Economic Affairs Committee

Corrected oral evidence: the UK labour supply

Tuesday 25 October 2022

3 pm

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Members present: Lord Bridges of Headley (The Chair); Viscount Chandos; Lord Fox; Lord Griffiths of Fforestfach; Lord King of Lothbury; Baroness Kramer; Lord Layard; Lord Livingston of Parkhead; Lord Monks; Baroness Noakes; Lord Rooker; Lord Skidelsky; Lord Stern of Brentford.

Evidence Session No. 8 Heard in Public Questions 76 - 81

Witnesses

[I](#Panel1): Madeleine Sumption, Member of the Migration Advisory Committee and Director of the Migration Observatory; Professor Jonathan Portes, Academic at King’s College London.

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Examination of witnesses

Madeleine Sumption and Professor Jonathan Portes.

1. **The Chair:** Welcome to this session of the Economic Affairs Committee; thank you both very much for coming.

Please start by introducing yourselves, and then I will ask the first question.

***Madeleine Sumption:*** I am director of the Migration Observatory at the University of Oxford. We analyse migration policy and its impacts in the UK.

***Professor Jonathan Portes:*** I am a professor of economics and public policy at King’s College London and a senior fellow at UK in a Changing Europe.

1. **The Chair:** Let me start with a general overall question—a starter for 10, as they say.

How much of the labour force reduction is due to reduced migration?

***Madeleine Sumption:*** We have different phases. Data from the summer shows that the total number of employees is now slightly above where it was in the summer of 2019, before the pandemic. It has roughly recovered.

There are two phases: the downturn when numbers were falling in the pandemic, and the upswing over the past year and a half or so. Our data on migration’s contribution to that—the higher-quality data on employees that we have most confidence in—covers only the period up to June 2021. We know what happened on the downswing, but we are much less sure what happened on the upswing.

If you look at the two years from 2019 to the middle of 2021, you see that most of the decrease in the total number of employees was driven by UK nationals, as you would expect. If you take migrants as a single group, there was less of a decline in percentage terms in the migrant employee population than there was among Brits. The number of employees has since grown by about 1 million, but we do not know the nationality breakdown of the increase.

That is the general picture. A lot of the issues that I suspect we will discuss over the next hour come up when you look within the migrant population, where there are very different trends on the EU and non-EU side. Even in those first two years, there was a significant decline in EU employees but an increase in non-EU employees. Broadly speaking, those almost offset each other, so there was only a small decline in the two years leading up to June 2021.

The data on the past year become less good, but the basic picture appears to be that the EU worker population is probably no longer declining and there is a significant increase in the non-EU worker population. That is based on work visa grants and what we can probably ascertain from the Labour Force Survey, to the extent that it can be trusted these days.

**The Chair:** There were a lot of topics there. I shall ask Jonathan Portes to come in, and then Lord Fox wants to ask a question.

***Professor Jonathan Portes:*** I agree with Madeleine. The best data we have on what happened during and immediately after the pandemic comes from HMRC’s Pay As You Earn real-time information data, which suggests that there was a peak-to-trough decline of something over 200,000 in the number of EU nationals working here. There was probably also some decline in the number of self-employed EU nationals working here; we do not get that, at least not in a timely fashion, from HMRC.

We observe in the Labour Force Survey, by contrast, that separately there was a rise in economic activity, particularly among the long-term sick and disabled, which up to now looks to be about 500,000.

In raw terms, it looks as if the main driver of any fall in the labour force or in the trend labour force is probably mostly down to domestic and economic inactivity primarily driven by sickness and disability. Within that, we do not know the extent to which it is long Covid, problems in the NHS or other factors.

The real problem is that interpreting the Labour Force Survey is highly complicated by the fact that during the pandemic it was severely distorted, particularly in relation to foreign nationals, by a very large increase in non-response and a particularly large increase in differential non-response—everyone was more likely not to bother answering the LFS but non-UK-born people were particularly more likely.

The ONS has attempted to correct for that. That is understandable, but in so doing it has further distorted some of the subtotals. Regrettably, we have to apply pretty large health warnings to all interpretations of the detailed breakdowns of the LFS, but what I have said is my best guess of where we are.

