report that, "Four main groups dominate these acceptances: finance (including accountancy, banking, investment, etc.); business managers (including consultants, directors and executives); ICT (including software engineers, computer specialists and telecommunications specialists); and medical occupations".

Turning our attention to migrants from the EU accession states, data from the Home Office's *Accession monitoring report* indicate that those people who have exercised their right to freedom of movement and taken up employment in the UK are predominantly young and without families. 82 per cent of applicants successfully registering between May 2004 and June 2005 were between the ages of 18 and 34. Figure 17 shows that the largest nationality group applying to the Worker Registration Scheme is Poles (who accounted for 56.7 per cent of all applicants), followed by Lithuanians (14.6 per cent) and Slovaks (10.6 per cent). The fewest number of applicants (250) came from Slovenia, the wealthiest and second-smallest of the A8 states. Note that this chart is for all applications, including those that have been refused.

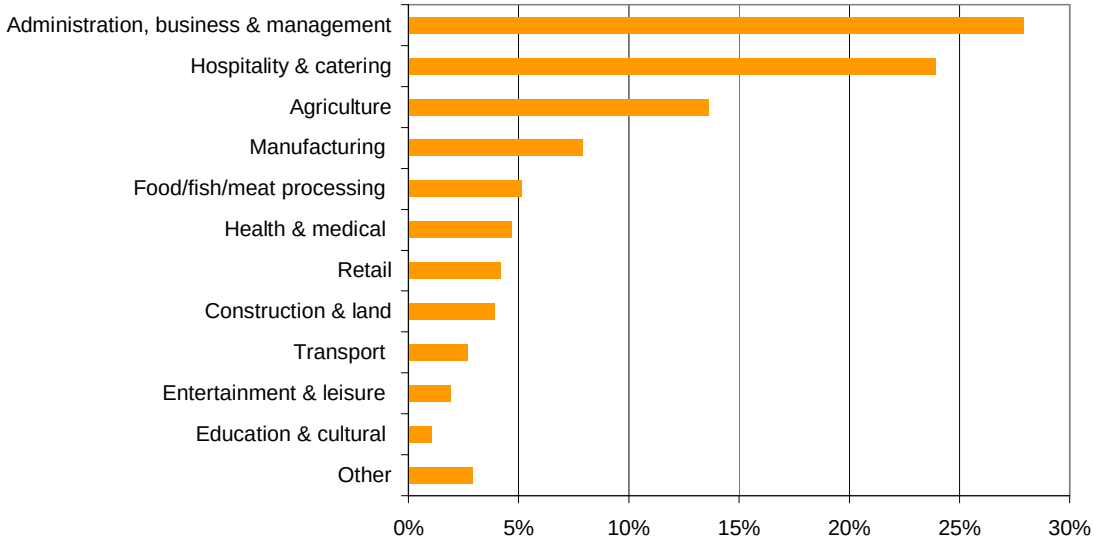
Figure 17. Applications to the Worker Registration Scheme by nationality, May 2004-June 2005



Source: Home Office *et al*. 2005

Figure 18 shows the distribution by industry sector of people registered on the WRS. The chart shows that the top three sectors are administration, business and management, hospitality and catering, and agriculture.

Figure 18. Successful applications to the Worker Registration Scheme by industry sector, May 2004-June 2005



Source: Home Office *et al* . 2005 and ippr calculations

Since July 2004, data have also been collected on the specific occupation of WRS applicants. In order to contextualise the sectoral picture in Figure 18, the top twenty occupations are shown in Figure 19 below. It is interesting to note that occupations such as farm worker/farm hand, crop harvester and fruit picker see increasing numbers of registrations in the summer months, helping to explain the seasonality in the WRS data.

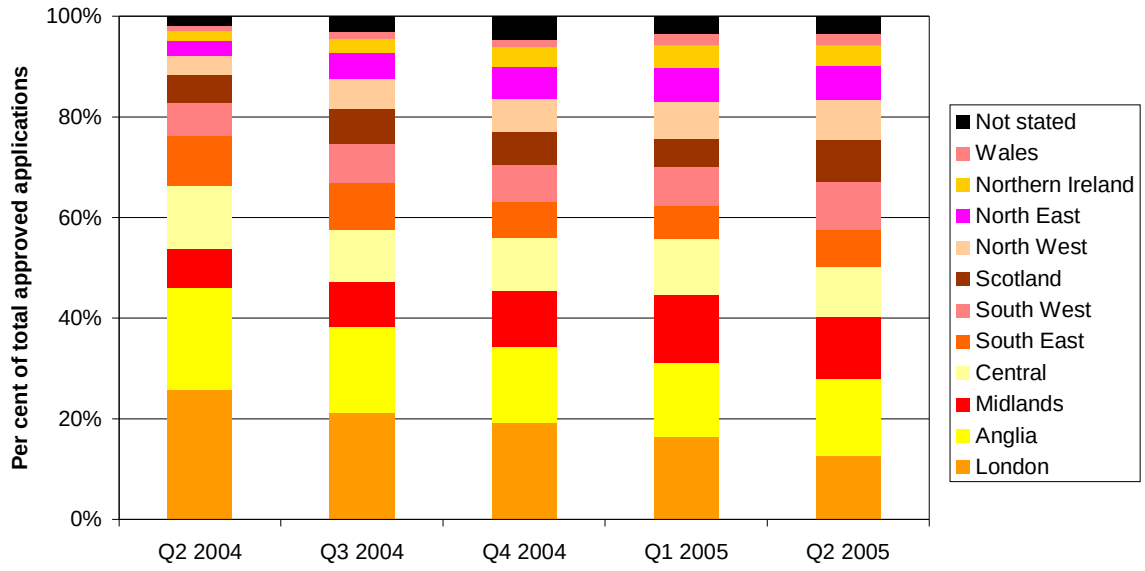
Figure 19. Successful applications to the Worker Registration Scheme – top 20 occupations

