

Exiting the European Union Committee

Oral evidence: The UK's negotiating objectives for its withdrawal from the EU, HC 1072

Wednesday 1 February 2017

Ordered by the House of Commons to be published on 1 February 2017.

[Watch the meeting](#)

Members present: Hilary Benn (Chair); Joanna Cherry; Murk Durkan; Michael Gove; Peter Grant; Jeremy Lefroy; Mr Peter Lilley; Craig Mackinlay; Seema Malhotra; Karl McCartney; Mr Pat McFadden; Emma Reynolds; Stephen Timms; Sammy Wilson.

Questions 755-815

Witnesses

I: David Goodhart, Head of the Demography, Immigration, and Integration Unit, Policy Exchange, Sunder Katwala, Director, British Future, and Jonathan Portes, Professor of Economics and Public Policy, King's College London

Examination of witnesses

Witnesses: David Goodhart, Sunder Katwala, and Jonathan Portes

Q755 **Chair:** Good morning. Can I begin by welcoming our witnesses this morning? They are David Goodhart, who is Head of the Demography, Immigration, and Integration Unit at Policy Exchange, Sunder Katwala, the Director of British Future, and Jonathan Portes, Professor of Economics and Public Policy at King's College London. We are very grateful as a Committee to all of you for coming along here today, to assist us with our inquiries. Can I kick off with a question? Ministers have said, to various parts of business, "We do not want you to suffer skill shortages as the result of us leaving the EU." At the same time, the Government's policy is to get the net migration target down into the tens of thousands. Given the dependence that certain sectors of the economy have on EU workers at the moment, I would be interested in your views as to how those two objectives can be reconciled. I do not know who wants to kick off. Mr Portes, please do.



Professor Jonathan Portes: I am happy to kick off. Skill shortages is quite a difficult and loaded term in labour market economics. There are people who, not unreasonably, say there is no such thing as a skill shortage as such; there is simply a price. If you reduce the availability of workers with a particular set of skills or characteristics, reducing the supply, then the price will go up. That is to say, wages will go up, and demand will therefore fall. You will have higher wages, fewer people employed in that sector, and less output in the economy as a whole, leading to less taxes.

The evidence that we have from the empirical analysis of the labour market impacts of migration in the UK is that most of the reaction to increases or reductions in the supply of migrant workers is simply on the amount of labour that is supplied to the economy. If we reduce availability of migrant workers, the number of people employed in the relevant sectors will shrink, the amount produced will shrink and the economy will shrink.

Q756 **Mr Lilley:** Will it shrink or just not grow?

Professor Jonathan Portes: No, I mean it will shrink relative—

Q757 **Mr Lilley:** If you stop the inflow, the economy will not grow as much; it will not shrink.

Professor Jonathan Portes: No, Peter. As you know, the turnover in the labour market is much higher than stocks at any one point. The net change is much smaller than the gross change. Since what you will be acting on is gross flows into a particular sector, you would expect the sector to shrink in absolute terms. Obviously, it will also shrink relative to what otherwise would have happened, but it is not necessarily the case that the sector will not shrink. That would depend on the specifics of a particular sector.

Q758 **Mr Lilley:** Will the economy automatically shrink if there is no net inflow of labour?

Professor Jonathan Portes: I was not talking about the economy as a whole; I was talking about how particular sectors would respond. Some would grow more slowly than they otherwise would, and some would shrink in absolute terms. Would the economy as a whole shrink? No, but restricting the inflow of migrant labour, depending on just how strict the restrictions were and what the reduction was, would be a reduction in GDP and the number of people employed, relative to what otherwise would have happened. It might be the case that the economy shrank, or it might not. You are quite right that that would depend on all the other things that are going on in the economy as a whole.

While we are on this subject, it is quite important to make this distinction between net and gross in labour market terms. The net growth in employment in the UK is typically, perhaps, a few tens of thousands a month, or a few hundred thousand a year. The number of people moving



HOUSE OF COMMONS

into or out of employment every year, depending on how you count it, is more like 4 million to 6 million. There is a huge turnover of workers in all sectors of the economy, which is much bigger than any of the net changes. Of course, if you are looking at changes to immigration policy, and specifically whom employers can hire, it is quite important to look at the dynamics of that at the same time.

Going back to your point, the short answer is that employers would adjust. The question is how they would adjust, and whether they would adjust by reducing employment and output, by increasing wages, or by enhancing productivity by investing more in capital, in producing labour-saving machinery. Would they adjust by raising prices? All of those adjustments are possible margins. We think we know, from the empirical evidence in the UK, that most of the adjustment appears to happen on the output and employment side, but of course the past does not necessarily tell you what will happen in the future. You might see different margin adjustment in the future.

Q759 Chair: Just following up that point, let us take the sector of the economy that, according to the statistics we have, has the highest proportion of employees born within the EEA, which is accommodation and food services. Presumably, in that sector, there would be limits to the extent to which employers could do the things that you have just described, in order to mitigate a reduction of labour coming in to assist them. Would you say that it would be easier in some sectors than others to try to accommodate this?

Professor Jonathan Portes: It is very difficult, *ex ante*, to anticipate, particularly in a sector like the accommodation and food sector, which covers big and small businesses and a whole range of different activities. In a previous Committee, I gave the example of mechanisation. You can in principle replace baristas with high-tech machines. There has been quite a lot of advance in the technology of making good coffee in recent years. If labour became sufficiently expensive or difficult to obtain, I would expect to see some substitution away from employment to expensive machines.

Equally, I would expect quite a bit of the adjustment in that sector to take place through prices. You might just see higher prices.

Q760 Sammy Wilson: Sorry to interrupt. Are you saying, then, that our productivity issue in the United Kingdom might well be addressed if there were a change in the flow of labour into the economy? Employers who currently do not look at ways of increasing productivity may be forced to do so.

Professor Jonathan Portes: It is certainly possible that one response to a reduction in labour supply is to increase capital intensity or make better use of technology, so as to increase productivity. Of course, it can go the other way. One of the interesting findings of the recent literature is that even apparently low-skilled migration can enhance the productivity of an



economy overall, because of complementarity. For example, if you have a greater supply of domestic service workers, it turns out that highly skilled professional women in the native labour force are more likely to go out to work, which enhances the productivity of the economy overall.

It is quite difficult to trace these effects through, and there is this interesting contrast between the micro productivity-enhancing impacts of reduced labour supply, which are possible, and the evidence from the IMF. That evidence suggested that, looked at on a cross-country basis, low-skilled migration appears to enhance the productivity of an economy at the macro level.

Sunder Katwala: There is clearly a conflict or trade-off. The very nature of Brexit means that it is a reset moment on immigration, and EU immigration in particular. It changes the question. Before we had the referendum, the question was, "Do you want to adopt these club rules? There is a club you can be part of, and if so you will constrain your immigration policy," and the answer to that has been "no". We should make a distinction between the two questions when looking at the contrast between what business would want, or say it needs, and what there is public and political consent for.

We now have to come up with a new framework within which we make the policy choices about EU and non-EU immigration, and then we have to make some policy decisions within it. In a way, it might be a mistake to say, "Obviously, we will constrain our discussion about the framework to the immigration targets that were set by the Government in 2010 and 2015." You have already made a lot of decisions. If that is what you are doing, then no matter what framework you have, your policy will be to cut everything, both EU and non-EU immigration. You already had control of the latter, but it was higher than the target.

There are very different levels of public permission for the different kinds of EU and EEA immigration we have. People are broadly warm to the skilled immigration we have. There is no public or political consent for the current level and pace of unskilled immigration. If we dig into that, there are very different public views about different types of low-skilled and semi-skilled immigration. People are broadly warm and receptive to the needs of care homes for migrant labour. About one-quarter of people would cut that. They are less sympathetic to the hospitality sector. We might be picking up some views about the reputations of different employers, in terms of what they say about needs or what they are doing about training, and so on.

There is another balance to be struck here. A more complex system could be more responsive, if it were sector-based or introduced to the public differentiations of that kind. It would, however, be more complex, and a simpler system would be different. There is probably quite a strong view that people have very different views about the skilled and



HOUSE OF COMMONS

low-skilled immigration, and that you could have a system that tried to adopt that, rather than just saying, "Cut everything."

David Goodhart: As you implied, Chairman, there is pretty broad consensus that for highly skilled employees there should continue to be an assumption that it should be pretty easy for people from the European Union to come here—some sort of fast-track, light-touch system. However, for European Union employment more generally—and do not forget that more than two-thirds of it tended to be in the lower skilled areas—the question is, with those numbers coming down, what capacity do we have in this country to take up the slack?

One of the things we should look at, which is not focused on enough, is the fall-off in training of UK-born employees, and in training in general, over the last 15 or 20 years. There is a paper called *What Has Been Happening to the Training of Workers in Britain?* by Francis Green at UCL, which estimates that between 1997 and 2012, the training time per worker declined by about one-half. That is a radical fall-off in training levels, on some estimates. Certain sectors of British industry have had a free lunch. They have relied on the training systems of other countries. The construction sector, for example, is already lobbying to say that everybody in the construction sector should be regarded as highly skilled. We had the boss of Crest housebuilders, I think, saying this in the papers the other day.

Do you know the number of construction apprenticeships that started last year in Britain was 8,000? That is not a very impressive record. There is capacity to take up some of the slack.

Q761 **Seema Malhotra:** Thank you very much for that contribution. I want to just clarify something. In the analysis and research undertaken, does it suggest that the fall-off or drop-off in training is from workplace-based training that has been led by employers? Or has that been as a result of shifts in Government policy? Are there any conclusions in that report as to how that might be addressed?

David Goodhart: The paper I am talking about is about employer investment in training, not changes in Government policy. Our training system has become much more heavily dependent on the state in the last 20 years, partly through a huge expansion of higher education. A lot of employers have taken on graduates, because they are more flexible and are likely to turn up on time, and so on. There has been a shift from private to public in the training of UK-born people.

Q762 **Jeremy Lefroy:** Good morning. The Prime Minister, in her speech on 17 January, said, "Fairness demands that we deal with another issue as soon as possible too. We want to guarantee the rights of EU citizens who are already living in Britain, and the rights of British nationals in other member states, as early as we can." She then went on to talk about the discussions she had had with EU leaders. Would your view be that the UK should make a unilateral decision in this respect, rather than waiting



HOUSE OF COMMONS

for a decision from the European Union? When we spoke with EU citizens based in the UK, and UK citizens based in the EU, we were struck by the unanimity there that the UK should make this offer. It was seen as very important for giving stability for people living in the UK, and indeed would probably mean that there would be some reciprocity coming from the EU in future. What are your views on that?

Sunder Katwala: I will take that one first. I would be in favour of the British Government acting first and securing the reciprocity. British Future were advocating on this issue ahead of the referendum, and trying to demonstrate what a broad base of support there was. We were working with groups from the Joint Council for the Welfare of Immigrants to Migration Watch to say, "Everybody in this debate can agree that future law changes should not affect people currently here." After the referendum, with very strong public support on both sides of the referendum, we ran a process that was very much cross-referendum. The Institute of Directors and the TUC were there, as were MPs from different sides of the referendum, and one of the UKIP leadership candidates.

That group all agreed that they thought a unilateral guarantee could work, would not put British nationals at risk, and was the right thing to do anyway. What we do not know, and the Government have not said very much about this, is what the bar is. All Government are saying is, "We want to do the right thing, and do it as soon as possible." If the bar is simply "no negotiation without notification", you would like to think we could settle the principle on day one and get the detail going. If the view were to be taken that "nothing is agreed until everything is agreed", and this might be hanging over people for two years, that would be a ghastly situation to be in. You need to open it up.

Whether it is unilateral or reciprocal, the soonest possible point would be good. There was a general assumption that people should know this will be okay because everyone is committed. We have held meetings and hearings with, say, EU nationals in Coventry. Quite organised people, who are quite high up in the middle of the labour market in different ways, come to such a meeting genuinely uncertain as to what the decision will be. They are saying, "If we were asked to leave, of course we would have to." We should not underrate that sense. There are lots of media stories, and fairly so: if the Home Office is getting things wrong in the way it is treating people, and it certainly is, that is adding to this anxiety. The anxiety is that maybe quite a lot of people will be cut out, or that some people will be in and some people will not.

The Prime Minister is making it increasingly clear what she wants the outcome to be, but people are still rather worried about whether it will apply to them.