**The Chair:** You have given us a lot of rich material, to which we shall return.

**Lord Fox:** Madeleine, is there any data to unpick the nature of the switch you described in the two years up to June 2021? Are the non-EU nationals like-for-like replacements in the skills and sectors from which the EU ones have dropped out, or is there no data that can support that?

***Madeleine Sumption:*** We have a reasonably good picture of this. The big picture is that no, they are not really like for like. There are a couple of areas where we see substitution—seasonal agricultural workers, for example. Those jobs were done almost exclusively by EU workers and are now done almost exclusively by non-EU workers because immigration policy has opened up to the rest of the world.

We see some evidence of substitution over a longer period in the health sector. In the early part of the last decade, the NHS was hiring a lot of EU doctors and nurses. Now, a very large majority of new recruits into the NHS are coming from non-EU countries.

In other industries, broadly speaking, the distributions tend to be different. We have seen a decrease in EU workers in certain industries, such as hospitality, where employers cannot just switch to non-EU workers because they are not eligible for visas. Most of the increase in non-EU workers has been in more high-skill intensive industries, particularly in the health sector but also in professional services, scientific roles and that kind of thing.

**Baroness Kramer:** I have a quick question attached to that. You talked about most of the non-EU workers being in a higher skill bracket. Do we have any breakdown showing whether they come from well-established countries outside the EU—the United States, Canada or Australia—or are being drawn primarily from developing countries?

***Madeleine Sumption:*** If people are getting work visas, we have very good data on their nationalities. The top nationalities at the moment are India, Nigeria, the Philippines and Pakistan. That is partly a function of NHS recruitment, which has traditionally relied quite a lot on those nationalities.

**The Chair:** It would be useful to see that breakdown.

***Madeleine Sumption:*** We can send that.

**Baroness Kramer:** It has knock-on consequences and different moral implications.

**Viscount Chandos:** Although my question is really for Professor Portes, I start by disclosing that I am a trustee of the Esmée Fairbairn Foundation, which is a funder of the Migration Observatory.

Professor Portes, you wrote in August that “the new post-Brexit system, while not perfect, is delivering broadly what was promised, what people want, and what the economy needs.” Will you expand a little on that? What is the system? In particular, why do you feel that it is what the economy needs?

***Professor Jonathan Portes:*** Pre-Brexit, we had a system of free movement for the EU and the EEA. For people coming from outside the EU, we had a skill-based system that meant that, at the very minimum, you needed a salary of £30,000 or so, to be in a relatively skilled job—typically with a degree—and the job to be advertised first. There were various other obstacles.

The new system is much more restrictive if you are coming from the EU and much less restrictive if you are coming from outside the EU where it is the same for everybody. The salary threshold is, typically, £25,600, which is below median full-time earnings in the UK—quite significantly below, now that we have had quite a bit of inflation.

The skill level is what is called RQF 3, which is roughly equivalent to two A-levels. By my calculations, that covers roughly half the UK labour market. Roughly half of all jobs in the UK pay more than 25 grand and are of RQF 3 or above.

There is a lot of detail around that. There are lower thresholds for younger people—graduate trainees and some specific occupations—and higher thresholds for areas where the going rate, as it is called, is higher. That is the broad picture.

On top of that, another very large source of skill visas is the healthcare visa. That provides for all medium and high-skilled jobs in the NHS—not just nurses and doctors but radiographers and so on—which can be given to anyone from abroad, as long as they are paid the standard NHS pay scale. The visa is cheaper and easier to get, which accounts for a very large part of the increase.

The other big new element of the system is the graduate visa, which ironically is a reincarnation of the so-called post-study work visa that I helped to invent when I was in the DWP in the early 2000s and allows people who graduate from a UK university to stay on for two years, essentially in any job. Taken together, all these things add up to quite a significant liberalisation for people coming from outside the EU.

Baroness Kramer talked about more established countries. India has always been the most established country. For as long as I can remember, it has constituted the largest source of skilled migrants from outside the EU. People coming to work in finance or IT are often Indian, and intra-company transfers—one particular work visa route—are dominated by the big Indian IT consultancies: Tata, ICS and Infosys, not to mention a topical company.