	Q3 2004	Q4 2004	Q1 2005	Q2 2005	Total
Other process operative (not electronics, textiles or vehicles)	8,135	9,825	9,935	12,380	40,270
Kitchen and catering assistants	3,245	2,690	2,455	3,405	11,800
Packer	2,610	2,900	3,035	3,105	11,650
Farm worker/farm hand	2,215	1,130	1,705	4,095	9,145
Cleaner/domestic staff	2,340	2,015	2,130	2,410	8,895
Waiter/waitress	2,910	2,070	1,700	1,980	8,660
Warehouse operative	1,505	2,305	2,430	2,365	8,605
Hotel maid/room attendant	1,865	1,505	1,300	1,835	6,510
Care assistants and home carers	1,215	1,360	1,375	1,535	5,485
Sales and retail assistants	1,325	1,215	1,105	1,320	4,965
Building labourer	1,170	910	1,135	1,370	4,585
Crop harvester	955	280	610	2,165	4,010
Bar staff	1,150	795	660	790	3,395
Food processing operative (fruit/vegetables)	805	795	705	945	3,245
Food processing operative (meat)	805	720	560	630	2,715
Other chef (not head or second)	800	580	545	610	2,535
HGV driver	300	435	570	615	1,920
General administrator	540	460	400	445	1,845
Fruit picker	450	100	125	1,135	1,805
Delivery van driver	265	320	340	395	1,315
Top 20 total	**34,590**	**32,415**	**32,815**	**43,525**	**143,350**
All others	11,845	8,160	8,510	9,220	37,735
Total	**46,435**	**40,575**	**41,325**	**52,750**	**181,085**

Source: Home Office *et al*. 2005

The Home Office also provides data on the UK regions in which accession nationals are settling. Figure 20 shows the regional distribution of accession workers registering under the WRS since May 2004.

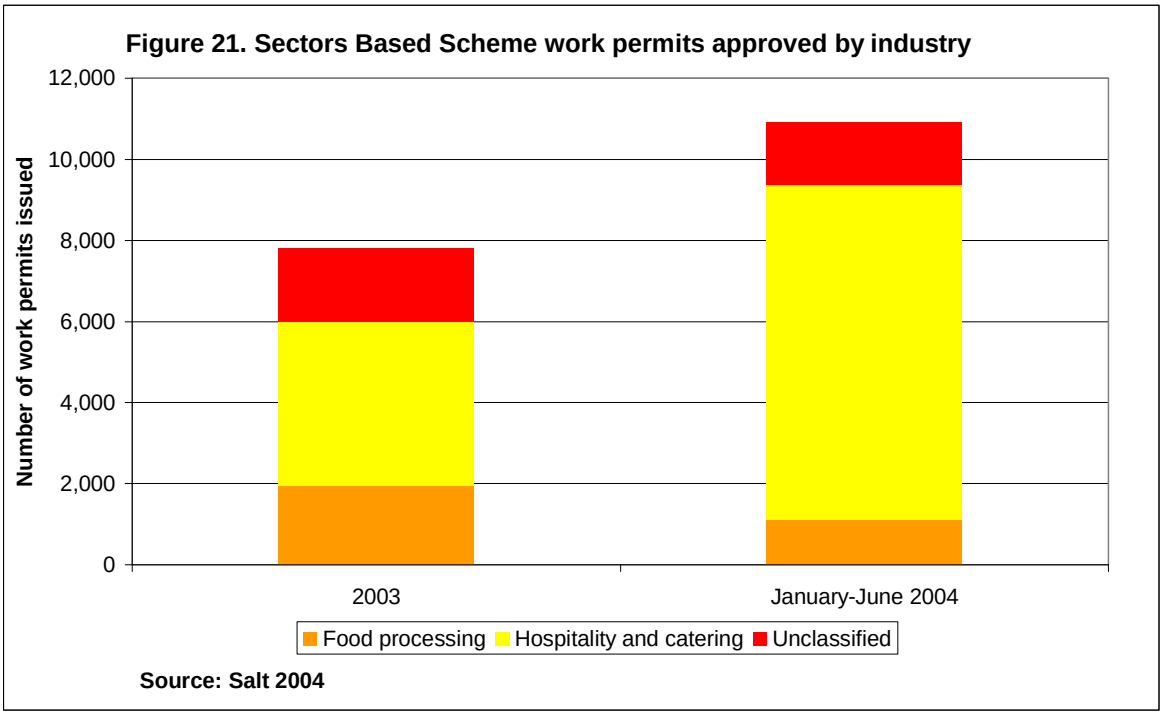
Figure 20. Successful applications to the Worker Registration Scheme by region



Source: Home Office *et al*. 2005 and ippr calculations

The data show that since the start of the WRS, there has been a clear diversification in the regional distribution of accession workers. 25.7 per cent were located in London in May and June of 2004, compared to only 18.7 per cent in the second quarter of 2005. In fact, in quarter two 2005, Anglia overtook London as the most popular destination, probably reflecting the region's need for seasonal agricultural workers. Regions which initially attracted few accession nationals have also become more popular, with Scotland, the North West, North East, Northern Ireland and Wales accounting for a combined total of almost 30 per cent of approved applications in quarter two 2005, compared to just over 15 per cent in the same period in 2004.

Figure 21 presents data on the number of permits issued by industry sector under the Sectors Based Scheme. In terms of nationality, the biggest groups in the first half of 2004 were Bangladeshis (55 per cent), Ukrainians (8.2 per cent), Pakistanis (5.3 per cent), Bulgarians (5.3 per cent) and Vietnamese (4.1 per cent).

