



Select Committee on Economic Affairs

Uncorrected oral evidence: Brexit and the Labour Market

Tuesday 7 February 2017

3.35 pm

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Members present: Lord Hollick (Chairman); Baroness Bowles of Berkhamsted; Lord Burns; Lord Darling of Roulanish; Lord Forsyth of Drumlean; Lord Kerr of Kinlochard; Lord Lamont of Lerwick; Lord Layard; Lord Livermore; Lord Tugendhat; Lord Turnbull; Baroness Wheatcroft.

Evidence Session No. 1

Heard in Public

Questions 1 - 14

Witnesses

I: Professor Robert Rowthorn, Emeritus Professor, Cambridge University; Professor Jonathan Portes, Professor of Economics and Public Policy and Senior Fellow, UK in a Changing Europe, Kings College London; Professor Alan Manning, Chair of the Migration Advisory Committee and Professor of Economics, London School of Economics.

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Examination of witnesses

Professor Robert Rowthorn, Professor Jonathan Portes and Professor Alan Manning.

Q1 **The Chairman:** Gentlemen, good afternoon and welcome to the Economic Affairs Committee. Some of you are familiar with this Committee. Today is the first public hearing on Brexit and the labour market.

The Prime Minister has spoken on a number of occasions recently about bringing immigration down to sustainable levels. First, do you think it is possible to identify a sustainable level, and how would you suggest that the Government attempt to achieve it? Professor Rowthorn, would you like to kick off?

Professor Robert Rowthorn: I think that you have to distinguish between the effects of different levels of immigration. There is the short-term impact of a given rate of immigration which may impose a strain on public services, housing and the like. In principle, that short-term impact can be dealt with by building more houses and expanding public facilities and so on, so that after a few years you can accommodate the immigration. But a high rate of immigration over a long period leads to substantial population growth. For example, the present rate of immigration is around 330,000 net a year. With a somewhat lower level, such as 285,000 a year, immigration would add 9 million to the population by 2039. That is a lot, and if you continue that into the future you can add 15 million, 20 million or 30 million to the population. Those are very large amounts, and they start to impinge upon things such as resources—land, for example—which cannot easily be expanded.

Of course, you could build more intensively in cities, you could restructure cities and you could try to get the extra population to move to new areas of the country. A substantial increase in the population could be accommodated but, even then, it would require quite a large rejigging of the economy and the infrastructure. I would not like to say what the absolute number is—it depends on what alternative measures you can use to deal with it.

Professor Jonathan Portes: I agree in broad terms with what Professor Rowthorn has said. More broadly, the UK never, in its entire history, had a target either for population or for immigration until the Prime Minister brought in this ill-conceived and poorly thought-out, back-of-an-envelope idea in 2010. The idea that there is a fixed number above which population growth or immigration is unsustainable is clearly absurd from an economic perspective. Immigration and population change in general, population movements, mobility and all these things impact our economy and society, and we need to find ways of managing and dealing with them, but trying to put a number on a sustainable level of immigration, a sustainable level of population growth or a sustainable level of the number of people who move from Scotland to London or London to Scotland is not a sensible way of approaching the issue.

Professor Alan Manning: It is very important to recognise that immigrants are very heterogeneous. When one thinks in terms of an overall number, it is rather easy to forget that. The MAC has always used as its principle for deciding on migration rules what is to the benefit of the resident population. That does not necessarily lead one to think in terms of numbers alone, although obviously a factor like congestion would be one of the considerations among many that one would take into account.

Q2 **The Chairman:** The focus is very much on immigration from the EU. The Government have control over immigration from non-EU countries but have struggled to reduce that to the level they had in their plan. Why have they failed and what should they have done to achieve their objectives?

Professor Alan Manning: One has to think about the three main categories of non-EU migration—work, family and study. On the work side and the family side, there has been a tightening of the rules. For example, on the work side, the main work route is what is called Tier 2 (General), which has new, tighter rules coming in this April. Migration for family reasons was tightened some years ago, and there has been more of a focus on worrying about some aspects of student migration. So I think that there has been movement in the direction of tightening these up but these things take quite a long time to come through. When focusing on net migration figures, you have control over who is coming in now—the immigration part of it—but you have much less control over the emigration part of it, which may involve people who immigrated some years ago under a different set of rules.

Professor Jonathan Portes: In line with my previous answer, I do not think that the Government should have done anything in particular, but obviously if they wanted to hit the target, they could have closed the institutions that all three of us represent. They could, more realistically, have forbade them from accepting foreign students or required them to accept significantly fewer foreign students. Of course, that would have damaged the institutions and the British economy. They could have tightened the rules on family migration still further. Already, you have to earn what in many parts of the country is quite a significant amount of money before you are allowed to marry the person you want to marry from a non-EU country. They could have done more on that.

You say that they have control but there are some limits. They could have chosen to disregard their obligations under various refugee conventions in international law and deported people to places where they would be unsafe. They could have restricted skilled workers even further. All these things are in principle possible. Most of them would have been either economically damaging or morally questionable but it was within the Government's control to do them.

Professor Robert Rowthorn: A lot of the inward migration is of students. If the domestic population of immigrant students carries on getting bigger and bigger, they should either go back or stay in the

country under some other heading. The category of “student migration” is a bit misleading because in principle it is not permanent migration unless people shift to some other status. I think that the statistics may be a bit defective in this respect.

Q3 **Lord Burns:** Obviously higher education institutions vary a great deal but, from the limited experience I have had, most of the students who come to the UK to study from outside the EU go back home again when their period of study is over, particularly when they are from places such as south-east Asia, China and so on. What are the figures on this like as far as you are aware? Do you know much about the experience of your own institutions regarding what happens to overseas students from outside the EU when they complete their courses?