That is what the new system looks like. Why do I say that it is largely achieving its goals? Vote Leave and those campaigning for Brexit said that the new system would equalise between EU and non-EU and be more skill-biased, hence shifting the balance of migration from relatively unskilled or lower-paid jobs to relatively higher-paid or higher-skilled jobs.

As Madeleine said, if you look at the sectoral shift in migrants, you see that that is broadly what it is doing: it is shifting, by design, from lower-skilled, lower-paid jobs to higher-skilled, higher-paid jobs. The specific healthcare visa is resulting in significantly increased migration for the NHS. We can talk about whether that is a good thing, but it is broadly doing what people thought it would. That is generally regarded as a positive form of migration in the political context.

There is a much bigger set of questions. What are the long-term economic impacts of this? It is too soon to say. This is where we get more into areas of judgment, but my judgment is that the new system is indeed helping to facilitate medium and high-skilled migration. It is resulting in labour and skill shortages in some of the sectors that previously had been reliant on EU migration, accommodation, food services and restaurants being the most obvious.

That is by design. That is what the people who argued for the new system said it would deliver. An adjustment process inevitably results from that, but that is a feature rather than a bug. Losing free movement has economic costs, but those costs were always going to be incurred by any new system.

I am slightly surprised by this. I predicted that there would be more economic, administrative and bureaucratic downsides than have materialised so far. So far, the new system has performed reasonably well given the objectives it was set.

**Viscount Chandos:** Is it too early to judge whether the transition in those sectors that have clearly been hit will lead to an adequate supply of UK nationals?

***Professor Jonathan Portes:*** The evidence so far is that it probably will not, in the sense that there will be some shrinkage in that sector. Some businesses will go under and output will shrink in those sectors. Again, in some senses that is a feature and not a bug. It is certainly what economists such as me predicted: the main response to lower labour supply in certain sectors would be a contraction in output rather than an increase in wages or in the domestic supply of workers. It is too early to say what the long-run impacts are, but so far that seems to be what we are seeing.

One thing where the promises have not been fulfilled is the idea that this would lead to an across-the-board narrowing of wage distribution or large overall increases in pay for lower-paid British workers. That is not what the data show so far.

**Lord Fox:** Quite a lot of what we have discussed fills in this question, but we have established from your evidence that different sectors have been hit in different ways. Madeleine Sumption, it would help if you stated for the record which sectors are struggling post the change.

***Madeleine Sumption:*** In the initial period for which we have good data, up to June 2021, in absolute terms we saw the biggest decline in EU workers in hospitality and in the administrative and support services sector—basically, a collection of mostly low-wage service jobs. There was also a big percentage decrease in agriculture.

In that initial period before the pandemic, in some industries that relied quite heavily on EU workers we did not see any decline in EU workers, particularly construction, transportation and logistics, but we expect to see it later.

Some industries have more gateway jobs than others. Some industries have a higher share of migrant workers who have recently arrived in the country—hospitality, for example—and others such as construction rely in large numbers on people who are more established here.

You expect certain industries to be hit first by the end of free movement—the ones that people tended to enter earlier—and as the years go on you expect the impacts to knock on across all industries that previously relied very heavily on EU workers.

**Lord Fox:** Is that right, or is it that those affected had low salaries and therefore failed to make the transfer we have heard described from EU to non-EU workers?

***Madeleine Sumption:*** There are two things going on. There is the salary and the skill requirements, which have an obvious impact. Also, we are not seeing very high take-up of the visa system in some of the middle-skilled occupations that are eligible under the new system and previously relied on EU workers. That might be temporary. Employers might be adjusting to the idea of having to go through the bureaucracy of sponsorship and that might come later, or they might be deterred by the bureaucracy and costs, which in that skill band are quite high as a share of the overall payroll cost.

**Lord Fox:** There is nothing more than anecdotage, in a sense, that can tell us why they are not doing that. Is there any data saying that it is red tape or some other factor that is inhibiting them in seeking migrant workers to fill the spaces they have?