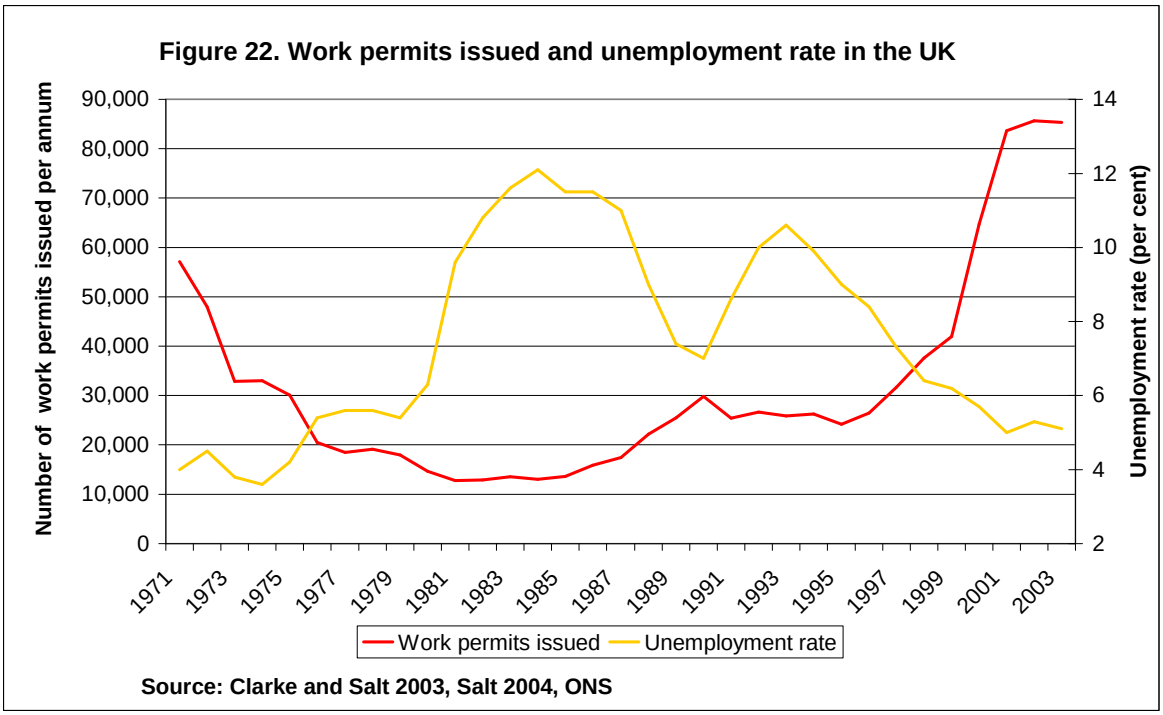


Under the Seasonal Agricultural Workers Scheme, there were 18,887 work cards issued with a planned start date in the first half of 2004. Of these, 30.4 per cent were issued to Ukrainians, 12.5 per cent to Bulgarians, 12.3 per cent to Russians, 11.6 per cent to Belarusians and 10.3 per cent to Poles (presumably prior to Poland acceding to the EU in May of that year).

Of the 46,505 Working Holidaymakers admitted to the UK in 2003, around a third were from South Africa, another third were from Australia, with the majority of the remainder being from New Zealand and Canada.

Explaining trends in labour migration

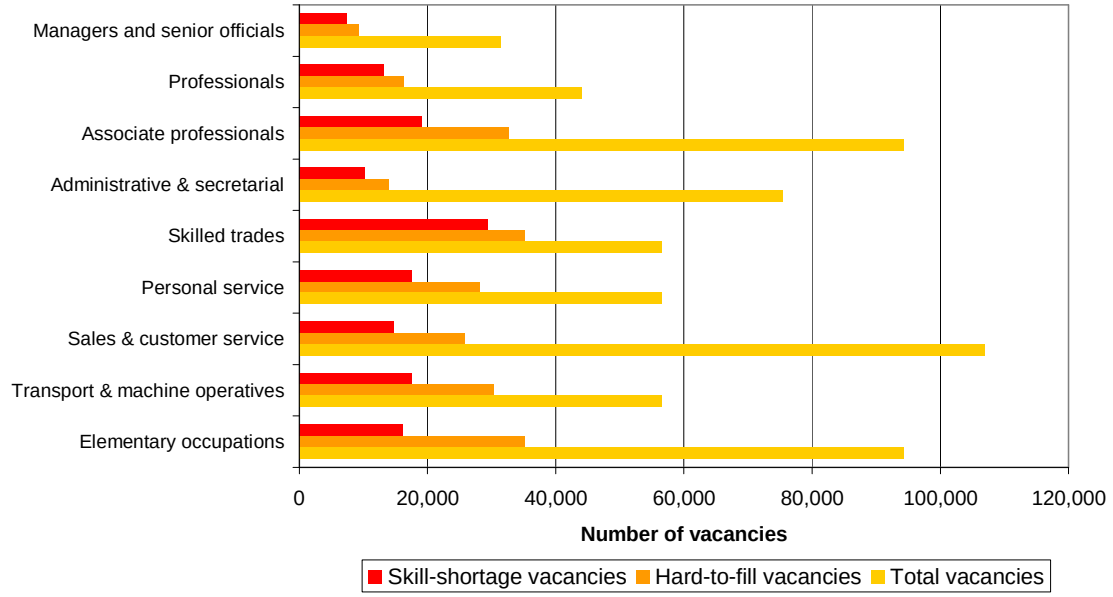
Figure 22 shows the number of work permits issued in the UK, together with the unemployment rate. There is clearly a relationship between the two – the number of work permits issued has been relatively low during times of high unemployment (such as the period from the mid 1980s to the early 1990s), but has been higher in times of falling unemployment (the early 1970s and the period since the mid 1990s). This is consistent with Rollason's (2002:329) view that under the current system, "The number of work permits issued has fluctuated in accordance with UK economic conditions based on employer demand".