Professor Robert Rowthorn: I think that quite a lot of them remain in the country. They get a job of some kind and stay in the country.

Lord Burns: Are we looking at 10%, 20% or 50%?

Professor Robert Rowthorn: I just do not know.

Lord Burns: Does anybody know?

Professor Jonathan Portes: If you believe the published migration figures, as Professor Rowthorn implicitly said, we know that large numbers of students are staying on here. Some get visas to do postgraduate study and then perhaps work visas, but those numbers are not nearly enough to account for the discrepancy between the numbers supposedly coming in and the numbers supposedly going out. That suggests that a very substantial number of students are staying irregularly. Of course, that is very difficult to disprove but, as you say, anecdotally one would see considerably more evidence of that than we have, and it does not show up in other statistics produced by the ONS, such as the Labour Force Survey. Alternatively, you conclude that there is an issue with the way that these questions are asked and answered, or with the way that people are recorded in the International Passenger Survey. That is my personal view at the moment but, unfortunately, I do not think that we know enough to decide whether that means that the overall net migration figures are overstated or merely that the categories are wrong and, if so, what the order of magnitude is. Alan might know what the official line is at the moment.

Professor Alan Manning: One other useful source of information is the migrant journey statistics produced by the Home Office. You take people who entered on, say, a student visa and five years later you ask what fraction of them have moved to some other visa status or whether their visa status has expired, meaning that they no longer have a legal right to be in the UK. You should look up the statistics—I do not have them in my head—but I think that the last set of figures showed that about 20% were staying. However, that represents a cohort of students who entered some years ago and does not reflect the current situation.

As Jonathan said, there is a huge gap between that number and the number that the IPS says is remaining in the country. One possibility is that the IPS is wrong; the other possibility is that there is a large number of overstayers. We really need to better understand those figures.

Professor Alan Manning: As you may know, the Home Office is doing some investigations into the exit numbers. As I understand it, those have not been published, although some press reports have suggested that, consistent with what our institutions all say publicly, the overwhelming majority of our students behave in accordance with their visa conditions.

Lord Lamont of Lerwick: I wonder whether I could ask Professor Rowthorn and Professor Manning to comment on what Jonathan Portes said, although I do not want to stop him coming back as well. His opening remark was that he thought we never had had a target either for immigration or for population and that the idea of having one was ill conceived. I totally agree that the target as defined—the net figure—is ill conceived, but is the idea of having a target on immigration more generally really ill conceived? Is it not legitimate for a Government—taking into account pressures on housing and infrastructure, and problems of assimilation, and then balancing them against the needs of specific sectors—at least to have a broad view of the level of immigration they think is appropriate for the country? That does not seem to me entirely ludicrous.

Professor Robert Rowthorn: I believe that the last royal commission on population foresaw that Britain's population would be stable. It did not foresee any increase. I believe that that is the case. I have only heard that second-hand—I have not read the report—but I believe that that was the case.

It may not be possible to have a numerical target but you might say that looking forward 10 or 15 years the population growth that we will have at the present rate of migration will be unacceptably large. It does not mean that you have as a clear, long-term target that Britain must never have a population of more than 70 million, because there are too many variables at play here—you do not know where people are going to live, and the northern powerhouse might generate a lot more jobs in the north. The future is unforeseeable beyond a certain distance. Economists do not like saying that but it is true. But I think you could say that over the medium term the expected population growth at present levels of migration would be very high and would pose quite significant problems. That is not to say that it is unacceptable; it is to say that it would pose quite a lot of problems. However, I would be loath to give a number, saying that we should never go beyond 70 million or 80 million.

Lord Lamont of Lerwick: Could I put the question to you, Professor Manning, perhaps concentrating more on some sort of broad-brush target for entry rather than on long-term population growth? One does not want to get too Soviet about this but I would have thought that there were ways of drawing up a broad-brush target.

Professor Alan Manning: I think that there are good, understandable reasons why people want to select and control the type of migrants that come into a country. You can do that either in the form of setting a numerical target or by, for example, setting minimum salary levels and other types of conditions. There is a range of options that you might take. At the moment, we do not have quotas. We actually only have a numerical quota in one relatively small part of our immigration system, so in a sense it becomes a little hard to guarantee a numerical target for the overall number.

Lord Lamont of Lerwick: I do not know whether Jonathan was suggesting that the number should be purely demand led, which would mean no control.

Professor Jonathan Portes: No, I was not suggesting that I thought that open borders as a policy were economically or politically feasible in the UK in anything like its current condition. I agree with what Alan and Bob have said, which is that you need to manage the system and take account of the pressures. For some categories, such as skilled workers, you want to have thresholds of skills, earnings or specific occupations, depending on the system that you want. For other categories, such as refugees, you probably do not want that but you have other ways of determining whether people are genuine refugees. For family reunion, you have to balance the various considerations, such as the degree of attachment to the UK, direct or indirect, that we believe entitles a person to a path to permanent residence here.

Those are all difficult and complicated questions, and I am not saying that the answers to any of them are easy, but it seems to me that any sort of numerical target is either meaningful or it is not. If it is not, then it is not. If it is, then the types of incentives that it imposes on policymakers tend to be perverse and damaging, and that is broadly what we have seen over the last few years.

Q4 **Lord Forsyth of Drumlean:** I was going to ask the same question as Lord Lamont. I thought, Professor Portes, that you were advocating a kind of open free for all. My brain is hurting on the following point. If you are going to have the sort of system that you have just described, with quotas and so on, how on earth do you work out what the quotas should be if you do not start with a view as to the number of people that the country can absorb, taking account of the public services?

Professor Jonathan Portes: In the same way as we have always done it.

Lord Forsyth of Drumlean: But we have not been able to control people coming from the European Union.