***Madeleine Sumption:*** A couple of ongoing studies are collecting quantitative statistically representative data from employers, the results of which are not yet published. There is qualitative analysis of employers saying that they are worried about the bureaucracy. They are worried about what happens if they make a mistake. Will they lose their licence?

**Lord Fox:** Any pointers you can give us offline would be helpful.

**The Chair:** May I jump in and bring us back to inactivity and how it relates to what you are talking about? For the avoidance of doubt, when you see the rise in inactivity and vacancies in the low-skilled bracket, do you see any chance of a mismatch or match between those who are leaving the workforce entirely and could come back—those in the over-50s bracket in particular—when their savings begin to shrink? Would they be able to fill some of these vacancies, or is that a forlorn hope?

***Professor Jonathan Portes:*** We do not have great data on this, but I would instinctively say that the degree of mismatch looks quite high. It is a big reach if you are looking for people to work in restaurant kitchens or to wait tables in London who have dropped out of the workforce because they had a bad bout of Covid and are just recovering or are still on a waiting list, probably not in London.

We definitely need to do considerably more to help people who have dropped out of the labour force, particularly those who dropped out because of sickness or disability. This is a really big policy issue and we should help them get whatever jobs they want and feel able to take. It is probably a bit optimistic to expect them to solve the labour shortage problem in these sectors.

1. **Lord Griffiths of Fforestfach:** Professor Portes, do you find a difference in the way in which people engage in the labour market between EU and non-EU migrants—employment grades, wages, the amount of training they receive or whatever?

***Professor Jonathan Portes:*** Pre-Brexit we certainly did, driven by a very different migration system for people from the EU or non-EU. In recent years in particular, because there was no bureaucracy or fees—essentially, Europeans were treated like Brits—we had lots of relatively young people doing often relatively short-term jobs. They were a very flexible part of the labour force, hence a lot of them worked in relatively high-turnover occupations such as hospitality, food services and so on. Often, they were not particularly low skilled themselves but were working in jobs for which formal qualifications were not necessarily a prerequisite.

By contrast, because the hurdles to coming here were considerably higher, people from outside the EU who came through the work route were almost by definition working in medium to high-skilled jobs. A lot of people from outside the EU came here through routes other than work, refuge and asylum and family reunification being the most obvious. They were very heterogeneous. Some of them are skilled and some are quite disadvantaged and marginalised and do not work at all or work in low-skilled or irregular employment. For people from outside the EU there was this very substantial diversity.

If you look at averages, for what it is worth, you find—slightly misleadingly—that people from outside the EU had lower employment rates but typically were paid more on average. There is a good briefing on this from the Migration Observatory, which I have brought along. People from most countries outside the EU were, on average, paid more than Brits or Europeans, but employment rates were typically somewhat lower. Indians and North Americans have very high earnings—much higher than Europeans or Brits. People from the EU 14 have quite high earnings. People from the EU 8 have relatively low earnings.

Non-EU origin people—sub-Saharan Africans, Latin Americans and the average non-EU citizens—earn more on average than Brits.

**Lord Griffiths of Fforestfach:** Is that because they went into high-tech or finance rather than hospitality?

***Professor Jonathan Portes:*** Typically, yes. That was the way in which the skilled worker system operated pre-Brexit. You could not come here from the US or Pakistan to work in a café, whereas you could if you were from Poland or Bulgaria.

1. **Lord King of Lothbury:** So far, we have talked a lot about immigration. May I ask about emigration?

***Professor Jonathan Portes:*** You can, but you will not get much in the way of answers, I fear.

**Lord King of Lothbury:** In addition to telling us what you think you know, can you say something about the sources of data, or the lack thereof? I hope it does not amount just to a passenger transport survey. What do we know, if anything—occupation, nationality or age—about the people who are leaving the UK? Can you say something about the data or the lack thereof in connection with emigration?

***Madeleine Sumption:*** We do not know very much. We do not even have international passenger survey data any more. Pre-pandemic, the net emigration of Brits tended to be around 50,000 a year. We can get data from other countries’ immigration systems, so we can see where people are getting visas. We can see that Australia, for example, hires a fair number of British doctors and nurses.