This suggests that the work permits avenue of labour migration has been successful in responding to changes in the level of demand for migrant workers, which is most likely due to its employer-led nature – when the labour market is tight, firms apply for work permits to bring staff in, and when unemployment is high, they either do not chose to take on new foreign staff, or are unable to because with a large unused supply of domestic workers, they cannot pass the labour market test in order to successfully apply for a work permit.

In times of low unemployment, employers often experience difficulties recruiting staff with the necessary skills, as the pool of available labour shrinks. The Learning and Skills Council conducts an annual 'National Employers Skills Survey' to determine the number of vacancies that remain unfilled in England. The 2004 survey found that in total, there were 616,800 unfilled vacancies at the time of their fieldwork. Of these, 227,175 were classified as hard-to-fill vacancies, and 145,475 identified as being skill-shortage vacancies (SSVs) (Learning and Skills Council 2005). SSVs refer to those vacancies that employers put down to potential recruits lacking the experience, skills or qualifications that they require to carry out the job effectively. Figure 23 illustrates the breakdown by occupation of the vacancies identified by the latest National Employers Skills Survey.

Figure 23. Job vacancies by occupation, 2004



Source: Learning and Skills Council 2005

Figure 23 indicates that the occupations with the highest number of unfilled vacancies are those in the sales and customer service, elementary occupations and associate professionals categories. Relatively few of the associate professional and sales and customer service vacancies are due to skills shortages. Compared to other categories, however, these occupations have a relatively low proportion of vacancies accounted for by skill shortages (14 per cent for sales and customer services and around 20 per cent for both associate professionals and elementary occupations). In contrast, of the vacancies in the skilled trades category, which includes "skilled construction, metal and electrical trades" (Learning and Skills Council 2005:4), 52 per cent are due to skill shortages. Around 30 per cent of vacancies in the transport and machine operatives, personal services (which include "such roles as nursery nurses, teaching assistants, nursing auxiliaries and air travel assistants" (*ibid.*)) and professionals categories are due to skill shortages.

Getting the future skills mix right

From a demand standpoint, there seems to be a belief amongst policymakers that with the move to an increasingly knowledge-based economy, the need for low-skilled workers will diminish. However, in reality, we have seen net growth over the past decade at both the high- and low-skill end of the labour market with significant increases in managerial, professional and technical jobs, but also a rising share of less well-paid personal services and sales occupations (Robinson 2005). This increased polarisation of the labour market can be explained by the fact that certain lower-skilled, and most often lower-paid, jobs can be neither displaced by technology nor exported to places where labour is cheaper. While some low-skilled jobs are disappearing, there is a growing need for workers in so-called non-routine and non-tradable service sectors, such as healthcare and personal services.

Certain jobs such as cleaning are not directly affected by technological progress because they are non-routine (Goos and Manning 2005). Equally, while many low-skilled jobs, such as those in manufacturing, can be exported, others cannot – it is impossible to provide nursing care, to cut someone's hair, or to clean an office remotely. A recent study (McKinsey Global Institute 2005) calculated that only 11 per cent of the world's service sector jobs can be performed remotely. Unless there is rapid technological progress, a significant proportion of jobs in the domestic services sector will continue to be carried out on location and will thus remain non-tradable. In fact, technological change looks set to increase job polarisation further. Rapidly expanding employment in high-skilled occupations will most likely be accompanied by further growth in low-skilled service occupations such as security guards, cleaners and sales assistants (Goos and Manning 2005). For example, labour market predictions in the US show strong demand for workers with few skills. Half of the 30 occupations projected to have the largest numerical growth require limited on-the-job training, and many of this type of job are already held by Mexican immigrants (Lowell 2005). With policy in developed nations aimed at up-skilling the workforce, fewer people are likely to be willing to carry out the essential jobs in sectors such as personal care, which is growing due to a wealthier, ageing population. Excessive restrictions on low-skilled immigration may therefore accentuate shortages in these sectors.

At the other end of the skills spectrum, highly skilled migration is generally politically popular, and has been a relatively easy policy for politicians to 'sell' to electorates. Immigration of low-skilled workers is often opposed because it is believed that they present an extra source of competition in an already low-paid part of the economy. The so-called 'lump of labour' argument – that there are a fixed number of jobs in the economy, with immigrants displacing locals in the labour market – is still widely accepted, despite economists having discredited it. Public concern revolves around the perception that immigrants reduce wages or cause unemployment, particularly for the low skilled. However, most analysis of the empirical effects of immigration on labour markets in the US and to a lesser extent in the UK has demonstrated that the impact of immigration on wages and employment prospects is minimal, although there may be some short-term effects (Borjas 1994, Glover *et al*. 2001). There are also frequent concerns that low-skilled migrants place excessive demands on public services and are likely to be a drain on the benefits system. However, Sriskandarajah *et al*. (2005:6-7) argue that, "Even low-skill, low-wage immigrants, who we might assume will make smaller net contributions to the public purse, often work relatively long hours, hence paying not insignificant amounts of tax".

Indeed, the data from the National Employers Skills Survey presented above indicate that there are more skill-shortage vacancies in occupations further down the skills spectrum. There are around 66,000 vacancies unfilled due to skill shortages in the personal service, sales & customer service,

transport & machine operatives and elementary occupations categories, and over 29,000 in the skilled trades alone. With increasing number of school leavers going to university, it is likely that recruitment problems in these sectors will become more acute.