Professor Jonathan Portes: No doubt we will get on to the question of how we deal with EU immigration but, up until 2010, we had a system that on the whole worked pretty well. Sometimes it was more restrictive; sometimes it was less. It let in skilled workers on the basis of whether

they had certain skills and whether they had a job offer from a company that was willing to employ them using those skills. Similarly, we allowed people to marry more or less whom they wanted to marry from outside the country and to bring them here. In my view, it did not lead to any sort of disaster. We did not have to make a decision on the numbers each year, saying we are going to have 10,000 spouse visas, 12,000 engineers, 2,000 teachers and the rest of it.

Lord Forsyth of Drumlean: But it has led to a great deal of concern in the country about the levels of immigration, as reflected in the Brexit vote.

Professor Jonathan Portes: I am not going to comment on the political implications or how it was reflected in the Brexit vote, but it is a system that, from the point of view of this country's economy, on the whole seems to have functioned pretty well. As we have seen, attempts to impose, as Alan said, a sort of soft, non-binding, fuzzy numerical target has led to both economically perverse decisions—decisions which in some cases have been damaging to individuals and families—and a further loss of public confidence in the system because large numbers of people thought that the targets did not make sense and everybody could see that the targets were not going to be met without doing severe economic damage to the country.

Q5 **Lord Darling of Roulanish:** I start by drawing the Committee's attention to my directorship of Morgan Stanley.

Can I ask you about the statistics that we have on the numbers and characteristics of people coming into this country? I want to start with a pretty basic question. At the moment, most of us enter and leave this country through a port—an airport or sea port—and someone swipes our passport through a machine. Yet, as I understand it, we do not know how many people come in and leave the country each year, whereas with that degree of control we ought to know. Indeed, we ought to know whether somebody is in the country at the moment or whether they are away visiting America, Europe or wherever. Is my understanding of the situation correct?

Professor Alan Manning: I think the entry and exit check data are moving in that direction. I have not seen that data. I understand that the Home Office has been looking at it but I do not think it is quite as simple as it is felt to be.

Lord Darling of Roulanish: Why not?

Professor Alan Manning: No system is perfect. I think that the total number of arrivals into the UK in 2015 was about 125 million and the number of departures was about the same. If you make a mistake of one in a thousand in that system, which is not really a big error rate, the net migration figure is suddenly 125,000 more or 125,000 less. Those are big numbers and big news stories result from them. So you have to be really careful. I know that people have come into the country on one passport

and have left on another because they are dual nationals. I think you are right that that is the direction to go in, but I do not think that the details are quite as simple as that. You have to be very careful about using that as the basis.

Lord Darling of Roulanish: So, if we do not go for that, we will for ever have this problem. We do not really know how many people come in and how many go out because there might be quite a large margin of error either way.

Professor Alan Manning: It does not have to be a very large margin of error to make a huge difference to the net migration figure because the gross flows are so large. Most people coming in and out of the UK just visit for a few days—we go on holiday and so on—and migrants are a tiny proportion of that overall flow.

Lord Darling of Roulanish: Could I also ask you about the characteristics of people coming into this country—students or short-term or long-term visitors? Am I right in thinking that a lot of this information comes from the International Passenger Survey?

Professor Alan Manning: There are different sources of information. When I talked about the 125 million passenger arrivals, that figure comes from people's passports being read when they come in, but it does not really tell you why they are coming in or how long they are coming in for and so on. Therefore, the ONS is using the International Passenger Survey to try to put people in boxes, if you like.

Lord Darling of Roulanish: Is that not fraught with difficulty? Someone who is stopped at Heathrow and asked to fill in a questionnaire will be anxious to be as helpful as they possibly can be because, as far as they are concerned, someone in authority is asking them why they are coming in and they might be trying to answer.

Professor Alan Manning: In fairness, I think that the ONS is aware of all these issues and it tries to do its best. We have already mentioned measures of net student migration, where questions are asked. The ONS is trying to carry out further investigations there.

Lord Darling of Roulanish: I am not blaming the ONS or anybody else. It just strikes me that, when we discuss this, we do so in the absence of facts—not even alternative facts. We do not actually know how many people are coming in and going out. We have a picture but it may not be an accurate picture of whether people are coming to do a short-term piece of work or whether they are coming here and saying they are students but actually they never go back. We just do not know.

Professor Alan Manning: I have some sympathy with where you are coming from. For example, we do not typically have an overarching view of arrivals and departures and how that is put into different boxes. At the moment, you get put into roughly three boxes: you are a visitor, a short-term migrant or a long-term migrant. Separate reports are produced on

all three of those elements but they are never put together. So I think that the way the statistics are presented makes it hard to have an overall view of what is going on.

Lord Darling of Roulanish: Going back to your first answer—this may not be within your field; if it is not, just say so—do you have any view within the profession as to when it might be technically possible for us to have a far better picture of who is coming in and who is going out?

Professor Alan Manning: I have not been involved with this entry and exit data, and the MAC has not been involved. You would have to ask the Home Office about that.

Lord Darling of Roulanish: If I may, I would like to ask one further question. In relation to the statistics that we gather, do you think there is any value in focusing more on short-term entries rather than on people who come for a longer period? From what you have said, it is probably impossible to do that anyway with any degree of confidence.

Professor Alan Manning: If you are a short-term migrant, almost by definition you come into the country and you leave a few months later, so in a sense your contribution to net migration is zero. The issues there relate to the fact that some people perhaps come in with the intention of being a short-term migrant—particularly those from the EU because they can come and go—and then they change their mind and transmit to being a long-term migrant. Again, those switches, in the jargon, are getting quite difficult to estimate.

Lord Darling of Roulanish: I have a final question. Looking at the EU migrants, who have caused such a stir in certain quarters, do we have a picture of how many people coming from the European Union come for a short period or a long period and how many people come and like it so much that they stay? Do we have a picture of that or do we simply not know that either?