David Goodhart: I suppose there is a question of, if people know this is happening anyway, what the capacity is for creating goodwill. It will not create much goodwill if everybody in Europe is expecting it. Having said



HOUSE OF COMMONS

that, as Sunder says, assuming that Article 50 is triggered at the end of March, it is almost too late now to make a gesture, assuming that it will be the first thing that will be dealt with. If we have, as you suggest, one of these “we cannot agree on anything until we agree on everything” situations, meaning another two years of limbo, there is perhaps a case for Britain making a unilateral gesture.

Professor Jonathan Portes: I do not disagree with what Sunder and David have said. I will confine myself to saying that the administrative complexities in any system must not be underestimated. We are talking about potentially up to 3 million people. In this country, we do not have a population register or a comprehensive database about who is here and who is not at any one time. Sunder has implied that everybody would be in, but the fact is some people will not be in. A significant number of people will not qualify under almost any conceivable system. Dealing with that one way or another—having a legal process, law, guidance, administrative procedures, computer systems and people to deal with them—for this number of people is a big task. Regardless of the politics of the negotiation, the sooner the Government start putting in place the systems and processes needed to deal with this, the better for all of us.

Sunder Katwala: Of course, that is right about the administrative complexity. In terms of who should qualify, the principle is that anybody who is here, qualified to exercise free movement rights under our membership of the European Union, must have the right to stay and to settle, and to not be treated less favourably than they currently are. Organising that is enormously complex, and that is a reason to get on with it. Take permanent residents who have been here five years. There were 27,000 applications in 2015. There were 21,000 in the third quarter of 2016, the quarter after the referendum.

This is an immediate tripling of the pace of applications, and a lot of examples of things going wrong already—and this is a very organised group of people. The 21,000 in that quarter form 1% of the 2 million people who have five years’ residence—about two-thirds of the group—and there is another million people who are here, qualified under free movement, without five years yet. This is the biggest task the Home Office has ever undertaken. We should be getting into the detail of how that can work, and the simpler ways of administering the easy cases of people in employment, with a lot of footprint on our HMRC records and so on. The current systems will not do this properly without having a massive knock-on effect for everything else the Home Office is doing.

It will send out a very bad reputational signal if we drop the ball. Different bits of our immigration system have not worked well in the past. Nobody wants everybody from Europe who wants to carry on living here to have their passport in a warehouse of unopened post somewhere, for six months. You need to put operations in place if that is not going to happen.



David Goodhart: We do not need to frighten ourselves too much here. This can happen over quite a long period of time, 18 months to two years. For the nearly 2 million people who would qualify automatically for permanent residency, much of this can be done online. If you have been living in the country for five years, six years or 10 years, it is relatively easy to prove it. Post offices can have somebody who is trained to respond to these applications. We will need to employ a few hundred or a few thousand more people, but this is not like fighting the Second World War.

Q763 Chair: The only observation I would make is that the evidence we had previously on this suggested that the current refusal or declared invalid rate for applications for permanent residence was running at about 30%. I do not know what the figures are for the upsurge that we have seen, but I know from personal constituency experience of an EU national who has lived in the country for 40 years, who has just applied and been turned down, because the paperwork was not adequate. Therefore, it comes to the point that has been made about the fact that it is currently an 85-page form. It could be argued that the idea that 3 million people will fill in an 85-page form and that will all be quite straightforward does appear to suggest that some easier way of dealing with this will be required.

Sunder Katwala: The refusal rate in the upsurge was 32%. For other forms of ILR it is 5%. We tried to look at what was going on in the evidence we were receiving from lawyers and others. The single biggest thing that would make most difference there is the requirement for comprehensive health insurance. This was a change in 2004. If you were from the A8 or the A2, you might well have heard about it in terms of the information you were given and when it happened, and how you registered. If you were from the old EU 15, it is very likely that you never heard about it.

If you were living here as a stay-at-home mum of a British national for the last 20 years, people changed the rules as to what your status was. There was no information sent to you. Waiving that, by saying either, "We will not refuse on that ground alone," or—another way to say something rather similar—"We will treat eligibility to the NHS as fulfilling that," would deal with a lot of the refusals. You will have to work out what to do with all of those groups. That would probably be the biggest single change there.

The other point about this complexity is that you are not allowed to have been outside the country for 450 days across the five years, or for 90 days in a year. We check that by asking you to record every single time you took a Eurostar or a flight for a weekend, anywhere across a five-year period. There are bits of information that we could be savvier about. Employers will face a massive burden, not only for their current employees but for all of their previous employees, unless we pass a simple regulatory change and say that local authority nationality checkers



HOUSE OF COMMONS

and those in the Home Office can use the HMRC database for this purpose.

There will be lots of difficult cases, as Jonathan says: people who are self-employed or in vulnerable forms of employment. However, there are well over 1 million, or even a couple of million, cases that should be straightforward, and you could make changes that would make them more handleable.

Q764 Jeremy Lefroy: Professor Portes, you talked about people who might not qualify. If they are European Union citizens living and perhaps working in this country at the moment, why would they not qualify?

Professor Jonathan Portes: As Sunder has effectively said, it depends what rules we put in place. The minimum that we could do legally is to say that people who have been here for five years and have satisfied the other conditions, like, as Sunder says, having comprehensive health insurance in some form, qualify. That would exclude quite a lot of people. At the other end, we could say that everybody who was here on 23 June or some other date qualified, in which case we would have to come up with a system that allowed them to prove their eligibility.

My point is that there will have to be some set of criteria. That could be an extended stay doing something productive, like working, or in some other way exercising your free movement rights, at one end of the spectrum. At the much more liberal end, it could just be saying, "You were here on that date, and you were here not just as a tourist." Whatever that set of criteria, we will have to have a process that allows people to demonstrate. That could range from light touch through to the 87-page form we have at the moment.

Whenever you have a bureaucratic system like that that deals with 3 million people, there will be people on one side of the line and people on the other. That is simply inevitable. I worked for a long time in the Department for Work and Pensions, which deals with millions of people. There are people every day who are denied the right to jobseeker's allowance, employment support allowance or the rest of it, because they do not fulfil the criteria, whatever those criteria might be, at one point.

That will inevitably happen with a significant proportion of those 3 million. There are political and administrative choices to be made as to what sorts of errors you want to make. Do you want to be relatively liberal, and let in some people whom you might not otherwise have wanted to, or people who do not fulfil the criteria but are prepared to tick a box on the form? Or do you want to be quite strict, and make sure that you are only giving it to people to whom you want to give it, recognising that that will exclude some people who simply, for whatever reason, cannot demonstrate? That is a bureaucratic, political and administrative choice.

As I have said previously, inevitably with systems like this, there will be hard cases on both sides of the line. If we have a very light-touch, online



HOUSE OF COMMONS

system, as David says, we can do that, but it will mean that a bunch of people will get in fraudulently or improperly. We will, for example, allow people to stay who have criminal records that we do not pick up through the system. If you are prepared to deal with the *Daily Mail* and *Daily Express* headlines that will come out of that, it is fine.

Equally, at the other end of the spectrum, if we insist on making people demonstrate residence over a period of time, we will inevitably end up denying residence to some perfectly good, upstanding, hardworking citizens. David says it is relatively easy to show you have been employed. It is for some people but not for others. It is inevitable whatever you do, because you are dealing with a very large number of people, and bureaucrats and computers are fallible.

Sunder Katwala: Jonathan is overcomplicating the argument about the principle of what we are trying to do. There was an enormously broad consensus, which almost all mainstream voices hold, on what we are trying to do. Helpfully, the Vote Leave campaign expressed it in two sentences during their campaign: "No change for EU citizens already lawfully resident in the UK." That is the principle of what we are trying to do. Their proposal was: "These EU citizens will automatically be granted indefinite leave to remain ... and will be treated no less favourably than they are at present." That is what we are trying to do.

It is enormously complex to do it. The distribution of EU nationals is very different from the distribution of other migrants to Britain. They are spread much more broadly around the country, into Lincolnshire and Merthyr Tydfil and everywhere that the post-2004 wave went. Otherwise, migration has been a more urban phenomenon. These people have never needed immigration advice, for the most part, and so they have never had it. There are no advice services or legal opportunities for those who need it. There is a great deal of goodwill from the employers and the trade unions to help people with advice etc., but they do not know what to say. There are big tasks, but there is not difficulty about the principle we are trying to apply.

Q765 **Mark Durkan:** Just to go back to permanent residence systems, we have heard something of some of the flaws there. We saw them, Mr Katwala, in the British Future report: you recognised that if that were the option pursued, there could be some time in processing all the possible EU nationals in the UK. Rather than just tell us what the main flaws of the system are, what are the practical remedies?

Sunder Katwala: The best solution is to ask the people who have five years' residence to come forward first, and give them a light-touch, local thing, using the current network of local nationality checking services and boosting it up. It is not currently in Northern Ireland, but it is in other places. It is not in all the right places to do this. It should be some process like that, where you go with your documents, and someone who is skilled to do so checks them; if you need to get something else, you go home and get it. You keep your passport and you are not unable to



HOUSE OF COMMONS

travel, and so on. If it is a complicated case, then it can go into something the Home Office is going to do at a national level.

In order for this to work, we need a couple of things to happen. In terms of the points Jonathan has made, we do need the Ministry of Justice to provide a list of people that we are intentionally excluding. There are detailed current Home Office policies about whom we exclude from settlement and indefinite. There is a standard that we would apply. Obviously, that is a difficult thing to get right, and if you get it wrong you will face a lot of media pressure, but you would hope that we could identify the people we have sent to prison for long periods.

The other biggest change that would make a massive difference is to say that local authorities have access to HMRC and DWP records. If you pass a regulation that lets them be used for this purpose, and therefore, if somebody has been working in paid employment with an employer for 15 years and you have got their record, they can get the green stamp. You need the Home Office oversight of how that is working. Do people go and check that and sign it off? How does the rubber-stamping work? However, there are ways to clear the books of, say, 2 million of the 3 million cases.

You have then got a decision to make about the people who, on Brexit day, might have two years' residence, not five. Do we immediately treat two years as five years, if you are in this exceptional group at this date? Or do we let people come forward over the next three years, having given them a provisional status, so that they then acquire a full status at five years. It is a practical approach. We will still have issues of people whose employers never paid any national insurance, and we will have to try to work out who was at fault. There will be complicated and hard cases. However, we should not put a couple of million people, who want a low-hassle system, there.

We should also cap the cost of it. Permanent residence is £65. Indefinite leave to remain for a non-EU person is over £1,800 per person. We should be capping the costs of it to around the cost for a British person getting a first passport. That would be a fair way to deal with this issue that has to be dealt with for people who had no expectation of being in this position.

Q766 Mark Durkan: You mentioned earlier that this is potentially a reset moment. Do you see all of those things as having to be achieved and in place for Brexit day one, or do you see this as a series of muddle-through, make-do options that we are likely to end up with?

Sunder Katwala: We want to be processing it. For the people who already have five years, we should be getting on with it. We do not want to hit a massive job in two years' time. Our inquiry proposed the day Article 50 is triggered as the cut-off for the guarantee. In order to make the guarantee, you also make the cut-off. Before we have a complex set



HOUSE OF COMMONS

of negotiations about future policies, transition arrangements etc., we have guaranteed the group to whom we had an ethical responsibility.

There is then a practical question of what you do with someone who arrives a year from now to exercise their free movement rights. They are in a position analogous to somebody on a one-year visa. Their employers will be talking about certainty for them, but that is a different, practical issue of the transition out of the European Union. Getting this system up and running, and letting people know what it is, would be very good psychologically for the certainty, and very helpful for the process of Government getting it right.

Q767 Mark Durkan: You mentioned the point that of what you would see as some of the options, some, including the local, accessible option, are not currently available in Northern Ireland. Because of different administrative arrangements, some of the things you suggested might be done in terms of the access to information and all the rest of it, might not be as immediately available in the context of Northern Ireland. My question is, first, whether or not you have any answers to those challenges.

Also, you mentioned the point that there could be complicated cases. As a border MP in Northern Ireland, my experience, for instance in relation to tax credits, is that any cross-border worker is deemed as a complex case, and therefore it becomes more complicated. Have any of the witnesses given much thought to the particular complications that could arise in these sorts of transitional sensitivities for EU citizens who are resident in the border areas, such as in the north-west of Ireland, and who are actually cross-border workers?