The evidence seems to suggest that there are shortages across skill levels, but particularly in the skilled trades. At present, there seems to be a reasonably good fit between the skills provided by accession workers, who appear to be filling low-skilled vacancies, and those provided by work permit holders, who are generally filling vacancies further up the skills spectrum, particularly in the health care sector. It is more difficult to tell if vacancies in the skilled trades are likely to be filled by immigrants. Very few skilled tradesmen show up in the statistics on accession workers, but the self employed do not have to register under the Worker Registration Scheme, so more research would need to be undertaken in order to understand whether the present labour migration system is providing workers to fill these shortages. Given that the "Polish plumber" was a popular caricature of accession workers in the lead-up to EU enlargement, it is disappointing that there is only anecdotal evidence as to whether significant numbers of skilled tradesmen from the A8 have moved to the UK.

That the skilled trades have the highest proportion of vacancies attributed to skill shortages is particularly relevant in the context of London hosting the 2012 Olympic Games. Clearly there will be a need for tradesmen and other construction industry staff in the run-up to the Olympics, and this is expected to place additional pressure on an industry that is already suffering from skill shortages. Serious consideration needs to go into assessing how these needs will be met, balancing the need to up-skill the domestic workforce and attracting migrant workers with the right skills.

A recent survey undertaken by the Chartered Institute of Building (2005) found that 79 per cent of its members had problems recruiting during 2004/05, and 91 per cent anticipate skill shortages beyond 2005. This is not surprising given that ConstructionSkills, the Sector Skills Council for the construction industry, estimates "that the sector must attract and train about 88,000 new entrants every year for the next five years" (Fennell 2005). The Royal Institution of Chartered Surveyors (2005) reports that there is concern, particularly in Scotland and Northern Ireland, that "Building work set to take place in London for the 2012 Olympics could leave areas outside south-east England with a lack of skilled building workers" as a result of "a huge surge of construction work that would add to the skills shortage and cause prices for materials, labour and tenders to soar".

The Confederation of British Industry (CBI), the UK's largest employers' organisation, while emphasising the need to improve the skills and participation rate of the domestic workforce, recognises the importance of the role of migration in meeting skills shortages. The CBI (2005) argues that, "Specific sectors and regions of the UK economy are suffering from skills and labour shortages" and that "Migrants have made an important contribution to the UK economy – bringing valuable and scarce skills that have benefited UK business and helped contribute to economic growth". Moreover, the CBI stresses the need for flexibility in the labour migration system, arguing that "It is important that the Government maintains a range of routes into the country in order to react to labour market needs".

One of the main problems in assessing whether migration can meet future skills needs is that projecting future shortages is a complex and inherently imperfect procedure. There are international examples, though, which the UK could look to in order to investigate best practice in this area. Boswell *et al*. (2004) review the forecasting approaches of five other OECD countries. We have summarised their findings in Figure 24.

Figure 24. Approaches to projecting skills shortages in OECD countries

	Organisations involved	Projections made	Advantages and shortcomings
Australia	Centre of Policy Studies (research centre at Monash University)	Projections published biannually, disaggregated to 340 standardised occupational groups, and are made available to independent policy analysts	Results are transparent and accessible, but the complexity of the model restricts updates to once every two years – there is a trade-off between the complexity of the model and up-to-dateness
Canada	Human Resources Development Canada* (government department)	10-year forecasts of economic growth, and industrial and occupational projections	Oriented towards practical relevance – estimates are used for occupational and educational planning; Does not incorporate the impact of adjustments to disequilibria on the labour market
Germany	Institute for Employment Research (IAB) (government institute); Institute for Economic Research (Ifo) (independent economics think tank)	IAB makes employment, occupational and supply projections; Ifo makes demand and supply projection	Combines both employment and occupational forecasts; Useful for education policymaking Ifo model is not scenario-based
Netherlands	Research Centre for Education and the Labour Market (research institute at Maastricht University)	Biannual 5-year projection broken down into 13 sectors, 123 occupational classes and 98 types of education	Does not attempt to match total future demand and supply – looks at openings and inflows instead, allowing for more sophisticated modelling; Forecasting method may not be appropriate for larger countries
United States	Bureau of Labor Statistics (government agency)	10-year projections of employment and labour force, based on standardised industry and occupational classifications	Very accessible to the public; Publications provide guidance on what sorts of training yield good labour market prospects; Better at forecasting overall labour markets than skills needs

* Recently split into two separate departments: Human Resources and Skills Development Canada and Social Development Canada

Source: Summarised from Boswell *et al*. 2005 and agency websites

Recommmendations for the Home Office consultation

The Government's strategy and consultation papers set out a new labour migration system, to be composed of five tiers, with a points-based selection procedure to ensure that those who come to the UK to work are suitably skilled to meet the country's needs. While we welcome the Government's intention to review the system, we recognise, as indeed the Home Office itself has recognised, that the "current system generally works well for employers" (Home Office 2005a: 15). For all of its alleged faults, the UK's current managed migration system has seemingly responded to particularly strong labour market conditions by delivering increases in immigrant numbers. Anecdotally it would seem that the system has also been delivering the right migrant workers in the right sectors in the right regions. Any attempts to change the system should recognise the successes to date, particularly the importance of having a flexible, employer-led system for selecting workers. Indeed, in its review of policy, we hope that the Government delivers on its promise to "continue to encourage migration for work through a flexible system that is employer-led and responsive to market needs" (ibid).

We are aware that many other interested parties have quite strong views on aspects of the proposed system. While we have an interest in the whole gamut of issues raised in the consultation process, we have chosen to focus on the question of selecting skills. The proposed system is likely to shift the current skills balance in migratory flows. The emphasis will be on skilled workers, who will be recruited through Tiers 1 and 2 and offered the possibility of permanent residence. Tier 3 allows for limited recruitment of low-skilled migrants, and always on a temporary basis. Given the evidence presented above, we recommend revisions of the Government's proposals in the following areas.