Professor Alan Manning: We have estimates of that, largely from the International Passenger Survey. Again, one would hope that entry and exit data would provide a much more reliable picture of that in the future.

Lord Darling of Roulanish: But we do not yet have that.

Professor Jonathan Portes: I do not disagree with anything that Alan has said but there is an important point here. Nice as it would be to have entry and exit data, we are not necessarily that bothered about how many people come in and go out so much as we are bothered about who is here and what they are doing. I think that one of the big issues in this country relative to other countries in Europe is not so much that we do not have good entry and exit data. Ours are considerably better than those of countries in the Schengen area, where no one checks you at all, so in principle they have no idea who is there. But of course they do have an idea of who is there on a semi-permanent basis because they tend to

have population registers, whereas we do not. That will not change any time soon.

As I have said a number of times in public, we could use the administrative data that we have on people here much better—in particular, the data that Her Majesty’s Revenue and Customs and the Department for Work and Pensions have on people’s activity in terms of paying national insurance and income tax, and claiming tax credits or any other sort of benefit. There is a lot of data there, although we do not tend to use it very much. From that data, we know whether people were born abroad and when they registered for their national insurance number, but we make far less use of that data than we could.

Lord Darling of Roulanish: When you say “we”, who do you mean?

Professor Jonathan Portes: I mean the Government. That data is not public in any form at all. There is no public access to it.

Lord Darling of Roulanish: But it is there. The Government have it.

Professor Jonathan Portes: It is there.

Lord Turnbull: I have a couple of questions. When you come into the country, you show your passport to someone from the border agency or you use one of its machines. When you go out, you are checked at the point when you are about to get on the plane. Is the purpose of that check simply to ensure that the people getting on the plane are the people who are on the manifest, or is that data used? I have a feeling that the check at the gate does not really form part of anything.

Professor Jonathan Portes: I do not think that the check at the gate is relevant. What is relevant is when you put in your passport details and buy your plane ticket or Eurostar ticket. If you travel with Eurostar, for example, your passport will be scanned on the way out.

Lord Turnbull: But they do not necessarily know—

Professor Jonathan Portes: That is the sort of issue that Alan was referring to in explaining why it is not as simple as that. Of course, we should remember that at the border between Northern Ireland and the Republic of Ireland there is no check at all as far as I know, so there is an issue there too.

Professor Alan Manning: I am not an expert on the operational issues but I think they are collecting the exit check data through the advance passenger information. When somebody looks at your passport when you are about to get on a plane, it is not put into a machine; someone just looks at it.

Lord Turnbull: The other thing that strikes me is that the IPS is completely flimsy. There is one airport through which most Poles do not come; they come through Stansted. The figure of one in 30 is completely pathetic if we are really serious about this issue, is it not?

Professor Jonathan Portes: To be honest, given the obvious issues with the IPS in particular—not just the sample size but the fact that it seems an odd place to collect the data, as when you come into the country as an immigrant, you would not think that you would stop; frankly, you would think you had better things to do than stop and chat with an ONS official for 20 minutes—I am quite surprised that this data manages to tally reasonably well with the other data that we have from the annual population survey and Labour Force Survey and so on. I agree with all your points but perhaps it is not quite as bad as that. For example, the ONS produced a paper in response to my pushing it to attempt to reconcile the long-term international migration statistics, the short-term international migration statistics and the national insurance number registrations. It managed to successfully explain most of the differences—although not, in my view, all—so it is not completely broken.

The Chairman: I think that that leads to the next question. Baroness Wheatcroft.

Q6 **Baroness Wheatcroft:** Given that passports are viewed in and out, I am puzzled as to why we do not make more use of the information that could be extracted, as obviously we do not. Do you have any theories as to why that is, given that there is such interest in immigration and there has been for some time in this country?

Professor Alan Manning: There is some historical and legal basis to the ability to link datasets in this country. For example, Nordic countries have an incredible amount of information because, very straightforwardly, they can link every dataset they have, essentially through something like the national insurance number and so on. We have been inching towards that and things are getting better but very slowly. That has been a long-standing concern of MAC, going back since its inception, so it is not a criticism of this particular Government. However, we just do not make as much use of the data that exists as we could, particularly if you want this to be an important issue.

Baroness Wheatcroft: I can see that there could be legal difficulties with data-matching, but if we simply concentrated on passports and the information that could be gleaned from those, how clear a picture do you think we could get of what is happening?

Professor Alan Manning: If entry and exit data was available—good data on the entry side has been available for a long time; the exit data has been available only relatively recently on a reasonably comprehensive basis—that would tell you about people’s comings and goings but it would not tell you what they were doing when they were here. You would need to link that to HMRC and DWP data to know how much they were earning or receiving in benefits. Those are all questions that people might reasonably be interested in. Again, one would want to link that to their visa status as well. So I think that there is a lot of potential there but we are not really collecting it at the moment.

Professor Robert Rowthorn: Perhaps I could make a point. The question is: how much information do you need? We live in an age in which people seek more information and it always leads to better decision-making. But the big weakness in the IPS is that you have students coming into the country and you do not know what happens when they go out. Apart from that, in my view it gives a reasonably good picture of the overall longer-term flows of migrants. The last population census showed that the IPS had underestimated net migration in aggregate by quite a lot, and the net migration statistics were adjusted. Otherwise, the question is: what extra information would we get that was useful by looking at these databases together?

Baroness Wheatcroft: Professor Manning mentioned the Nordic countries. Is there any country that you would cite other than those that do the exercise more effectively than we do? Canada is talked about.