Sunder Katwala: Regarding the delivery mechanism issue, something should be created. People can pay to use these checking services, so there could be a way to finance it well. More capacity into that is important. In terms of Ireland, Irish citizens and Northern Ireland, that is a different set. In this instance, it is a less complicated issue. Lots of other questions are more complicated. In terms of Polish citizens in Ireland, it is not particularly different, other than finding a pragmatic way to process it.

Q768 Mark Durkan: Let us make sure that things like the 450-day rule or whatever do not end up tripping up an EU national who is not a British or Irish citizen who has been working on a cross-border basis, and maybe has moved across the border, or indeed their work has moved across the border, in that period. Sometimes, when there are those tests around things like the 450-day rule, the problem arises because it is the Irish tax authorities raising questions about exactly what time has been spent on either side of the border. Some of the answers that have been given to the overall problem that we are hearing about may fail to address the particular point about cross-border workers in Northern Ireland—in Derry particularly—or the Republic, if they are EU nationals other than Irish or UK citizens.



HOUSE OF COMMONS

Sunder Katwala: Getting that right will affect your right to reside and settle in all parts of the United Kingdom. There is a broad assumption that everybody is in favour of continued free movement between the Irish Republic and the United Kingdom. We will need some permission from the European Union to continue that.

Q769 **Mark Durkan:** The common travel area only applies to British and Irish citizens.

Sunder Katwala: Yes, but the right of Irish residents to work and live in the UK is a pre-EEC, pre-EU thing.

Q770 **Mark Durkan:** Yes, but this is about EU nationals.

Sunder Katwala: You are right. Yes.

Q771 **Mark Durkan:** These are EU nationals who are resident or, indeed, working in my constituency while living in the next-door constituency of Donegal.

Sunder Katwala: For residents across the border, you might need to make a special requirement, which would be in the spirit of what we are trying to do.

Q772 **Mark Durkan:** Any reset around permanent residents should take account of their particular circumstances.

Sunder Katwala: Yes.

Chair: Peter Lilley, you wanted to come in on this point.

Q773 **Mr Lilley:** Yes, please. We have got to deal with this. I agree with Jonathan that even for the DWP, which has experience in dealing with millions of people, a new category of 3 million people is a very daunting bureaucratic process. It seems to me that the way to minimise the difficulties will be to give access to DWP and HMRC data. However, that immediately raises the one issue where I am uncertain, and which no-one has talked about: what about people who have been here legally but have been working without paying taxes? They have not been exercising their national insurance number. They may have one, but it will not show up in the DWP figures, and it will not show up in the HMRC figures. What do we say about them? Do they have the right to remain, even though they have been here without, as it were, paying their dues, or not?

Professor Jonathan Portes: This is an extremely good question. It is partly a political question for you and the country as a whole, and partly an administrative question. These people, by definition, may have been here perfectly legally as European Union citizens, exercising their free movement rights. They may have been working and, indeed, contributing to the economy in the broader sense, but they may not show up on the records. It could be that they were deliberately defrauding the British state by not paying their taxes, which may be one thing from a moral and political point of view. Alternatively, it may be that their



employers have chosen to defraud the British state, which may of course be through no fault of their own.

Again, it will be possible to come up with workarounds for some of this group, at least. However, there will have to be a political decision as to how liberal we want to be, and what sorts of standards of proof or self-attestation we regard as being acceptable, and as to whether we think from a moral or political point of view we want to give people in that position a right to stay. I have implied that you can certainly make a decent political case for saying that people who were here legally but dodging their taxes do not have any particular moral claims on us.

Equally, you could say that for many of these people it will not have been their choice. It may have been their employer who was choosing to disobey the law. For those people, I would assume that we would want to find some accommodation. Some of those people will also have various connections or ties, family or otherwise, to this country now.

Sunder Katwala: I agree with Jonathan says about political choice. I also agree on the distinctions. If somebody is self-employed and you can see very clearly that they have deliberately not paid their taxes, you can decide whether to refuse them or make them make a settlement with the Revenue. The grey area for somebody who can claim it is employer exploitation, where there would be a lot of sympathy, is important.

There is a third factor, important to both this question and the future policy question. It is not in our interest, depending on what is going to happen in terms of people to whom you do not give status, to have a large grey area going on working off the books. If you can find ways to put people in the system that are fair and have public and political consent, that would be very good. We should be quite clear that cases of exploitation and of people evading their taxes are different types of case, and there will be a blurred boundary between them.

Chair: We may be talking about individuals here whose spouses or partners are British nationals and who have British children, just to add to the layers of complication. How will the system deal with that in those circumstances?

Q774 **Mark Durkan:** I would like to come back to the point that was mentioned earlier and came up in one of your own questions, Chair, on the question of the comprehensive health insurance. Mr Katwala mentioned that there is differential awareness around that. We have had some previous witnesses who have said that comprehensive health insurance does not exist in the insurance world, so whatever the differential awareness might be, is this a rigorous figment? Is it a reasonable or necessary requirement?

Sunder Katwala: The context differs between what the Government were trying to do when they wanted to make this change in 2004 and its implications now, if we were to refuse people on this basis. Certainly, the level of information that was available in 2004 was incredibly patchy, and



HOUSE OF COMMONS

it only went to people from accession states, to a large extent. It is now a big spoke in the wheel. The benefits of saying, "We want to be clear about access to our health services and so on," are much lower given the way in which it will just put a lot of people in appeals processes, many of whom will probably be granted residency for other reasons such as family rights. Not refusing on that grounds alone is a very specific point.

What the Government should be saying about health insurance for different types of people coming into the UK—students, self-sufficient people and self-employed people—is a future policy question. We should separate it out for the stock of EEA nationals.

David Goodhart: What it does draw attention to is how laissez-faire our system has been, over hundreds of years. As part of this general reform, we will have to reopen the debate about ID cards or a population register, particularly if we are going to have a relatively light touch initially when it comes to processing people for permanent residence. There will be lots of anomalous cases. One of the reasons for large-scale anxiety about large-scale immigration is anxiety about free-riding, and people having access to the social state when they have not paid in sufficiently. Some kind of entitlement card or ability, relatively easily, to prove that you do indeed qualify for access to the British social state is something that we will have to think about.

Sunder Katwala: There is one other point where the Government's position is not currently clear; maybe the Committee can illuminate it in the period to come. EU workers are covered, the family and dependants of EU workers are covered, but it is not entirely clear from some of the reports that we have seen as to what the Government believe the position to be in regard to the EU dependants of British nationals who are not free-movement individuals. The legal expertise and advice is that these people are covered anyway and we should not make that distinction.

However, in terms of letters that are currently going out from the Home Office, sometimes an EU national who does not have the comprehensive health insurance is being sent advice to leave the country. It is evidently by mistake, but they do not know that and they are very anxious. Obviously, it is the Government's policy that their status has not changed, yet they are being sent a letter saying that they now need to make preparations to leave. Hopefully, Ministers will be able to assure you that those template letters for non-EU nationals are not going to EU nationals, because that is at odds with Government policy.

There are a couple of cases that have been reported, such as a Dutch woman who has lived here between 20 and 30 years, and is married to a British national, where it seems quite deliberate that the British Government was saying, "We do not know what your legal status is; you might want to go to Holland and apply from there." It would be really odd if the EU partners or dependants of British nationals were not treated



HOUSE OF COMMONS

as well as the EU dependants of EU nationals. It would also be at odds with the case law; it would be a mistaken reading of the policy.

There is no point in the law saying these people are in if the Home Office thinks that they are not. I hope you can pin them down on that, and get a guarantee that that group will be included. I have come across people who are very worried that their family are in that case.

Q775 Peter Grant: Good morning, gentleman. David, I would like to start with you first. I am particularly interested to explore some of the suggestions in the paper that you produced in August 2016. First of all, what kind of response has that had? Have you had any official or unofficial comment from the Government as to how they view any of those ideas?

David Goodhart: Do you mean responses to the Policy Exchange paper? Alas, there has been no official response.

Q776 Peter Grant: Has there been any unofficial response? I am not asking you what it is.

David Goodhart: No.

Q777 Peter Grant: It must be very depressing to spend so much time putting these erudite thoughts down and nobody reads them.

David Goodhart: Quite a few people have read it, and that is the main thing.

Q778 Peter Grant: Can I start with the comments you have made, following on from the discussion we have just had, about the status of EU citizens who have been here for a long time, who almost certainly would qualify for UK citizenship if they wanted to apply? First, although you have not made it explicit, is it reasonable to assume that we would expect EU countries to make the same arrangements for British citizens that you are suggesting we should be looking to arrange now for EU nationals who are in the UK, so there would be a degree of reciprocity at some point? Is it correct to say that your suggestion is that, where there are EU nationals who have lived here for a long time and qualify for UK citizenship, we should be encouraging them to take that up, possibly by making it easier for them to apply?

David Goodhart: That is right. We do not know what the situation is in terms of what one might call integration of European Union citizens, and what proportion have settled, put down roots here and regard themselves as British or, if not, perhaps have children who regard themselves as British. We do not know what proportion are commuter immigrants, who come for a few months and go back, and what proportion are perhaps somewhere in between. There have been some rough estimates that each group is roughly one-third. Some are very short term, and one-third have properly made lives here. For people in that third, yes, we should perhaps offer some special deal.



HOUSE OF COMMONS

Sunder was suggesting that just for the permanent residence process, but we should offer some special British citizenship fast-track process, or one that is slightly less costly than normal. We would like as many people as possible who have decided to make their lives here to become British citizens.

Q779 Peter Grant: Will that not cost them £5,000 each time? I think you have suggested we should give them a reduction to £1,000. Picking up on the comment Sunder made, one of the very clear promises made during the Leave campaign was that these people would be entitled to stay on the same terms. You seem to now be suggesting that, if they are entitled to stay on the same terms, at the moment it costs them £5,000 each time and you might cut it to £1,000 each time. Is that fair for these people who have made their lives here and contribute to our society—to charge them for something that previously they were entitled to as a matter of right?

David Goodhart: Citizenship was not something they were automatically entitled to, was it? Sorry, have I misunderstood?

Q780 Peter Grant: You would want to encourage them to become citizens, so there is no question over their right to stay.

David Goodhart: Yes.

Q781 Peter Grant: Following on from that, you have already confirmed that you would expect similar arrangements to apply in other EU countries in their treatment of British nationals. Some EU countries—Spain, I think, is one major example—do not allow dual citizenship. What you are effectively saying is that the Spanish government would then seek to encourage UK citizens to surrender their British citizenship in order to guarantee their right to live in Spain. Certainly, the UK nationals from whom we heard evidence recently are very keen not to do that. What sort of reaction would you expect to get from UK nationals living in the EU if the Spanish government, for example, said, “We will let you stay, but you have to give up your British citizenship and become a citizen”?

David Goodhart: That may be one of the reasons precisely why the Government are a little bit wary about making a unilateral offer to European Union citizens who are here—if the conditions for British citizens who are in Europe will not be the status quo ante but will have various conditions attached. Obviously, we want reciprocity. We are not insisting that European Union citizens here who are regularised become British citizens. We should encourage it; if they are making a life here, let’s offer a cut-price British citizenship package for them. That is hardly oppressive.

But, yes, if you are someone who lives in Spain and you are a Brit, why should you become a Spanish citizen? If we are going to have this reciprocity, then let’s have reciprocity.



Sunder Katwala: There is a balance to be struck; if you go too much for a bonanza sort of offer—if we cut the costs of British citizenship and do not do so for other people who are becoming British citizens—that is not necessarily something that will strike people as fair. There has been a very low take-up of British citizenship from EEA nationals. Before we were in the European Community at all, there tended to be a low take-up from Irish nationals. There might be some identity issues there, but you have all the rights: Irish nationals have the right to vote in our general elections. EEA nationals more or less have all the citizenship rights by virtue of their EEA nationality, except the right to vote in general elections.

It is about 3% of Poles, and less than one-fifth for all nationalities. We might want to encourage citizenship, particularly if people are going to live here and their kids will be born and grow up here—we are particularly keen for their kids to be British. However, we do not want to push people into citizenship because they want to have the same status they have had now. The German figures are completely different, but that is because we mixed up the people born as Brits in Germany on army bases. It is a very low take-up, because people did not see the need to do it, because of the context. I would certainly like to encourage Polish migrants to Britain whose kids are born here to ensure that their kids have both identities, have British citizenship and go and vote. But I do not think we should push them into it.