The picture is patchy, but there is some scope that, in future, using the new, linked datasets that the ONS is developing that connect immigration and tax records, you could in theory start to get a better sense of the characteristics of at least the migrants who leave. We might be able to get more information on that in future, but currently there is almost nothing.

***Professor Jonathan Portes:*** Sadly, I have little to add. The emigration data is very patchy indeed. It was patchy before the pandemic. We know that historically we have undercounted the number of students who leave at the end of their studies. We count them in but we do not seem to count them out. There is not a huge number of students overstaying, so we know we have been undercounting them leaving.

As Madeleine said, we are reasonably confident that 50,000 or so Brits leave every year. We probably underestimated EU emigration, partly as a consequence of underestimating EU immigration. It was pretty fuzzy pre-pandemic; it is now worse. Ultimately, we hope that the census will let us go back and reconcile some of the estimates with what actually happened in the decade to 2021.

Going forward, as Madeleine says, we will be able to rely more on administrative data from exit checks and HMRC systems, but at the moment we are still very much in the dark.

**Lord King of Lothbury:** What changes would you recommend to the collection of immigration statistics to improve our understanding? One of the things that seems odd, as I saw when I was at the Bank, is how weak our estimates of the total UK population are.

***Madeleine Sumption:*** I think that the holy grail for immigration nerds such as us is linking the administrative data—HMRC and DWP data—with immigration status records so that you can see the people who came in on the skilled worker visa, what they are doing two years later and what they are doing 10 years later when they are no longer on the sponsored visa, how many of them stay, how many of them go home, and what salary progression they have. It is not just for skilled workers; you could do it for family members and for refugees. Ideally, you would do it for people who have status under the EU settlement scheme. For example, you might want to know whether there are people who have status in the EU settlement scheme and then lose their status because they have temporary status and have not reapplied for permanent status. If you link the administrative records appropriately, all these questions can be answered. That is the single biggest project that could really improve our understanding of migration patterns.

**Lord King of Lothbury:** How difficult or expensive would it be to do that?

***Madeleine Sumption:*** I do not know the answer to that question. There are pilot exercises going on at the moment to do some of that linking. One thing I am not sure about is how comprehensive they are going to be; whether EU settlement scheme people will ever be in the data and/or in the exit checks data. It is potentially a reasonably big exercise, and I understand that the Home Office IT systems have not been particularly helpful. I am not the person to ask about costs.

***Professor Jonathan Portes:*** It is a huge exercise. Other countries do it. Denmark has all that data. Denmark, of course, is in Schengen. There is often a lot of criticism of the Home Office/the Government for not counting everybody in and out of the country. “Why can’t we count everyone in and out of the country? We’re an island, after all.” Even leaving aside the fact that we are not an island because we have a common travel area with another country that shares an island with us, and hence there is a back door, counting everyone in and out is not the right way of looking at it.

We should ideally be able to know, broadly, who is here and, as Madeleine says, what their status is—British citizen or not British citizen—what their immigration status is, and what they came in on. That does not seem to me to be an absurd ambition. It is certainly a long-term and probably costly and complicated one, but it is not a ridiculous one because, as we know, it is clearly possible and most, if not all, of the data is there somewhere.

**Lord Skidelsky:** I want to follow up a point on emigration. There are more people coming in than going out. That has been the trend, which itself is interesting. I do not know why that should be the case because we are no longer one of the countries with the highest pay in Europe. The other thing is that it cannot really explain the labour shortage that we are experiencing. It is not the exodus of people from this country that contributes to the shortage of labour. Do you agree? There are two points: why do we have a severe imbalance between emigration and immigration; and does emigration in any way contribute to the labour shortage?

***Professor Jonathan Portes:*** On the first one, this country has been a country of immigration for a long time. It is true that we are not particularly rich by European standards, but, as I explained, we now have a relatively liberal system for people coming from outside the EU. It is among the most liberal systems of any advanced economy and certainly compares well with any major European economy, so we are easier to come to.

Secondly, we speak English. If you are from India or Nigeria, even leaving aside the historical ties to those countries, we speak English and you can understand why you might be more willing to come here than to go to Germany, say, where there is also high labour demand.