Recommendation 1: merge Tiers 1 and 2

When it comes to the selection of skilled workers, the proposals put forward the creation of a new two-tier system (Tiers 1 and 2). Tier 1 will apparently attract "highly skilled individuals to contribute to growth and productivity", evaluated according to objective human capital criteria such as age, experience and earnings, whereas Tier 2 will apparently attract "skilled workers with a job offer" to fill particular gaps in the labour market. We believe that this distinction is artificial and potentially cumbersome.

The proposals signal the end for the current employer-led work permit system, under which skilled migrants can obtain permission to work in the UK if they hold job offer from a British employer. While the rationale for dropping the so-called resident labour market test for those eligible for Tier 1 makes sense (and seems simply to lower the threshold of the current Highly Skilled Migrant Programme), the rationale for adding further criteria to the resident labour market test for Tier 2 applicants makes less sense. Predicting demand for Tier 1 is not easy – much will depend on how many highly skilled migrants want to try their luck in finding a job in the UK labour market – but we can, however, say confidently that demand for Tier 2 under current conditions will continue to be strong. The evidence presented earlier in this submission suggests that a majority of recent work permit holders are skilled but are relatively low-earners and therefore would probably fall into Tier 2.

At least two thorny issues arise in this area. First, a distinction between highly skilled and skilled seems arbitrary and, therefore, probably not a good basis for treating applicants as differently in

terms of entitlements as has been proposed. Differentiating between relatively highly skilled workers can be difficult, may not be necessary and may actually be at odds with earnings criteria. The short- and long-term contribution of a qualified nurse to the UK health service may be just as important as that of a doctor. Similarly, it would seem counter-productive to impose more onerous admission criteria on a highly-qualified nurse with several years of experience than a newly-qualified doctor on the basis of an arbitrary skills/earnings threshold. Given increasing demand for health and personal care services – and the significant proportion of current work permit holders in working in the healthcare sector – an effective migration system will have to continue to respond to this demand, making Tier 2 as valuable as Tier 1 and thereby questioning the logic of establishing an artificial hierarchy.

Secondly, the proposed system could result in significant numbers of workers finding themselves in the position of having a job offer, but being unable to take it up because they do not qualify for entry under the new points system. This could occur for a number of reasons: because the applicant is not coming to fill a shortage occupation or because of their age or because of their salary or so on. Such a situation would undermine the flexibility of the system because the resident labour market test would be rendered meaningless and, by leaving unfilled vacancies, defeat the purpose of having a managed migration system. In short, any system that seeks to marry a resident labour market test with a points system risks being cumbersome.

Indeed, it seems incongruous for Tier 2 (which is essentially a flexible employer-led labour migration programme) to be part of the points system as proposed (whose objective seems to be to pre-select human capital for long-term economic integration). Other countries, such as Australia and Canada, have recognised the potential for confusing individual and employer-led approaches and so operate short-term demand-led labour migration programmes outside their points-based long-term immigration programmes. We believe that the alternative to implementing such a system in the UK would be to merge the proposed Tiers 1 and Tier 2 into one unified skilled category in which applicants are selected using a unified points system. We deal with such a points apparatus in our next recommendation.

Recommendation 2: create a unified points system

As discussed above, a separate demand-led short-term skilled migration programme retains some of the best, most flexible aspects of the current labour migration system. However, failing this, we believe the next best option would be a skilled migration category (combining Tiers 1 and 2) with a single, unified points system. We recommend a system in which the stated criteria for selection into Tier 1 (e.g. recognised qualifications, age, English language ability) are bolstered by additional categories of points. In particular, this could involve additional points being awarded to those who have skills that fall into specific shortage occupations (i.e. the same occupations that would be listed under the proposed Tier 2). Similarly, applicants with job offers could be awarded extra points. Such a system could combine the best of both systems by enabling some applicants to qualify for entry without a job offer while others who might not otherwise qualify would do so if they have a job offer or are qualified to work in a shortage occupation.

The challenge of course will be to calibrate the points system and thresholds to optimise the flows and achieve a balance between those who enjoy free labour market access and those who come to take up a specific job offer. That said, this challenge is no less difficult than operating two tiers separately. Indeed, if the points awarded for a job offer were set sufficiently high, applicants would

need only additional points for English language ability and no criminal record to meet the points target, thus maintaining the employer-led nature of the scheme.

A more creative addition to the unified points system would be extra points awarded to those who have job offers in particular regions that are seeking to attract migrant workers. Demand for labour migration is likely to vary across the different regions and nations of the UK. Given the current high concentration of migrants in the South East as well as regional differences in economic and labour market requirements, there is an argument for institutionalising regional needs within the points system. The Australian system awards extra points when an applicant has state sponsorship and, in Canada, provincial sponsorship can expedite an application. In the UK context of a far more unitary system of government, the best compromise might be to award extra points for job offers in particular regions rather than regional/national authority sponsorship. While such a measure is never going to address the economic fundamentals of why some regions do not attract sufficient numbers of migrant workers, it would nevertheless be a convenient way of responding to particular regional demands within the UK context. Nonetheless, such a move would have to be sensitive to the regional context involved and guard against the possibility that less qualified applicants might only qualify due to their choice of region.

Recommendation 3: give the proposed Advisory Board a remit beyond skills

As discussed earlier in this submission, attracting the right migrant workers with the right mix of skills is critical for the UK's economic dynamism. At the same time, the accurate forecasting of what skills will be needed in the future and what role migration will play in meeting that demand is almost impossible. Thus, while the suggestion to establish a Skills Advisory Body to identify skills shortages and oversee salary/skills levels within occupations is a welcome one, Government must be careful not to overestimate the ability of such a body to forecast skills accurately. The danger of replicating the work being done by existing bodies should also be recognised.