Dual citizenship is not a problem in the EU. The Baltic States have changed their rules now. There are very specific restrictions around Austria, but for everyone else, they broadly allow it. You might need to make some tweaks, but it is not a big issue with the EU states.

Q782 **Peter Grant:** Thank you. Another suggestion you made, David, was around what you called a national population register, or something like that. Does that mean that the Government would have a big database of all of us, and we would not be allowed to remain here unless we were registered in that database?

David Goodhart: Yes. It is something that a lot of European countries have. I am not an expert on it, I must admit, but people register when they change address. There is a lot of scepticism about our statistics, as you will probably know, and about not just the headline immigration figures, the International Passenger Survey, but the basic ONS data on who lives where. As you will all probably know, particularly if you live in areas of significant population churn and movement, local authorities are always challenging the ONS figures.

As well as the 10-year census, the ONS do local authority estimates every year and a lot of public spending is based on these figures. They are extremely important and sensitive figures, and we have been talking recently about reviving the emergency public spending ambulance service when the population rises dramatically in a certain area. On what basis can you make a judgment about whether a local authority is making a



HOUSE OF COMMONS

reasonable claim for several tens of millions of pounds more for their education or health services? We really do not know.

Population registers have their own problems, because people do not necessarily register when they move house. People move house, on average, every eight years or 10 years in the United Kingdom, so it is not that often. It would gradually become a habit. However, some of the other countries in the European Union that have them do have a better idea of who is living where, and where to concentrate resources, but they are not perfect.

Q783 Peter Grant: Is that taking us into the territory where eventually we all have to carry identity cards?

David Goodhart: In the long run. There is a cultural resistance to the idea of having to carry a card. I do not think there is a huge resistance to the idea of cards themselves—of having some sort of badge of citizenship entitlement. We will remain a relatively high-immigration country even after Brexit; there will be a lot of churn and movement in our society, and a lot of social fluidity compared with 100 years or even 50 years ago. Reassuring people that people who are in the country are entitled to the services they are receiving is a very important part of the long-term development on this issue.

Q784 Peter Grant: You would be quite happy with the idea that, at some point, all of us have to carry an ID card.

David Goodhart: No, not that we have to carry one. There is an understandable resistance to that. There are all sorts of ways that you can do it. We all have an NHS number. It could be based around national insurance numbers, NHS numbers, but it is some sort of ability to prove that you are indeed who you say you are—that you are a citizen of the country and entitled to all the rights and benefits that brings.

Q785 Peter Grant: I have just one final question, David. In the introduction to your paper, you referred to the costs of the additional administration that might be required. I suppose I have two questions. First, have you costed it? Secondly, what reaction have you had from the universities to the suggestion that they should pay the costs of the bureaucracy of monitoring who they allow in to study?

David Goodhart: They are not particularly happy with the idea, but they benefit enormously from a very large proportion of international students, particularly the Russell Group universities. I think it is about 15% to 20% of the student body. Students from outside the European Union pay anything between double and three times the fees of UK or EU students. They have adjusted their entire business models. They do extremely well out of it. Students should be flowing in and flowing out; not everybody should flow out, because there are some people who will stay, and we will want them to stay.



However, there is a huge amount of confusion at the moment. As I was saying, our statistical base in so many of these areas is pretty threadbare, and there is a huge gulf in understanding of what is happening with students. There are perfectly reasonable people on both sides of the argument, and yet the variation in what people are saying about the student flow is enormous. Some people are saying that as many as 30% or 40% of students are not leaving and will never leave. Other people say it is a relatively trivial number.

We simply do not know, and giving universities more of a responsibility in this area seems to me perfectly reasonable. They have done extremely well in the last few years, particularly the Russell Group universities. They have massively increased their financial reserves; they have a financial cushion, and they could spend a little bit more money on helping us to administer the system.

Q786 Peter Grant: Just very quickly, are you able to give us an estimate as to how much you think all this would cost?

David Goodhart: No.

Q787 Mr McFadden: We have talked quite a lot this morning about the bureaucratic process of trying to register people and what application process they should go through, and so on. I want to ask you a few questions about policy outcome, and where we are trying to get to. If I could begin with you, Jonathan Portes, for a lot of voters, the aim of pulling out of the European Union was to reduce immigration. In what way or ways do you think the lives of my constituents would be improved by a significant reduction in immigration?

Professor Jonathan Portes: It depends precisely how that reduction is achieved—what the new system is and how it secures a reduction in immigration. Let's assume that it is through the ending of the current system of free movement, and the imposition of some new system that requires people to have some sort of work permit or other permit to come to this country to work. The main impacts on your constituents, and indeed the constituents of everybody else on this Committee, would be both direct and indirect.

You would see fewer people coming to this country, and most of that reduction would be in the number of people coming to work, so you would have a reduction in the supply of labour. That would, as I alluded to previously, result in a number of economic impacts. It would certainly result in a reduction in overall output and employment, a reduction in tax revenue, and a reduction in the population, so a reduction in the demand on public services. The overwhelming weight of the empirical evidence is that, on the whole, most of the reduction would be through output and employment, so you would simply have fewer businesses employing fewer people and producing less.



HOUSE OF COMMONS

Other impacts might include, for some people, some upward pressure on wages in some sectors. That could, of course, benefit some of your constituents, if they are currently competing with workers who are coming from outside. The empirical evidence says that, yes, those impacts would be very small indeed, and probably not noticeable. The broader indirect impacts, of course, on the tax and public services side, would be a reduction in tax revenue and in demand on public services.

Again, the empirical evidence is pretty clear that that would be, on balance, negative for your constituents. As a consequence, to balance the books, you would either have to have higher taxes or a reduction in the quality of their public services, so even though there would be fewer people demanding their public services, there would be less money going in. The net impact would be negative for your constituents.

Overall, the economic, public service and fiscal impacts are likely to be negative. The distributional impacts, and hence the impact both on your particular constituency in the Midlands and, indeed, on individuals within your constituency, are very difficult to predict. Almost certainly, some people will gain and some people will lose. They also, of course, depend on how Government policy responds. If the net impact of a reduction in migration is to reduce the demand for public services by £5 billion and tax revenues by £10 billion, the Government can choose to address that by cutting the NHS by £5 billion, which would have one effect, or it could choose to address it by increasing taxes by £5 billion, which has a completely different effect. Indeed, it could address it by just borrowing £5 billion, which has a third effect.

Although the overall impacts are likely to be negative, the distributional impacts, between individuals, geographies, regions and sectors, will depend both on what the new system looks like and what the policy response is from Government to those impacts. You cannot predict those with any certainty. I can be reasonably clear that the overall economic and labour market impacts are likely to be negative. How negative they are will depend on what the new system looks like, who it excludes, what the new bureaucratic burdens on employers are, and how much of a reduction in migration actually results from it.

Q788 Mr McFadden: Sunder Katwala, your organisation has done quite a lot of polling about attitudes to all of this. You said in your opening remarks, or in response to the first question, that people thought about different types of immigration in different ways. The crude shorthand for this is sometimes “skilled” and “unskilled”. Can you dig a little more into that?

On the face of it, pulling out of the EU does not affect non-EU immigration at all, unless we make a second decision, which is within our power right now, to change that. Let’s assume that that stays constant. If the policy outcome for the Government is in some way a drastic reduction in migration from the rest of the EU, in terms of your public attitude findings, where do people want that to take place? Why do you think those parts of EU immigration that are most objectionable to people



are objectionable?

Sunder Katwala: You risk conflating two things that are quite important: the sense of control and choice over what that level is, and the pace and scale of it. There might be quite a large group of people who would like a moderate reduction but not a large one, and another group who would like choice and control over it, but might not want to reduce it very much at all, or might be quite selective about it. Why has this become an enormously salient public and political issue over the last 10 or 15 years, when it was not before? There has been a big fall-off in confidence and trust in how Governments have handled immigration in this country, and that applies to successive Governments.

It starts from a sense, probably true, that the Labour Government failed to anticipate, plan for or predict the scale that we had, or respond to it once it happened post-2004. When it did happen, they tended to talk about the macro benefits and not the local impacts as well. You obviously had a political reaction to that, and so the new policy of reductions came in.

Q789 **Mr McFadden:** Sure, but I am trying to direct you to what should happen.

Sunder Katwala: There is a loss of trust there. I think that immigration is very good for this country; both my parents were migrants to this country. If you think immigration is good, the biggest outcome you want is a restored sense of confidence in the contribution it makes, and how we handle immigration and integration. That might involve reductions, reducing the pace of change or reducing the numbers in some areas. People would like to control and reduce the level of unskilled European immigration to Britain. They do not want to reduce unskilled non-European immigration because we have not got very much of it, or any at all.

They are broadly content with different types of skilled immigration. They believe in refugee protection as a principle: they would do a bit more for Syria but would not do too much more if it added pressures, and so on. There are very nuanced views, but that sense is about the responsiveness of the political system to issues that they have, and our ability to handle the pressures.

It is easy to say what we need to do; it is very difficult to design the system to do it. We want to meet the needs of our economy and our public sector, and we want to rebuild public confidence, but we want to do it in a way that is fair to people who come here. If we think that being fair to people who come here is a zero-sum debate about whether that is fair to the people who are already here, we will have a very polarised immigration debate. The way we deal with skills, training, and the economic needs of migration should not be felt to be zero-sum, so that it is not about treating incomers badly or worse. That means saying that if you come to contribute to our society, you should get full rights as a



HOUSE OF COMMONS

citizen when you go through various hoops, and that we are aware that that feels right to people who are worried about the jobs and opportunities for their kids.

On both the economic migration and integration issue, you need that sense of confidence in what we are choosing to do. The public themselves now face a set of trade-offs. They would like the numbers down, but they would not cut students. They are aware of the needs of health services and social care, but are more sceptical about the scale in other areas or other employers, where they do not feel enough investment has been going into training. My view is that, if you get people to grapple with these trade-offs, you get a set of choices that might, but not always, come down to, "Do you want to cut the numbers so that you lose immigration you like, or do you want to keep the immigration you like, even if the numbers stay higher?"

How we manage the local impacts, whether it is the pressure on the Health Service or the feeling of integration at the school gate and in the town centre, will make a big difference to how people do that. If you are telling people the story that they have no choice, because we have made a different decision because of our economic needs, there is a sense of fatalism in what we are trying to do.

Q790 Mr McFadden: Modern politics, particularly in the last couple of years, has sometimes been described as a battle between cultural and economic concerns. In this area, we focus very often on cultural concerns. In the work that British Future has done, to what extent is the debate about immigration, and concerns about it, concerned not with EU migration but with broader cultural concerns about integration? Those could be issues like veils and burqas, perhaps—what we might call the softer end of that—or at the harder end of it, real security concerns about Islamist extremism and so on.

Sunder Katwala: These things are all linked, and for different parts of the population they are different. There are four big, deal-breaker questions that I would ask. Is the system effective and fair? People's view is that it is not really. Is the economic impact of people coming in and working and paying taxes good? Are there equal and fair chances for me and my children? Those are the questions on jobs and public services pressures. Are we a shared society, or a segregated, divided one? That is often about how we are handling the 1950s and 1960s immigration across three generations. Do we have a democracy, where my view about this counts and I can have my say about it?

The cultural feeling that your voice does not count might be about cultural identity issues or economic issues. There is no doubt at all that in the minds of the public, and this is true of a large swathe of both the Remain vote and the Leave vote, that this is a moment when it feels like your voice could count and we could get the balance right. Some people are very worried then that that will involve very tough, Donald Trump-style views. Donald Trump is very unpopular in this country. He



HOUSE OF COMMONS

has a fan club out on the fringes, and he polarises the UKIP vote in half. He does not polarise the British public in half.

We should have more confidence that if people are frustrated that their voice does not count, they want to strike the right balance, both about the economic and the cultural gains and pressures. There is a fairly big tradition in this country that when migrants become "us" and their kids become fully "us", that really works here. We are not just saying, "This is what you do to become 'us', but you never really get to become 'us'," which can sometimes be the tone of debate in some continental European states.

Q791 **Mr McFadden:** David Goodhart, please feel free to comment on the other things I have asked. I wanted to bring you back to the question Peter Grant finished with, which is that taking back control leads us to the sorts of questions that we have had for the last hour about how you count people and how you know where they are. You said that we have had a very liberal approach to this for a very long time. In fact, other European countries sometimes tell us that we have had a more liberal approach to freedom of movement than they have had, in terms of requirements to register and so on.