Another factor is that we have London, which still accounts for a disproportionately large share of migration, 40% to 50%. London is a global city. We are not the richest country in Europe but we have the largest city in Europe and one of the most attractive globally. All those factors account for our relative attractiveness.

As the labour economists would say, you would not necessarily expect immigration or emigration to affect labour shortages because the “lump of labour fallacy” tells us you that more labour supply equals more labour demand. Labour shortage is a disequilibrium short-term concept that reflects mismatches by geography or sector. What we are seeing here is a number of factors.

The introduction of the new system and the post-pandemic turbulence have to produce these quite dramatic mismatches where you see very large migration flows in some sectors combined with large labour shortages in others. Indeed, in the health sector we are seeing large migration flows combined with large skill and labour shortages, which reflect what I describe as a bath-tub effect. We are filling up the NHS bath-tub with people from outside, but, at the same time, the combination of real pay cuts and working conditions and burnout post-pandemic is leading to a record level of exit from the NHS labour force that already exists, so we are desperately trying to run to stand still.

**The Chair:** Sorry, I am going to jump in because I know there are a number of other questions. Lord Rooker would like to ask a quick question, and then Baroness Kramer and Lord Stern have quick questions, so we will take it in that order.

**Lord Rooker:** It is a brief one. When I was at the Home Office as immigration and nationality Minister, which was quite a while ago, I was repeatedly told and given evidence that the two key pull factors for the UK were the lack of an identity system and the fact that it is the easiest place in Europe to work illegally. Are those still factors today?

***Madeleine Sumption:*** The expectation is that the vast majority of people who come to the UK are coming legally, so those two factors would not be hugely relevant to them because they would come through the legal visa system. There is statistical evidence that economic differentials between countries—wage gaps and unemployment—play a role as a push factor. On the work side, that is a major issue. There are other pull factors. A lot of the visas being granted and a fair amount of the long-term immigration is international students, and that is related to the perception of UK institutions as providing prestigious, recognised education. If you are looking at overall immigration, I would not say that those are the most relevant pull factors.

**Lord Stern of Brentford:** I want to come back to Lord King’s question, because most of the answers were in terms of people who had come here and whether they were subsequently emigrating. How would you find data on people who were born here and emigrate? Madeleine, you mentioned a net of 50,000 in that category. From the point of view of policy, it is important to understand who leaves and why they leave. Are there data around who leaves, if they are born in the UK, and why they leave? Are there exit interviews in the health service, for example? Are there data there? It would seem to matter for policy.

***Madeleine Sumption:*** I think the data that exist are mostly from other countries. Several years ago the OECD did a publication, which I could try to dig up, which looked at British expats around the world and had some basic data on what they were doing. You would have to go to the major countries that Brits go to, which are Australia, Canada, the United States and EU countries, look at their labour force or visa data and find out what people are doing. It is quite difficult to get systematic data because all those different countries will collect their data in slightly different ways.

**Baroness Kramer:** I know the data is incredibly limited. With free movement, this would not have been a relevant question. When people come in on a work visa, do we track whether this is a short duration, four or five-year experience and then a return home, or whether they join the permanent part of the population? The reason I ask is that we are starting to become much more aware that we need to understand the underlying demographics and things such as dependency ratios. If we do not know that, we are in a fairly difficult position to be able to understand that dynamic.

***Madeleine Sumption:*** We have data on this. The Home Office has produced a very useful dataset called the Migrant Journey dataset that shows, when people are granted a visa, how long they are on that visa and whether they then get permanent status here or the visa expires, at which point they are expected to leave.

Generally, if you look across all visa types for non-EU citizens—the only group for which there currently is data—a majority of people granted work, family or study visas in a given year will have left the country, or at least their visas will have expired, within typically around three-plus years. Especially if you look at the skilled worker category, about 75% are gone within six or seven years, which is partly what you would expect in that a lot of people come for a period that they expect to be temporary. It is not necessarily a policy failure that these skilled people are leaving; you always expect a certain amount of churn.