Professor Jonathan Portes: Yes, I believe that Canada and Australia do. Canada uses the data for policy purposes in the ways that Professor Manning was describing. It looks at the longer-term labour market outcomes of migrants and uses those to inform the public and to help shape policy. So it uses entry and exit data but it also uses—I suspect rather more importantly—the data that it has on people who are here and what they are doing, whether they are Canadians or immigrants. It is that which provides the added value. To my mind, important though these issues are of who is coming in and going out, what we really do not know very much about and would like to know quite a lot more about is what happens to the migrants once they are here: how long they stay, whether they progress up the earnings and occupation ladders, and what induces them to stay or go home. There are all those sorts of things about which we do not know nearly as much as we might want.

Professor Robert Rowthorn: If we had perfect inflow and outflow data because we had a comprehensive electronic system, in which there was very little evasion, ex-post you could see how many people had stayed in the country for more than a year and how many had left the country and been away for more than a year and were long-term migrants. But I agree with Jonathan that equally important is knowing the characteristics of the total population—migrants and non-migrants.

Baroness Wheatcroft: I have one final question, if I may. Given, as I said earlier, the interest in immigration in this country over many years, do you find it in any way surprising that we have been apparently so relaxed about collecting data?

Professor Jonathan Portes: I started working on this topic about 16 years ago when I was in the Cabinet Office and I wrote the first analysis within government on some of the economic, statistical and demographic aspects of migrants to the UK. At that time, frankly, there was almost nothing at all other than what you could get from the Labour Force Survey. We have come quite a long way since then. Partly as a result of that report, the Government made an effort to improve the quality and quantity of research on migration both inside and outside government.

More funding went to HMRC. If you compare what the ONS publishes now through the quarterly migration statistics compared with what it published 10 years ago, it has hugely improved.

There is a very long way to go, and the more you and others like you push the ONS and the Government to do better, the better it will be. Equally, I do not think it would be true to say that we have not made any progress.

Professor Alan Manning: I should say that I do not think this is confined just to immigration. If you compare the datasets that are available now for academic research or policymaking in this country compared with other countries, there was a time when we were ahead of most other countries; now, we are quite a long way behind. So a lack of data hinders our ability to answer important questions such as why productivity growth is so low.

Lord Lamont of Lerwick: On the question of using the national insurance data or the income tax data, how easy would it be to link those with entry and exit data? I am not sure what happens at the beginning of one's working life—it is so long since I registered for national insurance—but is the data not based on questions such as where you were born?

Professor Jonathan Portes: It is not for you or me, because we were born in this country and we are automatically issued with national insurance numbers when we reach the age of 16, I believe—like you, I do not quite remember. But if you come from outside the country and want to work or study and do a bit of work on the side, or claim benefit, or just because you think that a national insurance number is a good thing to have if you work for any length of time, you have to go to a jobcentre or similar and register with a national insurance number and you will have to show your passport.

Lord Lamont of Lerwick: But would it be easy to link that up with entry data? One Mr Petrowski may not be the same as another Mr Petrowski.

Professor Jonathan Portes: It would be difficult; it might depend on whether the visa data was sufficiently detailed.

Professor Alan Manning: I am not entirely sure but, when you get a national insurance number as a migrant, you have to present a passport and the passport number is entered into that database. It is similar for nationals. When you get a national insurance number, that will be linked to your name, your date of birth and place of birth. Again, I suspect that the databases that exist can be linked to the passports that are issued. I do not think these things are impossible, although they require some work.

Lord Tugendhat: Would not all this be a hell of a lot easier if we had identity cards?

Professor Jonathan Portes: Yes, is the short answer.

Q7 Lord Kerr of Kinlochard: I think that I remember reading some time ago Professor Portes writing that national insurance numbers that are still in use are a low proportion of the number issued. We have been shown statistics on the number issued, but we do not know how many of them are still in use. As a measure of the migrant population, they seem to be defective, depending on whether my memory of Professor Portes's writing is correct.

Professor Jonathan Portes: You are quite right. Lots of people come here and register a national insurance number—far more than show up in the migration statistics. That is perfectly understandable, because quite a lot of those people leave quite quickly and therefore should never have been counted as immigrants in the first place. Although the Government publish the number of national insurance number registrations, they do not publish on any regular or comprehensible basis the number of national insurance numbers that are in use and how many have been in use for what period over the last few years. We do not know that the figures are wrong; equally, we do not know that they are right. We know that, as you say, lots of people coming here use national insurance numbers for only a relatively short period of time and then leave. Presumably they leave; again we do not know that for sure. We could get a better handle on some of those uncertainties if the Government published more data from the databases that they have and/or if outside researchers were allowed access to those databases in order to analyse them.

Lord Kerr of Kinlochard: Just to prove that I am a diligent student of Professor Portes, I also remember you talking about the 2014-15 surge in Romanian people, in particular, coming to this country. I remember you writing that there was a pent-up demand. You thought that the levels reached in 2015 were unlikely to be sustained over time. Have you any impression of how 2016 worked out and whether you were proven right?

Professor Jonathan Portes: I would say that it has dropped off somewhat but not as much as I expected. That is the short answer. We will get more data in about two weeks. On 23 February, we will see the next quarterly migration statistics, which will have the national insurance number data. The statistics will only have the IPS official immigration data for the third quarter of 2016—the first quarter immediately after the referendum, which you might argue is a bit too soon to see anything much—but they will have the national insurance data for the last quarter of 2016. It will be interesting to see whether my *ex ante* prediction was right, which was that there would be a significant falling-off, especially of Bulgarians and Romanians but also of people from other EU countries. Forecasting migration is a mug's game; you generally end up looking stupid, as many of my colleagues not here present have found in the past. I may well be proved wrong. I am speculating, but I would expect them to show a fall.