On this question of ID cards or some kind of document or some kind of stamp in your passport, some kind of card or paper like that is an inevitable consequence of a "take back control" immigration system?

David Goodhart: Yes, I think it is. As I say, whatever system we might envisage, we will remain a very open country and levels of migration will remain relatively high. This is partly a function of poorer countries getting richer. As poorer countries get richer, they grow larger middle classes, who have the wherewithal to move. We also have lots of countries that used to be completely closed: the Libyas and Iraqs have now been broken open, for good and ill. People sometimes exaggerate this, but the proportion of people who live outside the country of their birth is just 3%. That is only a very small increase, in percentage terms, from the figure 30 or 40 years ago, although obviously the global population has increased in the meantime, so the absolute number has increased quite a lot.

We will remain an open society, so there will continue to be quite high churn. There is very real anxiety that people have about over-rapid demographic change, which you see in all these surveys that ask people to agree or disagree with statements like, "Britain has changed a lot in recent times. Some people say it feels like a foreign country." Something like 60% or 65% of people agree with these statements, which you might say is quite astonishing in a country as rich, stable, liberal and successful as ours is. There is that very strong underlying anxiety, which is about the fact there is such a thing as society. By "society" people mean something relatively stable.



Many people, even if they do not live in a part of the country that has a high level of churn, see the general picture of their country changing too fast for comfort. On the one hand, rich, liberal countries have to respond to that, while also remaining open for economic and other reasons. The way of squaring the circle is for more and more migration flows to become, in one way or another, temporary. We do have to think in terms of some kind of humane guest worker system for the 21st century. Guest worker systems have a very bad press because of the German experience, but that was very specific to Germany in the 1950s and 1960s.

Q792 Mr McFadden: I am conscious of time, so I want to end with this. You have described it as a global phenomenon of people moving around more, for various reasons, with countries opening and so on. I would agree with that, and I think it is not going to go away. Barring catastrophes and very bad things, it will probably continue. We have an issue of numbers and an issue of control. You have written that there is no point in ending freedom of movement and then having similar numbers arriving as before. In this “take back control” world, what is the outcome between this issue of control and numbers, if you are right—as I think you are—that the global factor of people moving around the world more than in the past is likely to grow and continue?

David Goodhart: Using the figure of net immigration has come to the end of its useful life, particularly if the figure is as low as tens of thousands. The figure we should be looking at is the permanent residents figure. There will obviously be a big upsurge in that as we digest the European Union population into it. However, when that has settled back down, we should be looking at the permanent residents number, and perhaps trying to keep some cap on that at around 100,000. If the Government had gone for a permanent residents target, rather than a net immigration target, it would have reached it in most of the last five years. In fact, last year the number of people who were granted permanent residence was just 67,000.

What people do not sufficiently appreciate is that so much of the non-EU immigration to Britain now is temporary in one way or another. The students are, in theory, temporary; people argue about how many end up staying permanently, but most of that is, in theory, temporary. Most of the non-EU work immigration is temporary, apart from the Tier 2 20,000 cap, but most non-EU work migration is now intra-company transfers, which is running at 30,000 or 40,000 per year. That is temporary. People can come for, I think, anything between one and five years. This is the way of squaring the circle, as I say. We want to remain open, but we want to slow the change of our social and demographic structure, because that creates great anxiety.

Mr McFadden: I have probably run out of rope, but thank you.

Q793 Michael Gove: Professor Portes, at what level do you think immigration into the United Kingdom would be too high?



HOUSE OF COMMONS

Professor Jonathan Portes: I have never been a fan of numerical targets in general; I do not think trying to centrally plan economies or societies is a good idea. There is no particular figure at which I would be worried about exports or imports as a percentage of GDP, as opposed to the consequences of macroeconomic imbalances or the wider economic consequences of having too big a current account deficit or imports running at too high a level.

The right question from a policy point of view is what sort of system you want to put in place, both from an economic point of view and in terms of wider political, social and other considerations, about which my fellow witnesses have more to say, perhaps, than I do. What system do you want to put in place? Of course, leaving the European Union changes what the optimal system is. When we were in the European Union, as Sunder said, we were part of a club and we did not, and effectively could not, limit migration flows. In my view, that worked pretty well for us in a lot of respects.

Now that we are leaving, we will have to put in place a different system, and again we will have to work out what is a sensible system for managing migration, given the political, economic and social constraints. In general, within the bounds of political feasibility, from an economic perspective, probably the more liberal it is, the better.

Q794 **Michael Gove:** For you personally, there is literally no upper limit to the amount of immigration to this country that would be desirable.

Professor Jonathan Portes: For me? I personally, of course, have various views on the political and social issues as well, but because they are not based on any great expertise, they are of no particular interest to the Committee. I certainly do not believe in any numerical upper limit. I would say that you put in place a system that makes sense from an economic perspective, while also addressing your other objectives. That system is likely to be based around skills, qualifications and labour market needs on the economic side. It is also likely that it would be based around what degree of family relationship we required as appropriate for somebody to be granted entry.

It is also based on both our obligations and our moral views on what obligations we have towards refugees. As I say, trying to put a number on it runs against what we think is sensible from the economist's point of view, just as we do not think that quotas are a particularly good way of managing trade. Putting numbers on either net or gross migration is not a particularly good way of managing migration.

Q795 **Michael Gove:** You made the point, very clearly and persuasively, that increasing the number of individuals in a country contributes to an increase in GDP. There have been a number of analyses, however, on the impact of migration both on GDP per capita and the country's fiscal position. I am sure you will be familiar with the work of the Oxford University Migration Observatory, the IPPR and others. What is your view



about the net fiscal impact of migration over, let's say, the last 10 to 15 years on the UK? What is your view on the net impact on GDP per capita?

Professor Jonathan Portes: On the net impact of GDP per capita, which is the most important from the point of view of the welfare of the country and from an economist's perspective, we have theoretical reasons to believe that migration is likely to boost not just GDP but GDP per capita, because it leads to a better allocation of resources. In the same way, we think trade is likely to increase GDP per capita. We also have two reasonably good pieces of empirical evidence on this, based on analysing the international data. I have submitted these formally as evidence to another Committee, but I have also sent them to this Committee.

Boubtane et al., people at the OECD and elsewhere, looked at cross-country evidence on the impact of migration on GDP per capita, and came up with country-specific estimates based on the human capital of different migrant flows. They suggested that a 1% increase in the migrant share of the working-age population was associated with an increase in productivity in the UK specifically of 0.4% to 0.5%. In other words, 1% more migrants in the workforce boosts output by 1.5% and boosts GDP per capita by 0.5%, reflecting the relatively high skill level of migrants to the UK.

A much more recent paper using more recent data, by officials in the IMF, which was published just last October, found that a 1% increase in the migrant share of the total population was associated with a 2% increase in productivity or GDP per capita, and that that was only slightly higher for higher skilled migration than for low-skilled migration. In other words, while one might naturally think that high-skilled migration was much better than low-skilled migration, it does not necessarily follow. It depends on the knock-on impacts for the whole economy. They found that these were also quite large for low-skilled migration.

There have been a couple of other papers, but I will not bore you with them. There is pretty good empirical and theoretical evidence that migration is good not just for GDP but for GDP per capita. Personally I would not, nor do I think the authors of these studies would, put too much weight on precise numerical estimates of the impact on GDP per capita. There is too much noise. Looking forward is always different from looking backward. Migration flows are all based on historical data. Future migration flows will be different, and the future structure of the British economy will be different.

I am reasonably confident, as I have said, that a substantial reduction in migration to the UK will reduce our GDP per capita. I would not put too much weight on the numerical estimates that I, and others, have come up with on exactly how much.

Q796 **Michael Gove:** That is very helpful. On the fiscal impact, economists like



HOUSE OF COMMONS

Bob Rowthorn have estimated that the fiscal impact of migration on this country is at best a positive of £600 million, whereas the IPPR have estimated that it is a negative fiscal impact, in the work that the Oxford University Migration Observatory have analysed. What is your view? Have you looked at the IPPR and Rowthorn studies?

Professor Jonathan Portes: I must confess a mea culpa here. I was responsible for the very first estimate of fiscal impact of migration to the UK, back in 1999-00, which estimated a fiscal impact then of about £2.5 billion a year, or 0.2% or 0.3% of GDP. I say mea culpa, because to some extent these snapshots do not tell you an awful lot. It depends, first of all, what year you are looking at, and whether you look at percentage of GDP. Although the IPPR study did estimate a net fiscal impact, in terms of the impact on the deficit to GDP or debt to GDP, because the denominator was bigger, the impact in that sense, which is what matters for the Government's targets, was actually positive.

Stepping back, it is hardly surprising that migrants who come here of working age with high employment rates, like EU nationals, will in the short term have a positive fiscal impact. It would be astonishing if they did not. Equally, it would hardly be surprising if migrants who came here as refugees, and for various reasons are not likely to be in the labour market immediately, have a negative net fiscal impact at first. These things are obvious.

We can be reasonably confident that, in the short to medium term, the impact of a reduction in EU migration, because these people are mostly coming here to work and almost inevitably find it relatively easily, will be negative to some extent. Again, you should not put too much weight on individual estimates. My view is the longer term economic impacts, and hence fiscal impacts, matter, because ultimately GDP per capita will drive the fiscal capacity of the country that we should be worried about. It is getting the system right in terms of enhancing UK growth and productivity over the long term that will best serve our interests from both a fiscal and public services perspective.

Q797 **Michael Gove:** My final point, broadening it out to all three of you: George Akerlof—I may mispronounce his name, as I have never heard it pronounced—is a Nobel Prize winning economist. He is responsible, inter alia, for a work called *Identity Economics*. He makes the argument that questions like productivity and the overall health of an economy and society depend, to an extent, on the sense of fellowship, kinship, common purpose and so on. What do you think of that argument, and his work? If you have not read the work then, of course, please feel free to pass over it, but I would be interested in the overall analysis of the Akerlof thesis that each of you might have.

Professor Jonathan Portes: I think of it as "Akerlof", although I have not heard it pronounced much either. I have, of course, read *The Market for Lemons*, which is Akerlof's classic work, for which he won the Nobel Prize, on why you should not trust used-car salesmen, or politicians,



HOUSE OF COMMONS

perhaps, or indeed academics, when they have an interest in not necessarily giving you full information. I have not read his specific work on identity, so I will pass on.

On the more general question of identity and cohesion, do these things matter? There is a whole body of economic literature that quite clearly says that institutions, in the broadest sense, matter quite a lot for economic prosperity, wellbeing and so on. In some sense, it is almost impossible to argue from that. The question is what conclusions you draw from that.

In the specific case of how immigration relates to identity and cohesion, and David has talked about this as well, it is quite interesting that this literature came from the empirical work done by Robert Putnam, who is not an economist but more of a sociologist, in the US, where he found some evidence that ethnic diversity was negatively associated with social cohesion, but this is an empirical question: he was not looking at immigration; he was looking at ethnicity. If you look at this question in the UK, the preponderance of the evidence suggests that there is no particularly negative association between social cohesion and either ethnic diversity or immigration. There may be some slight negative association with high levels of churn, people flowing in and out, but even that is not very strong. Different people take different views on this, but the empirical evidence is quite different in the UK. I am certainly profoundly unpersuaded by people who suggest that immigration undermines British identity or social cohesion. I do not think that there is very strong evidence supporting that at all.

David Goodhart: The Akerlof work that I have read is a useful constraint on too much enthusiasm for diversity. There is a kind of religion of diversity, which says you must have a diverse business otherwise you will be dull, uncreative and unsuccessful. It is obviously not true. It is much more likely that the opposite is true, in some ways. As you say, club membership, teamwork and shared assumptions make it much easier for people to work together, whether in a school, in a business or indeed in a country as a whole. This is one of the very strongest reasons, in my view, for wanting to accept the majority opinion of the British public, which is to bring down levels of immigration to more moderate levels, the more moderate levels that we had in earlier decades, because it takes time to absorb people into the team, into the club, and to recognise them, as Sunder says, as part of the "us". That does happen. We have seen it happen. But if you have levels that are too high, you get a kind of social indigestion and it becomes much harder to do so.