We recommend that the suitable remit for such a body should go beyond the minutiae of skills forecasting and extend to a general advisory and/or monitoring function. At its most ambitious, such a body could function in a similar fashion to the Bank of England's Monetary Policy Committee, setting broad targets for short and medium term migration, based upon economic conditions and skill shortages. While the Home Office would retain responsibility for migration flows, a 'Managed Migration Policy Committee' composed of independent members and government observers could advise on the quantity and quality of migrants required, review how the system is faring, and provide advice on where improvements could be made. The existence of such a cross-disciplinary body would not only boost the capacity to make better migration policy but also boost public confidence in the migration system as a trusted quasi-independent body was advising on migration policy. It would also recognise the reality that managed migration policy is not simply about managing flows of people through borders but rather about pursuing broader economic objectives. As such, migration policy should not be made without sufficient attention being paid to other areas of public policy such as labour markets, employment, competitiveness, and demographic change.

Naturally, the skills functions of such a body (especially with regard to the operation of Tier 2 or a unified points system) would remain central. However, we believe that existing bodies such as the Sector Skills Councils have sufficient expertise to contribute the necessary information to help the advisory body take decisions in this area. In addition to this role, the body could also be charged with identifying general targets for migration flows, monitoring the impact of immigration,

validating the quality of migration statistics (perhaps even conducting an independent annual audit of migration statistics) and suggesting improvements to the managed migration system.

Recommendation 4: create flexible and responsive low-skill migration channels

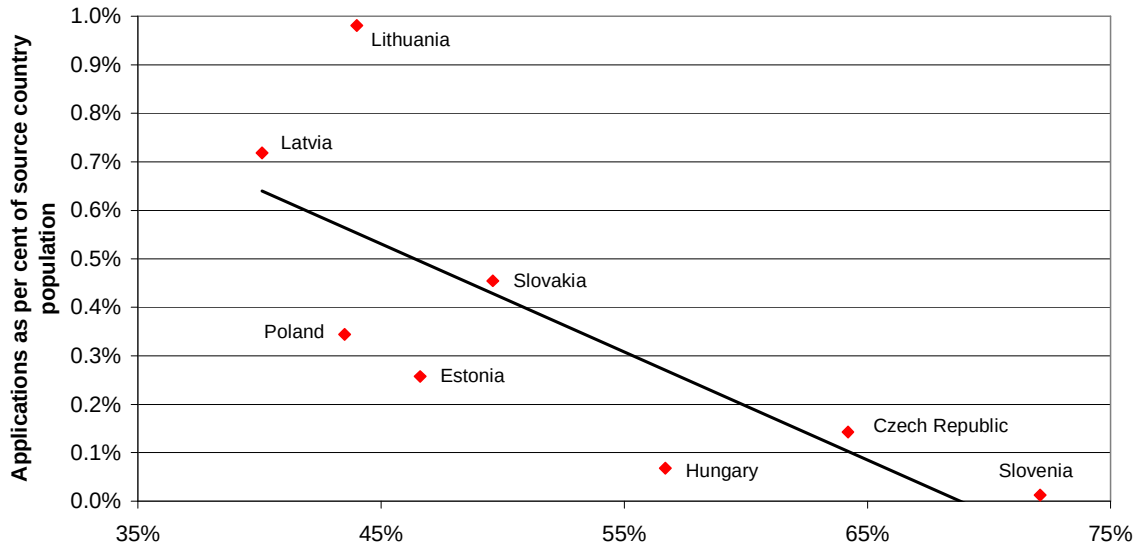
While the consultation document recognises the need to retain some channels for low-skilled migration, our analysis of likely future supply of and demand for low-skill migrant workers in the UK suggests that Tier 3 must be flexible and responsive to meet needs as they arise. We believe that managing low-skilled migration effectively will be just as critical to the UK's economic well-being as managing highly skilled migration. So too will it be critical to combating illegal working and even in changing the political climate around migration.

In terms of the supply of low-skilled migrant workers, the Home Office consultation paper states that "the Government is not convinced that there is a need for low skill migration schemes for non-EEA nationals, following EU enlargement" (Home Office 2005b: 22). While the numbers of workers registering from accession countries has indeed been significant, it is likely that net flows over the long-term are likely to stabilise at a much lower rate than the gross inflow figures suggest (as fewer accession nationals arrive in the first place and those already here return home).

Anecdotal evidence suggests that many accession country migrant workers only want to work in the UK for a short period to save up money to take back to their families, or to finance their studies. Travis (2005) reports that, "significant numbers [of registered accession workers] were Polish students who came for a short period before going back to college in the autumn", and Department for Work and Pensions analysis suggests that "a significant proportion of migrants return to their country of origin within a few months of entering the UK" (Portes and French 2005:21).

Another factor to take into account is that migration is likely to slow as economic conditions improve in the accession countries. Not only will this reduce the flow of migrants from the A8 to the UK, but the rate of return is also likely to rise. The link between economic conditions in the A8 and the number of applications made to work in the UK under the WRS is relatively clear in the data, as shown in Figure 25.