Lord Kerr of Kinlochard: May I also ask a question as a Scot? I should say that I am on an advisory council that advises the Scottish Government on Brexit issues. If the Scots expect immigration to provide

90% of the population increase that they are looking for, there is clearly an incentive in Scotland to look, when we Brexit, for some regionally based system, perhaps work related. Can you give any examples from around the world—I think of Australia, for example—where there are systems under which one is entitled to enter the country but only to work in a particular area or profession?

Professor Jonathan Portes: We were discussing that outside. Alan probably knows slightly more about Australia and Canada than I do.

Professor Alan Manning: Yes. Australia and Canada have used these kinds of systems. In some sense, it exists now in the UK, because with the Tier 2 (general) visa you need a work permit from an employer and an employer is often in a particular place. Although you are not restricted in where you can live, you have to live reasonably close to where you work. An issue that has come up in other countries is that, when migrants first come to the country, you can tie them to a place by using work permits and so on, but after a while they will have settlement and they are free to move. The question is where they choose to go once they are free to move. In Canada, where this has been used to try to raise population in very remote areas, it has been found that as soon as the migrants are free to move, they move to Toronto or Vancouver. The areas that wanted a permanent migrant end up with only a temporary migrant and the areas that perhaps did not want so many migrants end up with the permanent migrants. Of course, it takes five years to get settlement and people lay down roots and so on. You would want to look at the balance of what is likely to happen. If one were thinking about that, one would want to look in more detail at other countries' experience.

Lord Kerr of Kinlochard: What about London and the M25 visa—you may live inside the M25 but you may not go into wider England?

Professor Jonathan Portes: Do you mean you may not work in wider England?

Professor Robert Rowthorn: May I make a point? Scotland is not a remote area in this sense.

Lord Kerr of Kinlochard: Hear, hear.

Professor Robert Rowthorn: Most of the people living there would not consider it to be a remote area—people living in Glasgow or Edinburgh, for example. Perhaps the work permit system would specify jobs for highly qualified people, so you could say, "You can work in this job in Edinburgh, but if you want to go for another job, you have to reapply". That would be possible. I think that I am right that, until now, half of the population growth in Scotland is due to immigration from the rest of the UK. If net immigration into the UK as a whole fell dramatically, there would be less flow into Scotland. For example, if people come from the European Union into the south of the country, they increase the population in the south of the UK and that has a knock-on effect on

migration from the rest of the UK into Scotland, so net flow from the rest of the UK would fall off. In that case, if Scotland wanted to raise its population, it would be increasingly dependent on international migration. The figure of 90% might be quite reasonable, but I am not sure why the Scots want to increase their population as a target in itself.

Q8 Lord Lamont of Lerwick: Lord Chairman, I have almost been convinced by your three witnesses that it is impossible to measure immigration on any basis. Although that ought to be pursued further, I wonder whether, as time has gone on, we could move to discussing the best system to introduce to control immigration from EU countries. There are so many issues to explore in that that it would be good to start off on it.

Professor Jonathan Portes: It clearly depends on the wider issue of our future relationship with the remaining European Union. If, at one end of the spectrum, we were to have a close and integrated economic relationship with the remaining European Union, along the lines of membership of the European Economic Area or a series of very deep bilateral agreements, like those that Switzerland has, free movement or something rather like it may be a condition of such an agreement or a desirable accompaniment to it. Obviously, the Government are not at the moment attracted to that, but they also say that they want to continue to have a relatively close trading relationship with the EU. If we have a special relationship with a deep and close trade agreement that provides for a substantial amount of not just tariff-free trade but regulatory convergence and access to a market in services, it would be sensible as part of that to have preference for European Union citizens in immigration—for example, short-term intra-company transfers and so on. If, on the other hand, we are going to be a third country and have no special relationship with the EU at all—we are just a trading partner, trading with the EU as the US or Australia does now—or even if we moved to having a free trade agreement on goods but nothing deeper, like the EU-Chile free trade agreement, it is not obvious to me why you would differentiate between EU citizens and citizens of the rest of the world. So whatever system you had would treat people the same, whether they came from the EU or outside.

The first fundamental question is: will there be European preference in the new system? The answer to that depends on whether we will still have some form of special economic relationship with the EU which is qualitatively different from an ordinary free trade agreement. That, of course, we do not know yet. The second set of issues relates to whether we have a system that is essentially more or less like the current system for economic migrants and workers—that is, based around a work permit-type scheme with thresholds of skills, qualifications and earnings perhaps—or whether, as some in government have suggested and as has been widely discussed in the press, we have alongside that or on top of it a set of sector-based schemes; for example, for agriculture, for construction and perhaps for the financial sector. There are a bunch of issues relating to that. My personal view is that sector-based schemes outside the agriculture sector are potentially quite bureaucratic and

require a degree of central planning which I do not think Whitehall either wants to do or is capable of doing very well and they raise all sorts of quite difficult boundary and administrative issues. So I am not particularly attracted to those, but there are arguments for them as well.

Professor Alan Manning: There are a lot of questions, but I will flag up two big ones. The first is one that Jonathan has mentioned already, which is whether there should be continued preference for migrants from the EEA. The second is what we should do about low-skilled work migration, because at the moment we have no non-EEA, low-skilled work routes, essentially because of the view that we have enough from the EU and do not need one. If we were to shut down or alter that route, we would have to think carefully about what we want to do about low-skilled work migration.

Professor Robert Rowthorn: If we apply the present work permit system to the EU, we might face the problem that numerous shortage occupation categories would increase quite a lot. For example, in construction, we get a large number of workers, including skilled workers, from Europe. They would obviously have to be considered by the Migration Advisory Committee. The same thing might apply to things like social care. The system would become a lot more complex, because quite a lot of categories of jobs that are currently filled from within the European Union would have to be brought within the framework of shortage occupations for at least a time.