Sunder Katwala: I do not particularly like the word "diversity". It is quite an othering word, I think. Am I the diversity, if I have got an Indian dad and an Irish mother? I would rather be part of the mainstream conversation about it. There are some important points. I definitely feel different about migration where people do become "us", as opposed to not. There are strong citizenship societies, like Canada,



HOUSE OF COMMONS

Australia and America—in happier times—that do that, and there are very anxious homogenous societies. It is very much about the terms on which you do it. A good one-nation test of an immigration policy now is whether it makes sense to citizens from all different ethnic backgrounds. On the pressures and pace of change on public services, people have very similar views. On whether Britain is becoming a foreign country, people have extremely different views.

That is a reason why one in six white British people voted UKIP and only one in 50 ethnic minority people voted UKIP. UKIP was very much making sense to older white British people, aged 65 who left school at 16. It was not making sense to people who might have agreed with them on other issues. There were probably about a million ethnic minority votes for leave, although the ethnic minority vote was split two to one for remain. That is integration, if people were not automatically on one side of the question. It feels to me that the way we talk about how people become “us” should make sense to people who are migrants themselves, whose parents and grandparents were migrants, and people who go back to 1066. There is often a lot of consensus if you bring migrants to Britain: “We have done this together,” which is about it being very important that people speak the language, contact is good and so on. People are then surprised that there is an agreement on it.

There is potentially common ground here between the people who want the number to be net 99,000 and people who think the number might level out at net 250,000. On the migration that we are going to have, we will build confidence if we handle it better, and then we can decide at the margin how much we listen to business or how much we listen to people who are worried about pressures. The thesis is right, but it is not inevitable that the diversity creates a sense of difference in your society, if you integrate.

Q798 Stephen Timms: Can I go back to what you were saying, David, about net migration earlier on? The Prime Minister was our Home Secretary for six years, responsible for the migration systems. Throughout that period she had the goal of reducing net migration to less than 100,000. If you look just at the net migration from outside the EU, at the end of her term as Home Secretary, it was way over 100,000. Presumably that was not for want of trying, on her part. First, would it be feasible to reduce net migration to the tens of thousands? If it were feasible, do you think it would be desirable?

David Goodhart: No and no, but I think it is desirable to bring the flows down. As I was saying to Pat, tens of thousands on a net immigration basis is not a very desirable category any longer. We should be thinking in terms of permanent settlement numbers and trying to reduce those. It is almost about ring-fencing the idea of national citizenship and ring-fencing the social state and the welfare system, and a feeling that we can protect those things for existing citizens while also enjoying the



HOUSE OF COMMONS

benefits of reasonable flows of people, the vast majority of whom are not going to stay here, but we still have a mutually beneficial contract.

One of the arguments against this, which Sunder and others will put, is that that conflicts with notions of integration. I do not think anybody looks at a Chinese student in Bristol or Exeter or wherever in those terms. They often keep themselves to themselves. They live in Chinese student ghettos, if you like. Nobody thinks that is a problem. We have a low integration requirement of people who are not making a life here. One of the problems with the European Union arrangement is that people could sort of treat British citizenship and the British social state in a sort of instrumental way. We did not know whether they were staying here. We could not invest in Romanians, Bulgarians or whatever, and give them English lessons. We did not know whether that was a worthwhile investment. There was a less tangible relationship.

If we are clearer about it, there are certain groups of people who are coming in temporarily, for mutual benefit, whether it is to be a student or for highly skilled work, or whatever. They are not changing the nature of the society as fast as it has been changing in recent times. That is what people are anxious about and we can, to that extent—it is not entirely without difficulty—have our cake and eat it too.

Sunder Katwala: It was certainly not possible to meet it between 2010 and now, because it was incompatible with our membership of the European Union. It was always very ambitious anyway regarding the non-EU figures, as you say, because it said normality is the level of the early 1990s. You could just about hold that there were flows this way and that but, after 2004, the world was very different. It was very corrosive.

Q799 **Stephen Timms:** The early 1990s was the last time that net migration was in the tens of thousands.

Sunder Katwala: Yes, but net migration was negative when this country was most worried about immigration, in the era of Enoch Powell. The very high level we have now is not as psychologically disruptive to Britain as the 1968-80 period, when you had more outflow than inflow, but the inflow feels like it is going to be different. There is confusion about the 6,000 annual inflow of students. People think that is different and will think about it on its own grounds. It is fast and it is high, and that matters.

You could meet it now, if you want to cut everything, but it will involve cutting things that people would really not like to cut. It would be strange to me if we chose to cut students now, or we chose to cut skilled immigration from India or from Australia now, because Brexit is also a reset moment, in those ways. It would be particularly strange, in the case of students, if we said, "We think students are good and will bring benefits in, and therefore we would like to have them in Oxford and Cambridge and London, but our message to Stoke, Sunderland and



HOUSE OF COMMONS

Plymouth is, 'We could cut you out'." That feels to me exactly the opposite of the argument we have been having about the cultural and political meaning of the referendum. We have a chance to think differently about these things and to own the trade-off.

A really good question is: what does accountability look like when we make these decisions? We get to have a debate about the negotiations and so on. What does ongoing accountability look like, so people who have got a view for or against can see how it plays out? I would like to see the Home Secretary having a day like the budget once a year: "This is what happened last year. This is what we expect to happen next year. We have been having hearings around the regions, with the health service and employers, but we have also been hearing about local communities." If you had a sense of where your voice went in, and if you did not get what you wanted—if you were a business that was not getting as many visas as it wanted, or if you were a member of the public and immigration was staying higher than you wanted—you would be able to visibly see where that is. This is one of the things we can do with this sense of control, because control might not mean cut everything, because everyone knows that there are pressures and gains with immigration.

Professor Jonathan Portes: On whether it is desirable, I think I have already answered to Mr Gove. On whether it is feasible, Sunder is right that the answer is yes; of course it is feasible in principle. I agree with what he said on that. I would just add to that that we should not be under the illusion, even once we leave the EU, that we have control. Immigration is in large part determined by factors that are outside our control or outside the direct control of the system, in particular the state of the economy. It is quite possible that immigration will fall quite significantly in the next few years, if the economy and labour markets slow sharply. That will bring down immigration, as it did in 2012-13, quite irrespective of any policymakers.

That brings me on to a broader point that I want to make about the illusion of control—the sort of illusion that, under some new system, we will have precisely the workers we want and not the workers we do not want. That is not how immigration systems work, any more than having a particular trading regime means we have precisely the imports we want and the exports we want. I would expect that we will see quite a significant reduction in skilled migration from the EU over the next year or two, not because of any policy change, and of course there will not be any policy change over the next year or two, but simply because, even in the absence of policy change, the UK will for various reasons be considerably less attractive to skilled workers from the EU. We have already seen plenty of anecdotal evidence of that in the university sector, a bit in the business and finance sector and so on.

As I have, again, submitted in evidence to the Committee, I expect immigration to fall quite significantly in the absence of a policy change. Whether it will get down to the tens of thousands, I do not know. That



HOUSE OF COMMONS

will depend on wider economic factors, but we should not pretend that, under any feasible scenario, we will have complete control of the overall number or precisely who comes here or indeed who leaves.

Q800 Stephen Timms: Can I just ask you all to comment on two other points? Do you think we should have some sort of preference in the future for EU citizens, as opposed to people coming from the rest of the world, or should the system be exactly the same whichever part of the world you are coming from? Secondly, it has been suggested that we could have a system of regional visas. The Mayor of London might have a visa for people who want to come and work in the City of London, and there might be other arrangements in other regions of the UK. Do you think it would be feasible or sensible to have a system like that, starting with David again?

David Goodhart: It is feasible. You could make visas dependent on employment in a certain area of the country. Scotland is quite keen on this idea, as well as London. It would be politically unpopular, for now anyway. I do not think it should be ruled out completely. It may be a way of calming anxieties in those parts of the country, like London and Scotland, that voted quite heavily to remain that their special interests and anxieties are being listened to. Again, something like this would be much easier to manage if we had some kind of ID card system, particularly for non-citizens, as we do already. We already have biometric cards for people—students, for example—who are here under visa control for a reasonable length of time, like for years. It would be much easier to manage such a differentiated system if one had something like that.

Q801 Stephen Timms: Should there be a preference for EU citizens?

David Goodhart: I feel a bit torn on this, to be honest. There is a strong case for saying that we should have something like David Cameron was trying to achieve in his renegotiation. We should recognise, as it were, we have a special geographical and now historical link to the countries of Europe, particularly to certain countries like Poland, with which we also have close historic ties. We should therefore have some sort of privileged access. Nobody should qualify immediately for full access to the social state, social security, social housing and so on. People should immediately have access to the NHS and to the school system, if they are allowed to bring in dependants, but it is to do with social security and social housing.

Should Europeans get phased access to that after, say, three years, whereas a non-EU individual would have to wait five? There is a case for that, partly on pragmatic grounds, if we thought it was going to buy us useful goodwill. I am not sure that it would though, particularly, in which case it just seems slightly unfair on Australians, Canadians, Americans and people from Japan or whatever.



HOUSE OF COMMONS

Sunder Katwala: I think there is a way through this. There is an intuition that says it would be fair for everyone to be treated fairly, whatever country they are from, but an observation people do not make is that we have never had that system in this country and we never will. People who propose that, I am sure, will always say, "Obviously except for Ireland, because Ireland is different." If there was an independent Scotland, it would obviously be a different relationship. Once countries are different because of a relationship with them, we have said we will always have preferential treatment. Of course, we had Commonwealth free movement, which turned into a managed system, and then we had EU free movement and what will happen.

If we separate out refugee policy, family policy, students etc., where we want to take people from everywhere, according to need, it is no more necessary to offer everybody the same economic immigration deal as it is to offer everybody the same trade deal. The objection to European free movement was not that it was unfair to Ukrainians and Chileans; it was that it was unfair to Australians and Indians. It was unfair to people with whom we had special relationships.

Instead of doing what David Cameron did, which is having the renegotiation, seeing what they will give us and trying to take that back, let's decide what we want in terms of the balance of immigration. In terms of the economic immigration we want, it is fine to have it in our hand in negotiations. I would offer preferential European access to skilled migrants from Europe reciprocally, which is very good for the remain vote here—people who do want to go abroad, above a skills level—if that gets us a trade deal. If that gets us nothing at all, I might offer preferential immigration to Canadians and Australians and Indians, of the type we want, post-study leave, etc. Economic immigration should be part of our trade negotiations everywhere, and it will be important to have that in the new deal with Europe, if it gets us something.

The other thing you could do with your quotas for skilled and semi-skilled immigration of whatever you set, but we will clearly have controls, is you could say, "Europeans only can have access to those if we could have a very close customs and free trade deal." That is another move that I would be keen to make, because of the trade-off. You have to be offering things in negotiations that you have public consent to offer, because it is immigration that you want. That is the key point.

Except at the margins, I do not think regional policies will work, practically or especially politically. There is very low confidence in how we handle immigration, and we are making a proposal to introduce something that is evidently unworkable, outside of London and Scotland. We do not have the bodies to set it. People will just say, "What are you going to do if they get on the train?" We have a very lightly regulated labour market. If you encourage immigration to areas of low immigration, but people would rather work somewhere else, that is what will happen.



HOUSE OF COMMONS

If you encourage it to London, you do not have that problem. You are saying, "I think an employer in Croydon should have a preference over an employer in Cambridge," or "An employer in Bexley should have an advantage over an employer in Dartford, over the border," or something. If London has needs for immigration and finance, those needs will exist in Leeds and Halifax and Scotland as well, so we need a good immigration system for finance from which some areas might work. The intuition that says, "If London likes it and Lincolnshire does not, let London do it," is not really what we should be doing after this referendum.

There might be a specific case for post-study leave projects. Take the Scottish Fresh Talent scheme. If you have a degree from a Scottish university and you have connections there, and then we say, "We can give you two years of something tied to employers where you are and where you have links," and if we can see that you have done that, you might be eligible for other things later on. You can see why that might be a manageable system, but there will be very low public trust in a regional system that you cannot enforce, and very little political view that some employers should do it or not. We have to get it right for the levels of the economy, not for particular places.

Q802 Chair: At the beginning, you said it would not work practically. Just to put the argument: if in the EU national's passport there was a stamp that said, for the sake of argument, "right to work in Scotland only", what would be the practical obstacles if one assumes that employers would enforce that? If that person then turned up in Peterborough and said, "I'd like to have a job," the employer is of course going to have to check their right to work. As soon as they saw their passport, it would say, "Right to work in Scotland only," and then they would not give them the job. It would be helpful for the Committee to understand what you think the practical obstacles are.