**Baroness Kramer:** If you have data on that, it would be nice to get it.

***Madeleine Sumption:*** We can send that.

1. **Lord Layard:** Can we talk about policy? We agree that it is a short-term labour shortage, but should changes in migration policy be considered to alleviate those shortages?

***Professor Jonathan Portes:*** My view, as I said before, is that the new system is mostly doing what it is supposed to do, and in administrative and bureaucratic terms it is actually working rather better than I expected, frankly. By introducing a big bang new system in January 2021 in the middle of a pandemic, I thought that the potential for a fairly catastrophic failure was quite high, and I have been very pleasantly surprised that it seems to be working more or less okay.

In policy terms, as I said, it was designed to achieve this sectoral and skill level shift, and it seems to be doing that. It is relatively early days yet, less than two years. My view is that we should try to improve the administration and awareness among employers. We should probably try to make sure that employers complaining about the medium-skilled workers who they cannot get but who would be eligible know how to and can access the system. Some of the fees, particularly for dependants and settlement, are extortionate and probably damaging in the long term to social cohesion, integration and the interests of the country.

There are plenty of things you could improve. However, I am not sure that where we are now there is a case for changing the structural nature of who gets visas. As you know, I thought free movement was generally economically beneficial to this country and overall was a good thing. Having made the overarching political choice to leave the single market and hence free movement, it seems to me that the system is broadly on the right lines and is broadly working reasonably well, and that the case for major change now, less than two years in, is not there yet.

***Madeleine Sumption:*** There are basically three strategies. Option 1 is, as Jonathan said, to wait it out. We expect some of these shortages, at least in private sector jobs, to be transient, and the labour market will adjust in the ways that Jonathan discussed earlier. There are short-term transition costs, but in the long run those problems might resolve themselves.

Option 2 is, if you are worried about growth and productivity, to try to facilitate more skilled migration. That is actually a little difficult because the immigration system is already reasonably liberal for skilled migration. The kinds of levers you are looking at there are reasonably limited—things such as helping people to navigate the bureaucracy, simplifying the system and reducing the fees.

Option 3 would be to open up some of the jobs that are not eligible currently where there are shortages. The macroeconomic impacts of that last option would be relatively small, because past research suggests that the impacts of migration to low-wage jobs tend not to be that big. If that is a route that the Government go down, the biggest question is to think about how it is done. You have two options. You can have employer-sponsored visas where you target specific occupations. You say, “We need these broadband technicians and we want these baggage handlers”, or whatever it is. If you have employer-sponsored visas, first, it is quite difficult to decide who should get them, and, secondly, it is really difficult to prevent exploitation when people in low-wage jobs are tied to their employer and are not able to leave very easily to go to another job if they are not treated well.

If you want to target it, you have employer-tied visas that bring quite a lot of monitoring problems, or you just go for something broader based such as an expansion of the youth mobility scheme to EU citizens. Some of those people would end up doing low-wage jobs without being tied to the employer, but you cannot target it and micromanage exactly where people go.

**The Chair:** Sorry, may I jump in there? Underlying all this, as Lord Layard said, is that this is a short-term problem, and we have been talking a lot about that. What makes us all assume that this is a short-term problem? We are talking about low-wage vacancies that we are seeing a spike in.

Professor Portes, you said in response to my earlier question that you did not think that the rise in inactivity could somehow be met by that because they are the wrong kind of jobs for the people who have become inactive. What makes you think that, assuming that the immigration system is kept as it is, British jobs will be filled by British workers?

***Madeleine Sumption:*** I do not assume that they will be filled by British workers. I assume that there will not be as many vacancies.

**The Chair:** You are saying that these jobs and vacancies will just go and we will see a contraction.

***Madeleine Sumption:*** Yes, through some combination depending on the industry. In some cases, there may be options for automation. Obviously, some jobs are much easier to automate than others. Where the jobs cannot be automated, in theory we effectively expect to see lower growth in the workforce.

**Lord Stern of Brentford:** Give up strawberries.

***Madeleine Sumption:*** Well, import the strawberries.

**Lord Stern of Brentford:** That is what I meant; give up producing strawberries. I just want to clarify the meaning.

**Lord Griffiths of Fforestfach:** I would like to ask a question that is in a way tangential. What, at present, do you reckon is the range of estimates of the actual immigration taking place? I have seen estimates from 100,000 to 300,000. It seems to me that what the OBR will come up with is not an irrelevant subject for the issue we are discussing now.