Figure 25. Migration to UK versus source country GDP per capita



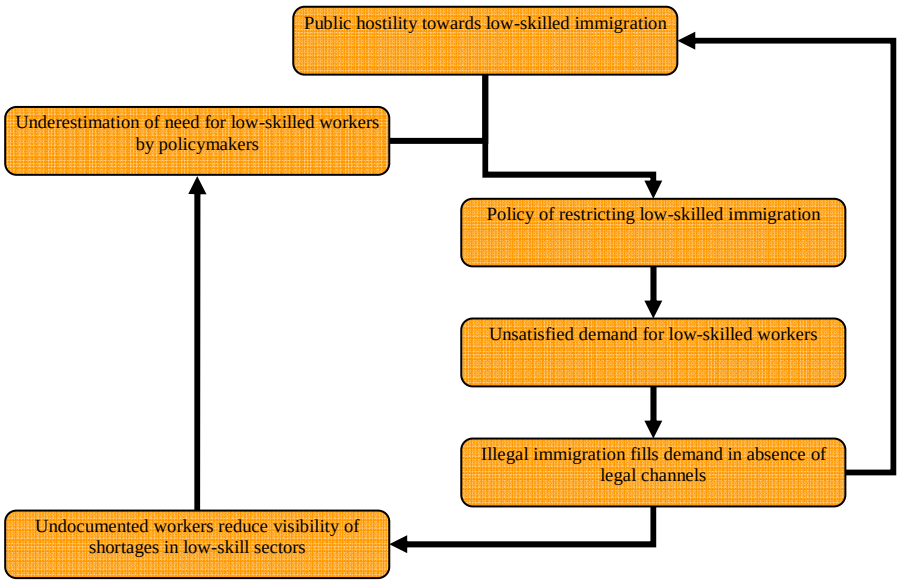
Source: Home Office *et al*. 2005, European Commission 2005 and ippr calculations

The data show that the propensity to migrate to the UK is negatively related to source country per capita income. Slovenia, whose GDP per capita is 72.1 per cent of the EU15 average, has seen little emigration since its accession to the EU, whereas countries such as Lithuania, Latvia and Poland, where GDP per capita is lower in relation to the European average, have seen larger outflows. Clearly economic conditions at home influence the chances of someone migrating, and so as the poorer of the accession states experience economic growth, the supply of migrant workers from the A8 is likely to diminish. Even the planned accession of Romania and Bulgaria, and in the long term, Turkey, may not supply sufficient numbers of migrants, certainly not to pre-empt undocumented flows in the immediate term.

As discussed earlier in the submission, the demand for low-skilled workers in the UK is unlikely to diminish significantly or quickly. Any measures to curtail low-skilled migrant workers (from outside the enlarged EU) on the false assumption that these workers are not required may end up hampering economic outcomes in the UK. Indeed, representatives of some sectors have already expressed concern that proposed changes to the immigration system will hamper their efforts to fill skill shortages. The British Hospitality Association, for example, "disagrees with the Government's view that workers from the new EU-accession states and temporary quota-based schemes for low-skilled non-EU nationals will help plug the sector's labour gap", arguing that the hospitality sector's skill shortages "are rather more endemic than temporary" (Caterer & Hotelkeeper 2005).

A lack of low-skilled migration routes for non-EU workers raises the possibility of a vicious spiral in which unsatisfied demand for low-skill domestic workers will, in the absence of legal channels, be met by undocumented workers – either people entering the country illegally or those who have overstayed their visas or whose immigration status does not permit them to work (illustrated in Figure 26).

Figure 26. Unsatisfied demand for low-skilled workers and illegal immigration



In order to avoid entering this spiral, it is imperative that any new system for managing migration has substantial scope for expanding low-skilled migration from outside the EU when and where the needs arise. The economic, humanitarian and political reasons for doing so are perhaps even more compelling than those for managing highly skilled migration.

Other issues

While we do not want to stray too far beyond the skills focus of this submission, we do want to flag up several other issues that should be considered in the reform of the managed migration system.

Data. We believe that it is critical and timely to review the collection and communication of migration data. Good quality data on the scale, nature and impact of migration into and *out of* the UK are critical to building the robust evidence base needed for research and policymaking. Similarly, reliable data on migration will be critical in boosting public confidence in the managed migration system. We recognise that there are concurrent processes within the Home Office to review the data collection but would like to reiterate that any reform of the migration system should also be seen as an opportunity to initiate systems to collect more and better data.

Sponsorship. The consultation document mentions the possibility of sponsorship for certain categories of migrants under the proposed system. While we recognise that any system should not unduly complicate the migration process for employers or migrants themselves, we do believe that there is considerable scope for flexibility in the pricing of employment permits. One option under a unified system could be to award extra points to applicants whose prospective employers are willing to pay a migrant recruitment fee. Points could even be awarded on a sliding scale such that a prospective employer would be required to pay a higher fee if more points are needed for the applicant to meet the admission threshold.

Settlement rights. We are reluctant to see a system in which settlement rights are denied to certain categories of immigrants. The experience of several other countries suggests that the grant of

settlement and full citizenship rights is an important element in the integration of migrants. While the trade-offs between short-term economic migration and long-term settlement are difficult, granting settlement rights to those immigrants who make a long-term contribution to the British economy and society, regardless of their skills attributes, is critical. Indeed, while establishing a sliding scale of settlement rights according to category of entry may be politically necessary, the basic premise should be that all long-term migrants (assuming they meet other generic criteria such as language requirements and a clean criminal record) will eventually be entitled to full British citizenship.

'Brain drain'. The Home Office is correct to identify the potential impacts on sending countries as an issue to be taken into account when designing migration policies. As discussed elsewhere (Sriskandarajah 2005), such policies should not assume that limiting access to the UK for certain workers from certain countries is the best way to address the risk of 'brain drain'. Instead, a more comprehensive approach that seeks to address the impacts of that mobility should be considered. Here, there is considerable scope for cross-government working, perhaps under the rubric of a Managed Migration Policy Committee. Conversely, the possibility that the most 'development-friendly' migration policies may well be to encourage low-skilled migration channels should be considered.

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