Sunder Katwala: Maybe at a higher skill level that would work. We obviously do police immigration in the workplace more than we do at the border. In countries where it has been tried at scale, like Canada—much larger geographies normally—it works a bit and there is quite a lot of working in the grey economy and other bits of the country. Depending on what level of the economy you did, that is what you would get, and the public would think that that is what you got.

As I say, you have a case for a post-study leave person who has a science degree, working for a particular employer, who wants to come back and get it renewed. You have a case for aspects of your immigration system. I do not think we can structure a different immigration system for London and Lincolnshire, partly as well because of this issue of fair competition. Why should employers in the most economically beneficial areas have competitive advantages over their own competitors?

Professor Jonathan Portes: I disagree with Sunder, and you have made the point just there, Chair. Ending free movement immigration



HOUSE OF COMMONS

control is not going to be enforced at the borders at all. It simply is not. We are still going to let people in, at Stansted and Heathrow, with French passports. They just will not have the right to work here, and that right to work will be enforced at the workplace. This idea that, because they can get on a train from London to Newcastle or vice versa, this is unenforceable makes no more sense than to say they can get on a plane from Krakow to Luton. They still would be able to get a plane from Krakow to Luton, and then they would be able to take the train to London or to Newcastle. The question is: when they get to London or Newcastle, will they be allowed to work there? It is perfectly feasible to say that any new system could have geographical restrictions.

In fact, the Government have already made some public statements indicating its potential willingness or openness to sector-specific schemes. Enforcing the boundaries between sectors is considerably more difficult than enforcing the boundaries because different regions. As Sunder said, the Seasonal Agricultural Workers Scheme worked reasonably well, because it was done by labour providers in particular geographical areas, who provided accommodation and then supplied their workers to farms. If you have a sector-specific scheme for finance, say, or for the hospitality sector, the boundaries between that and other bits of the service economy are much more fluid and much more difficult to enforce, and will be much more complicated. Saying to an employer, "You can only hire this person to work in London," will have administrative and boundary issues, absolutely.

Sunder Katwala: What about my business in Dartford competing with one in Bexley? They have a skilled worker than I cannot get.

Professor Jonathan Portes: That is a function of where your business is located. You have to pay higher business rates in Dartford or in London. I do not know which. There are all sorts of services with differences.

David Goodhart: We have been thinking about the high-skill side, with the light touch for European Union high-skilled people to continue to come here in much the same way as they come now, with some sort of fast-track system. We have been assuming that the definition of high skills is self-evident, but of course it is not. There will be very grey areas around that that I guess will have to be decided on a case-by-case basis.

Q803 **Stephen Timms:** Just to conclude, could I ask Jonathan for your view on whether there should be a preference for EU residents in the future system?

Professor Jonathan Portes: I broadly agree with Sunder, although perhaps with a slightly higher level of generality. It depends on the broader choice that we want to make as a country as to the nature of our future economic relationship with the European Union. Is it still going to be special, in terms of our trade arrangements? We are not going to be part of the EU and we are, on present plans, not going to participate in



the single market for free movement of goods, services, capital and labour. Okay, but are our relationships in terms of goods, services, capital and labour still going to be qualitatively different with the EU than with countries like the US or India? That is not quite determined yet.

If they are going to be qualitatively different—there is going to be some sort of special relationship, something that is more than just a common or garden free trade agreement—that will almost certainly have to and should apply to workers. If not—if we are going to be making deals with common or free trade agreements, which do not necessarily mean very much apart from tariffs with the US and with the EU and with India—there is no particular logical reason for having special arrangements for European workers, in my view.

Q804 Emma Reynolds: This is just a brief follow-up to what Sunder said about the possibility of having a different system for EU nationals coming in and making the distinction between highly skilled and low-skilled, and touches on what David has just said. What would be the best way to define highly skilled? Obviously you could do it by income, qualifications or a mixture of both. You could say to the EU, "If it would buy us a better economic deal, customs or what have you"—because highly skilled is a desirable element of immigration—"we want to retain free movement or at least have a lighter touch way of approaching that category of worker."

Sunder Katwala: You could use skills or you could use income. Income level is more publicly communicable to political advantage, but if you set it at £24,000, there are then regional aspects of that. It would be a better system, but there is that political payoff if you could do it around skills. Skills and jobs are complicated, but there are frameworks that exist. There are comparable frameworks that exist. You have the National Qualifications Framework codes. We use them in our immigration system. If you took the tier 2, which is level 6, civil engineers are in. Teachers, nurses and web designers are in. Hotel managers are not in. That would be the kind of level that was probably quite similar to saying, "Let's have a policy at the £24,000 level," or something. A reciprocal thing like that would play well with the British public. People are quite open to things that are two-way.

The consent for free movement fell down. There used to be consent for EU-15 free movement as broadly two-way, but obviously it was not two-way. It was very one-way. In any of the deals we make anyway, there will be a two-way element, whether Canadian or Australian, or trade or immigration deals. Skills would be better, but politically income might be a thing you could use otherwise. I do not think it is that you should have the degree, because then you would come and work in a low-skilled area. If you do not want that, you should not do it. It is an employer-based system. If you have that deal, where you are being quite or fully open to somebody with a skilled job, you can be equally open with anyone else who you want to have a preferential skill deal with. The European Union is not or up down if you are taking skills from



HOUSE OF COMMONS

other places as well. If you have some controlled jobs below the skills level, if you are offering them to people as part of a deal, whether it is an EU trade deal or some development package somewhere, or something, then obviously you have a limited number of slots to go around. This is only a relevant thing if you are genuinely offering a preference to one place over another place.

The interesting political question is whether the Visegrád states get anything out of an offer like that. Most of their migrants to Britain are below the skills level. Is that better? We have to try to think about what the status quo is here. The status quo is not free movement; the status quo, if we do not have a deal, is that the rules will be similar to EU and non-EU migration. We then need to decide. We have designed our non-EU system in the knowledge that we have free movement. There was tier 3, low- and semi-skilled, never opened and closed down. Obviously we will need some low- and semi-skilled immigration from somewhere, and that could have a bias towards Europe or not a bias towards Europe, depending on the politics of trade deals.

David Goodhart: You cannot continue with freedom of movement, even for highly skilled people, because that implies that they will decide themselves. They will just turn up and say, "I am highly skilled so I am coming over." There will have to be some sort of work permit system, albeit fast-track, light-touch and all that. You can have a high degree of continuity in all sorts of other areas. After all, I assume that we are going to have visa-free travel for short trips and tourism for EU countries. I assume we are going to continue with the current arrangements for EU students, although perhaps that is a moot point.

Q805 **Mr Lilley:** We are not going to pay their registration.

David Goodhart: I do not know. That is another of the things that we could offer.

Indeed, something new we could offer is access to this Youth Mobility visa, which I only discovered the other day. It is quite a big deal. About 50,000 people use it every year. It is a special deal. It is a bilateral deal that we have with about five or six countries: Canada, Australia, New Zealand, Hong Kong and Japan, I think. You have to be between 18 and 30. You can come here for two years and you can work. This could be the answer to the hospitality sector. You can come in on one of these youth working holiday arrangements. We could open that up the European Union countries, no?

Q806 **Chair:** There is an idea. Can I come back really to where I started? There are sectors of the economy that are particularly reliant at the moment on EU workers. Given, Professor Portes, what you just said about the difficulty of issuing sector-specific visas, a visa for a qualified nurse is pretty straightforward. I was just thinking about the example you gave about finance and hospitality. If someone is serving food in a bank, is that a hospitality visa or is it a finance visa? Do you think it is



feasible to come up with a visa system that is sector-specific, given that there are employers currently, as I know from my experience of farmers, who of course would say, "If we don't get workers to come in from other countries, we are not going to have the vegetables and the fruit picked"? We have the Seasonal Agricultural Workers Scheme. To what extent is it going to be possible to create a system like that, which will meet the objective the Government have set to try to reduce the numbers, and yet make sure that industries that depend on this labour do not suffer from skills shortages?

Professor Jonathan Portes: Is it feasible? Yes, as with the 3 million EU citizens. Given time, political will and resources, the UK Government can do most things of this sort.

Q807 **Chair:** Is it practical?

Professor Jonathan Portes: There will be significant boundary issues. The problem with having a sector-specific scheme is there are both administrative and bureaucratic problems, boundary issues, how you fix the quotas, what you do if one sector runs up against another. There are also political economy questions, which are that, once you start having more than one or two sector-specific schemes, every sector will want one. They will all lobby and their total demand will far exceed what the Government think its overall objective is for migration.

Essentially then, Whitehall has to engage in a process of centrally planning the labour market to a level of detail that, based on my views as an economist and as a former bureaucrat, I do not think Whitehall is particularly well set up to do. I think my former colleagues would mostly agree with me. I am slightly concerned by the fact that the Government have been making some quite positive noises about a sector-specific scheme, rather than the overall approach of setting some skills, qualification and income thresholds, as other speakers have alluded to.

Will that mean that employers consistently do not face skills shortages? No, it will not. They will face new constraints that they had not before. They will, as I said in my opening remarks, have to adapt either by employing fewer people and producing more, by paying higher wages or by finding other ways around. Economies do adapt and they will adapt.

David's point that you cannot preserve free movement for some people is quite an important one. Even for high-skilled workers who we continue to want, there will be new levels of bureaucracy that were not there. At the moment, if you are a German banker offered a job in Britain, you know that you will be treated more or less as a citizen here. That does not just mean that you can come here to work; you will be able to come here to work in future, probably under some light-touch scheme. At the moment, you know that you can come here to work. You know that you can decide for yourself whether to stay here six months or for the rest of your life. You know that your spouse and children can come here, and be treated more or less as citizens. All of those things are a very powerful



HOUSE OF COMMONS

incentive to highly skilled workers from the EU to come here, which will not exist in future, even if we have this relatively light-touch system. Just alluding to what Sunder said, Ms Reynolds, you sort of said this is something that we could offer as a negotiating card to let in high skills. I do not see what this buys us. We will still want French bankers and Polish engineers to come here.

Emma Reynolds: We want our people to go there as well.

Professor Jonathan Portes: If we go to Poland and say, "We are not going to take any of your people coming here to do unskilled jobs anymore, but we're still quite happy to take qualified social workers and nuclear engineers. Are you happy about that? What does that buy us in terms of trade access?" the Polish will look at you and say, "What exactly?" Similarly, if you go to the French and say, "Here is something we are prepared to offer. We are prepared to still allow French bankers to come here, but not other French people. What will you give us in return?" the French will say, "No, we would rather you did not let French bankers come here". These are people we want. We are not doing anybody else a favour by taking them.

Q808 Chair: The one other question I wanted to ask, and then I will bring Peter in, is when we met the Creative Industries Federation last week, they made a point on this issue of highly skilled. There said there may be someone who is developing a software program in their front room and we think they have fantastic potential, but they are worried about a system in which they would have to prove to Government that this person who has no qualifications was highly skilled, but they think they have potential. They may not be earning a lot of money at the moment, so you could not use a wage level as a way of qualifying them. They would argue, as they did quite forcefully, given that creativity is very important to certain sectors of our economy, which is a great strength we have and new businesses get developed, or you could apply to the same argument to the fashion industry; how on earth would you devise a system where, if those were skills that you really did want to bring in, the system would be able to recognise that, when the proxies you would use at the moment would probably not be available?

Sunder Katwala: That is the trickiest bit. It is certainly feasible to have this system, because we have the non-EU system that has lots of these features. Employers obviously do not find the non-EU system a joy to use. They use the EU free movement system that is very open. You can get this right in lots of areas but, where people are using freelancers or need to be very quick and so on, it makes the case for some more openness at the skills level and a very light-touch way, but it will not deal with all these issues. Especially if people are saying, "These people are absolutely brilliantly talented, but we pay them peanuts", then they might have to work out how valuable they are, so they start to trigger the values that you have, where people who are being very economically productive are in. There is a lot of flexibility in free movement that



HOUSE OF COMMONS

people have used as a get-around of the inflexibility of the other schemes. When you are extending it, apart from where it does not go down the skills level, you hit many more of these issues.