***Professor Jonathan Portes:*** That is correct. Madeleine and I have been discussing this. The OBR’s most recent estimates, which were in the fiscal sustainability report, were just over 100,000. It asked me before and I said that I thought its estimates were distinctly on the low side, and I reiterate that now with somewhat more force.

To your point, the OBR is almost certainly going to have to revise up its estimates quite significantly in the forecast it publishes next Monday, if that is when it is. As an arithmetical matter, that will have a knock-on consequence on GDP and on the public finances. What the best estimate is now is very hard to say, for the reasons we have discussed. The ONS projection is 200,000, is it?

***Madeleine Sumption:*** It is 205,000.

***Professor Jonathan Portes:*** The OBR chose to go below the ONS. It said it thought that the ONS was overstating it because it thought that the new policy would reduce migration. It is pretty clear in retrospect that the OBR was wrong to say that, and it would be very hard at this point to justify going below the ONS estimate. Whether you go above it is very hard to say at the moment.

**Baroness Kramer:** I just want to confirm that I heard correctly. I think you talked slightly casually about the jobs that would disappear and the industries with them. Are we basically saying that the structure, as it sits at present, will inevitably lead, over a relatively short period, to the disappearance of horticulture, animal husbandry, large swathes of the hospitality industry, and street cleaning? I am just going through the long list of relatively low-paid jobs. We have to then think through the consequences for the economy and for society. Take social care, for example. Is that where we are?

***Professor Jonathan Portes:*** First, social care is a very specific case in the sense that wages are not determined by the market in a meaningful sense; they are determined by how much we as taxpayers, or the Government on our behalf, are prepared to put into the system to fund it. The Government have taken the view that they would prefer to have an underpaid and, frankly, exploited workforce from abroad, and have therefore introduced a special visa.

We did not get to this before, but one big modification made to the new system early this year was to extend the healthcare visa, which is notionally for skilled workers, to even very low-paid social care workers. You can now recruit somebody from anywhere in the world to come and work here on the minimum wage, or indeed below the minimum wage for a 25 year-old, amazingly, in a care home.

I yield to no one in my view that countries benefit from relatively liberal migration policies. Frankly, saying that rather than fund the system properly as taxpayers we would prefer to allow people to come here from anywhere in the world and be paid below the adult minimum wage to work in a care home because we are not prepared to stump up the money is probably not socially optimal. That is social care. The Migration Advisory Committee, on which Madeleine sits, has said pretty much what I just said, it is fair to say.

**The Chair:** What about the other sectors?

***Professor Jonathan Portes:*** Madeleine might say something about agriculture.

***Madeleine Sumption:*** In agriculture, we have the seasonal worker scheme, which is effectively keeping that industry alive. Most high-income countries, like the UK, rely significantly on migrant workers to do seasonal agricultural jobs. If you want that industry to exist in anything like the form it currently takes, you need a visa scheme, which the UK currently has.

Care is interesting. There are no official figures yet, but Skills for Care estimates that there has been really high take-up so far this year of the new care worker option. It is estimating that 10,000 to 15,000 people have come in.

What is tricky about this is that in the long run, economists do not tend to take a position about the right distribution of economic activity—the optimal size of the hospitality industry versus the health sector. It does not tend to be something that people have a strong view on. From that perspective, over a period of many years it does not necessarily matter whether certain industries are bigger or smaller. Obviously, it very much does matter in the short run for the employers in particular sectors that may go out of business and for workers in those companies. You can have costly short-term disruptions even though in the long run we do not necessarily have a view about the optimal distribution of the size of different industries.

We are not necessarily talking about the disappearance of whole industries, but it may be that in certain cases you just see slower growth than you would otherwise have seen in a particular industry, rather than the disappearance of large numbers of jobs.

**The Chair:** Very good. On that note, unless anyone else has any other questions, thank you both very much. If you send us the information we have asked for, that will be very helpful indeed.