Q9 **Lord Tugendhat:** I of course agree with Professor Portes that much will depend on the nature of the relationship which we have with the EU. But putting that aside—let us assume that we are looking for a close relationship—surely a great deal more will depend on what happens within the countries from which the migrants are currently coming. That is at the other side of the equation. When I was a Commissioner in Brussels in the late 1970s and early 1980s and people began to talk about a European monetary system after Roy Jenkins had made his Florence speech, one point constantly raised was that Europeans did not move from one country to another. There was a lot of angst about the fact that, even though the standard of living in some European countries was much lower than in others, people did not move very much. That has obviously changed, but there will surely come a point in a country such as Poland where people will not be as anxious to move as they are at the moment, and it is difficult to know at what point circumstances would arise in these countries where the incentive to migrate diminishes. Clearly, historic experience is that, at many periods, people have been quite reluctant to move, even from southern Italy to northern Italy. The present situation might turn out in the long run to be a little like high inflation was; that is, an aberration.

Professor Jonathan Portes: As I said before, anyone who tries to make forecasts about migration tends to end up with egg on their face, but you are certainly right in some respects. Poland is a good example of a country that has done quite well economically and is certainly capable, if it continues to do well, of generating in the next five to 10 years quite a

lot more job opportunities for younger, more skilled workers—of the type who have been coming to the UK, to our great benefit, for the past 10 years. We may lose some of that. On the other hand, these things are somewhat paradoxical. Of course, we have to some extent closed the large gap in our labour mobility that was observed between EU member states compared to the United States and which, as you said, was a subject of concern. That gap has closed somewhat, but it is still there. Although the US is more homogenous in income terms across the 50 states, there is still quite a lot of labour mobility. We have the paradox, as you say, that labour mobility is surprisingly low between north and south Italy given the income differentials. Labour mobility is surprisingly low between some parts of the north of England and the greater south-east given the differentials in income and job opportunities—that has a lot to do with the way the housing market operates in this country. But you still have a paradoxical situation where, due to a combination of economic, social and cultural factors, there appear to be fewer barriers to people moving from Krakow or Riga to London than from Doncaster or Stoke. That is clearly an issue.

Lord Forsyth of Drumlean: I just want to follow up on something that Professor Rowthorn said. You were talking about the difficulties of meeting the needs in particular markets such as construction and care services, and the complexities of dealing with that. Is not the converse of that, as I think you have written, that if we do not tackle this problem there will be little incentive for employers to engage in skilling-up the indigenous workforce, with all the arguments about the pressure on services, housing and so on and the difficulties with community relations. Are you saying that it is too difficult to devise a scheme which seeks to balance those competing advantages? If not, how would that work?

Professor Robert Rowthorn: No, I was just saying that one has to be aware of the fact that if you have ever more schemes, it becomes ever more complex and ever more difficult to decide. Over the medium term—I am not sure how long “medium” is in this case—or certainly the longer term, we should aim to generate domestically a lot more skilled workers in sectors such as construction than is the case at the moment. In an expanding economy, there are always complaints of skills shortages from employers irrespective of the objective situation. Nevertheless, in construction, there seem to be a lot of complaints of this variety. The question is how much depends on incentives for employers to improve the situation and how much on government action.

Lord Forsyth of Drumlean: Yes, but what if employers can just hire more cheaply people from Krakow whose expectations in terms of wages and perhaps standards of housing are lower? Surely if we cannot control that and have a system that will match the needs of employers but at the same time restrict their ability to do that, are we not going to be in some difficulty?

Professor Robert Rowthorn: You need a good apprenticeship system to start with—something like the one the Germans have. It is a dilemma

because, if we want to expand our housebuilding programme, as the Government want to do, it is difficult to see how we can do that without any immigration at all from the European Union. There have already been complaints about shortages.

Lord Forsyth of Drumlean: I am really thinking about the longer term. Do you agree that in order to get around this problem—not the problem of the immediate shortage of supply but of getting employers to do more in terms of apprenticeships and training the indigenous workforce—it is necessary to have some kind of brake or control on immigration into the country? Employers will always go for the cheapest pool of labour.

Professor Robert Rowthorn: Yes, but I am not sure how much control or restriction should be applied.

Q10 **Lord Livermore:** You referred in a previous answer to having either a single immigration system post Brexit or separate systems for EU and non-EU immigration. Can you tell us which would be preferable and, if you had a preferential system for EU immigration, what the rationale for that would be?

Professor Jonathan Portes: I think that I have answered most of that. The rationale for it is that, if we have a very deep and integrated trading relationship with the EU, over and above a sort of common-or-garden FTA but it involves a substantial amount of regulatory convergence designed to facilitate trade in, in particular, services, then—

Lord Livermore: But given that the Government's policy indicates perhaps not going in that direction—

Professor Jonathan Portes: If, as I said before, we end up being effectively a third country—that is, our trading relations with the EU are no more “preferential” than, say, the EU's free trade agreement with Chile—then I do not see any obvious justification for having a European preference. Whatever the criteria—and that is a separate argument—you would probably apply them to Europeans and non-Europeans on the same basis.

Lord Livermore: Professor Portes, over the weekend you shared on Twitter some research into the last large-scale reduction of Mexican workers from the US labour market. If I understood it correctly, it actually showed a reduction in employment, perhaps particularly due to an increase in mechanisation. I wonder whether you can tell us a bit about how relevant that is to ending freedom of movement and how likely we are to see similar impacts.

Professor Jonathan Portes: I think it is quite relevant and it is quite likely that we will see similar impacts. If you reduce the supply of workers in a sector by, for example, ending free movement, then employers, ipso facto, have to respond in a number of ways. They can pay higher wages until they attract workers from another sector, or domestic workers in the labour force, into the sector, or they can raise prices. Or they can adopt labour-saving machinery or reduce output or go out of business entirely.