Professor Jonathan Portes: I think that is right. If we are going to move to a system that is less liberal, less market-orientated and has less fluidity, we will give something up. We are giving up some of the advantages, particularly of the people in SMEs who either cannot afford to or simply have not got not only just money, but the sort of mental and administrative capacity to cope with any sort of new system. That is a cost we are going to have to pay, almost inevitably.

My solution to ameliorate this, as Sunder alluded to earlier, would be some reintroduction or re-establishment of the post-study work group. In my experience, for example, a lot of people come to London to study art and design, and want to stay here in jobs that a) do not pay very much, and b) simply may not work out. They may not have any talent that is worth keeping. Giving those people a non-income-related permission to stay on for a year or two would be worth doing.

David Goodhart: I am constantly astonished in this argument by how people who regard themselves as on the left talk and think like employers. They seem to think that there is no national social contract between British employers and British workers. I think there is plenty of evidence—I cited some at the beginning—about the dramatic fall-off in training levels in Britain, over the last 20 years. There is plenty of evidence that employers have been exploiting this reserve army of labour in the European Union, and it is time that they stepped up to the plate. We have had a big shift from labour to capital, in income terms, over the last 20 to 30 years, and we are going to have to see a little bit of a shift backwards. They are going to have to spend more, if we are bringing down numbers.

There are whole sectors. Food and drink production went from employing virtually no non-UK-born people 10 years ago to now having between a quarter and a third of their workforce, probably about a third of their production workers, from the European Union, making fish-fingers outside Hull or whatever. There has been a huge and dramatic change in certain parts of the country and a lot of people are very pissed off about it. Employers are going to have to respond to that.

Q809 **Mr Lilley:** Could I come back to the notion of shortages? Would you, Jonathan, agree that the idea that foreign workers take British jobs and the idea that foreign workers fill British vacancies are both based on the lump of labour fallacy, which was discredited ages ago?

Professor Jonathan Portes: Broadly, yes.

Q810 **Mr Lilley:** Good, thanks. The next thing is that you say that, by and large, the flow of labour does not have much effect on pay. If we decide to cut off the flow of foreign labour, will that or will that not result in an



HOUSE OF COMMONS

increase in the costs of manning the Health Service and the social services?

Professor Jonathan Portes: On pay, the evidence that foreign labour does not affect pay much, and most of the adjustment is simply on the number of people and output, applies mostly to the market sector. You have quite different potential impacts in the state-provided sector. There, if you cut off the supply of labour, say in finance for example, I would simply expect the finance sector to shrink, rather than bankers' wages suddenly to explode, as we pay more to draw British bankers into the sector. If you cut off the supply of foreign nurses, the Government will have two choices. You can either simply allow vacancies to continue to grow, and the quality and quantity of health service provision to deteriorate, or you can pay more, in the short or long term, to either attract British nurses away from other sectors back into the profession or to train British nurses in future. There, I do think you are much more likely to get, directly or indirectly, some sort of pay response, because it is the state-provided sector and because we hold wages below the long-term market-clearing wage, in some sense.

Mr Lilley: We have been exploiting British workers, paying them less and importing foreigners. As David said, it is extraordinary that the advocates of this are the believers in social justice.

Professor Jonathan Portes: In the Health Service and, to some extent, in the social service, it is difficult. It is not that you are exploiting British workers, because these are occupations for which it takes some time to train. People have alternative choices, so people choose given the market. The point is that we are paying less than we otherwise would have, including to British people working in that profession, because we have a ready availability of foreign workers. That probably is true in the non-market sectors, correct.

Q811 **Mr Lilley:** Let's put it on the record. Until last year, we turned away half of British applicants to nursing homes, for instance. It was the only category apart from doctors where we restricted the number of people who were allowed to go to university and acquire that skill, without ever allowing open discussion of this issue, because anyone who raised it was accused of being a racist.

David Goodhart: David Metcalf, who used to run the Migration Advisory Committee, has been very strong on this point. He has been very critical of the NHS, but he has pointed out that there is sometimes a very direct relationship between reducing public spending and increasing immigration. Between 2010 and 2013, we cut, or collectively all the NHS trusts cut, nurse training by 20%, so there was obviously a big increase in order to keep nursing levels at the same number. There was a big increase in taking nurses from Poland, Portugal and so on. We have to keep an eye on it.



Even more so in the future, we have to keep an eye on the fact that, while we are in a period when we have to restrain public spending, we do not want public spending that is going to create immigration. If you cut training, you have to import nurses. It is as simple as that. More broadly, it is true that we have a relatively tight labour market, but there are lots of people out there who would like jobs or who would like to work more. Youth unemployment in London is 19%. It is not as if unemployment has disappeared completely.

Q812 Mr Lilley: Finally, when mentioning the costs and benefits of immigration, there was no mention of housing. In my constituency, this is the issue where the subject of immigration comes up most frequently, both from people who want to get into social housing and the people who want to stop us building housing. The former do mention the issue of immigration and the latter do not. Surely there are some implications for the cost and availability of housing from having a net inflow of 300,000 people a year, when we are only building 125,000 extra houses a year.

Sunder Katwala: The economic argument has been too narrow for some time, I think, especially from the liberal side of the debate, the idea that there is a macro gain. People think that “they take our jobs” argument is the primary argument. Pressure on public services is considerably more important, health services first and then the housing impact. About half of the demand for extra housing is not coming from immigration; it is coming from other demographic change. About half of it is coming from immigration. Again, if you do not put in place proper ways to manage the pressures, then you will not have consent to keep the bits of it that are good.

The longer-term point there is that your balance of immigration pressures and gains is about the geographic balance of your economy. If all the immigration wants to come to the south-east of England, there is a long-term gain there if you could rebalance the population pressures because you have rebalanced the economy. Obviously, you need a strategy to do that. That is why people’s sense of population pressures, the pace of that and whether it is keeping up is probably the biggest driver of concern.

Professor Jonathan Portes: I do not disagree with that. Clearly, overall immigration adds to the demand for housing and therefore must put some pressure on both cost and availability. Surprisingly, however, there have been a couple of detailed macroeconomic studies of the relationship between immigration and house prices, at the local level that have failed to find any positive relationship at all. It is not clear that these local pressures on prices and rents that one might otherwise expect do come through.

There is perhaps an interesting irony; a lot of what Sunder has been saying implies that we need to do more and better planning at a local level. What the nurses example illustrates goes back to what I was saying about sectors. When it comes to trying to centrally plan the



labour market, we tend not to be very good at it. The cyclical fluctuations in supply and demand for nurses and other medical staff, with the consequent implications for demand for staff from abroad, reflect the fact that the NHS has not been very good at workforce planning.

David Goodhart: The last figure I saw was about one-fifth of social housing in London was taken by people born outside the country, which is not particularly surprising given the large proportion of people who are in London who born outside the country. This is clearly a cause of resentment from the UK-born.

Q813 **Emma Reynolds:** It is much lower overall, is it not? The percentage is remarkably low overall.

David Goodhart: Nationally it is lower than that, yes. The broader point here is that there is an infrastructure-immigration paradox. One of the reasons why so many people want to come to this country is that we are very liberal. It is a very decent country, thanks to our history and our institutions. It is not genetic. People have rights and, because people have rights, they can object. They can be nimbyist and they can stop the hospital being built and they can stop the school being built and the houses being built. The very thing that brings people here in the first place makes it very hard for us to accommodate them once they are here.

Q814 **Craig Mackinlay:** You did say earlier, and I hear it from various quarters, although we did have two experts and three different answers, about the economic benefit of I and E, the I and E account if you like, income and expenditure from immigration. You are in the camp that says it has been positive. That may be so, but are we properly adding in the capital cost? We have touched on that just now with the cost of housing. If you consider that the South-East is a busy place and growing, the cost to the Government or us of more crossings over the Thames, more rail infrastructure and more of this sort of stuff is never really factored in. Is that the real cost? Are we properly assessing the cost of expanding properly?

Professor Jonathan Portes: Just factually, the sort of people who try to do this properly over the long term, do factor this in. You have public investment as a proportion of GDP and so on, and expanding with GDP. Any serious attempt to do this—the Dustmann and Frattini work I have my criticisms of, but it is not this—looks at capital investment again as a proportion of GDP. I do not think that criticism in itself necessarily holds water, in narrow technical terms.

The more general point that the costs and benefits of increasing congestion perhaps, increasing concentration in London and the South-East, are very difficult indeed to assess. To assess the costs and benefits of immigration to London, say, or the impact of immigration on London over the last 30 or 40 years, is not a question anyone can address sensibly from an economic perspective. Some 37% of the population



HOUSE OF COMMONS

were born abroad. More than that, like me, are descendants of immigrants. London would just be a completely different place if we had had much lower levels of immigration.

Craig Mackinlay: I think you have identified that I am looking for some fairness in the analysis that we are given, rather than just this very rosy income and expenditure is positive; it is great. It is a lot more complicated.

Professor Jonathan Portes: It is a lot more complicated and it is partly subjective. As I often say, London has a lot of problems now, some of which are due to congestion in both transport infrastructure, housing and so on. That is to a significant degree down to immigration. On the other hand, I came to London when I was five or six, in the early 1970s. Between 1971 and 1981, according to the census, inner London lost 20% of its population. People not unreasonably suggested that London and New York, where pretty much the same thing happened, were going the way of Detroit. Believe me, it was not a very nice place to grow up as a teenager, from the labour market point of view. The problems of increasing population and congestion are very serious.

Craig Mackinlay: They are easier to solve.

Professor Jonathan Portes: We are struggling with them now. The problems of depopulation you asked about.

Craig Mackinlay: I would rather have a London than a Detroit, absolutely.

Chair: That is certainly true if you have ever been to downtown Detroit of an evening. Peter Grant wanted to come back on one thing.

Peter Grant: I would have to say that I do not think it is problems with planning permission that stop us building houses, schools and hospitals. It is whether or not the Government are prepared to invest in these things, but that might be an argument for another day. I wanted to pick up on David's comment about the link between lack of investment in training of nurses and the increased number of nurses coming in from overseas. You seem to put that a different way round from your earlier analysis, when you were talking about the commercial economy. On that occasion, you implied that businesses do not bother to invest in training, because they can get pre-trained workers from overseas. In relation to nursing, it seemed more as if you were saying that there was a cut in the provision of nursing training, presumably as a financial decision and, because of that, the Health Service had to bring in workers from outside.

Taking those two together, would it be fair to say that there is clearly a connection between investment, or lack of, either in training or in capital assets generally, and the number of workers who come in from outside to fill the gap? Would it not be fair to say that there is a correlation there, but it can operate in different directions, depending on what sector of the



HOUSE OF COMMONS

economy you are talking about?

David Goodhart: I suppose so, but it is exactly the same thing. The fact that it is the public sector does not really make any difference. The NHS trusts stopped training, as many private employers have done, and they have taken already-trained people from continental Europe.

Q815 **Peter Grant:** The point I am making is that there was never any indication, at the time or since, that a factor in cuts to training budgets in the NHS was because they could bring in people from outside. They cut the training budgets because they wanted to save money and then the way the Health Service coped with that decision was that it had to go outside. I would suggest that, at that time, if there had not been free movement of people, there would have had to have been a relaxation of immigration controls elsewhere to bring in these essential workers. What I am trying to get at is that it is not always as straightforward as an employer or a health service sees availability of workers and therefore cuts back on training. It sometimes goes the other way round. It will sometimes be the decision to cut training or investment in partnership and engineering is taken for other reasons, and you then have to look about for solutions to deal with the problem.

David Goodhart: I do not know whether you have spoken to David Metcalf, but he is very interesting and eloquent on this. In the case of nurses, he also thinks that it is partly to do with nurses' pay, not that it is necessarily in the NHS's gift but the NHS has allowed nurses' pay to slip back. There was a big boost to nurses' pay in the early 2000s and that obviously helped with recruitment. Nurses' pay relative to similar occupations has slipped back in recent times. The NHS trusts cannot just command the Pay Review Body to pay nurses a certain amount, but there are political channels through which pressure can be exerted, and it seems that not enough pressure has been exerted. That is David Metcalf's argument.

Chair: Unfortunately, we need to bring proceedings to a close. Thank you all very much for coming. The one thing we would all agree on is it is complex, but the one thing that the three of you have done today is really to illuminate the complexity for us. For that, I know the whole Committee is extremely grateful. Thank you very much for coming.