In the agriculture sector, where profit margins are likely to be quite low and the elasticity of supply of domestic workers also appears to be quite high—by which I mean that you have to pay quite a lot more to get British workers to work in agriculture, probably to the point where many of these farms would be unprofitable—those margins are unlikely to be the main margins of adjustment. The main margins of adjustment are likely to be those that we saw in that study—that is, in quantity of output, whereby a farm simply closed down having found that it was no longer economic to produce, and in mechanisation.

Beforehand, we discussed mechanisation in different subsectors of agriculture. I think we decided that it was slightly beyond our expertise to decide precisely which types of mechanisation are feasible. I know a little bit about this. It seems unlikely, for example, that picking strawberries could be economically mechanised—it would just be cheaper for the UK to buy strawberries from Poland. If we are going to stop importing Poles to pick strawberries here, which seems to have worked quite well, we will probably just stop growing strawberries.

For other crops, mechanisation might be more feasible. In a previous Committee session with some of your colleagues, I gave the example of making coffee in a coffee bar. Instead of having a choice between a terrible cup of coffee and a really good cup of coffee made by a skilled barista, you can now get a pretty good cup of coffee made by a machine—not quite up to the skilled barista level but to a pretty good standard. If we stop having flexible, skilled and willing-to-work Europeans in our coffee bars in London, we will probably get more machines.

Lord Livermore: My final question is: given what you say and given the ongoing need for skilled and unskilled labour, how likely is it that ending freedom of movement will result in a significant reduction in immigration? I have seen some studies suggesting that it could be as low as a 50,000 reduction. What is your estimate of the impact?

Professor Jonathan Portes: I have published my estimate and I think that I alluded to it in evidence that I presented to a Committee. Based on historical experience of the increase in migration flows that we have seen post-free movement to the UK, which was very large and significantly larger than I think most forecasters anticipated *ex ante*, and given that, more than the fact that it was quite large at the point of entry, which perhaps was not surprising, those flows have stayed quite large for a considerable period—it was not just a matter of pent-up demand; some of it was but most of it was not—our estimate was that ending free movement would lead to quite a large reduction in migration. We estimated—and these are very ball-park estimates—that ending free movement might lead to a reduction in net migration from the EU of about 100,000. But other people will come up with their own estimates.

Q11 **Lord Tugendhat:** I have in front of me a very interesting table showing the total number of EU workers in different industries and the percentage of people employed in each industry who are EU citizens. What is astonishing about it is that the largest number of EU workers are in

education but only 5% of the people in education come from the EU, whereas the highest percentage of EU citizens work in the manufacture of food products, where the figure is 30% but the total number is much smaller. My question is: which sectors of the economy do you think would be most affected by a significant reduction in migration from the EU?

Professor Alan Manning: It depends a lot on what controls are put in place. If, for example, for skilled—by which I mean graduate-level—occupations the same rules applied to EU and non-EU people, then education would not really be affected. Teachers, lecturers and professors would not be affected by that at all. Obviously there is much more uncertainty about what would happen to low-skilled work groups but one would expect that if there were a much more restrictive system, that would have a big impact on food manufacturing. You have to understand that it has changed. I think that in 2004 the figure was 1%, and it has gone to 30% in a bit over a decade. So, in a sense, a bit over a decade ago sectors were managing without this labour. Therefore, what we now think of as the status quo has not actually been the status quo for ever. One should not underestimate the capacity for change.

Professor Jonathan Portes: When you talk about changing immigration policy, it is very important to look at flows as well as at stocks, and that is particularly relevant to social care. EU workers are not a particularly large proportion of the social care workforce at the moment, but there is a very large proportion of new entrants to the social care workforce, so the disruption to the social care sector, for example, will be substantially greater. When, at first glance, you look at the proportion of the total, you think, “Well, that’s not the end of the world”. However, when you look at the figures for new recruits, the situation seems much more serious. It is quite important to look at turnover as well as at the raw numbers.

Lord Tugendhat: I think, too, that where you have sectors such as education and computer programming, which require quite a high level of education—indeed, often a very high level of education—the EU citizens tend to come not from the new members but very often from the old members. For instance, I think that there are a great many German doctors here and a great many Germans working in academia.

Professor Robert Rowthorn: A lot of immigrants from the new member countries have high qualifications but they do not work in jobs that require them. If you look at the qualifications in the workforce, the difference is less clear. However, if you look at the jobs that people go into, it is, as you said, from the old EU members that the highly qualified workforce is drawn.

Lord Turnbull: Looking at the table that Lord Tugendhat was using, if you look at residential care activities and human health activities, there is not really much difference between them. That is probably the largest sector. You said that a possible response is to reduce output and import it, but you cannot really import care from overseas and you cannot mechanise it, and increasing productivity is difficult. This is an area where I am sure there is going to be a very large demand for unskilled labour.

The Prime Minister says that we will continue to have immigration, particularly of skilled people, but the skills that we need may be quite low skills, which are the most difficult ones to replace. That is a sector where economic responses will not really help us very much. If you cannot get people to work in those sectors, finding them from the EU may be the only answer.

Professor Jonathan Portes: As you have implied, the problem with social care is that importing EU migrants—and, before that, non-EU migrants—is driven by the Government's failure to fund the care sector properly. The money comes mostly from government in the first place, but it has been cut back quite a lot and employers are cash constrained.

Lord Turnbull: I do not quite see where the funding comes in. If there were more government funding, we would probably need more carers and we could afford to have more carers.

Professor Jonathan Portes: If we had more money for social care and for nurses, presumably employers here could then afford to employ them. The elasticity of supply point is not quite as strong here as it is for agriculture. It is more likely that native workers would be attracted to this sector and the Government could afford to provide training. Of course, we have just cut bursaries to nurses' training in this country. So I think that to a significant extent tightening immigration controls further in this area will just exacerbate something which is fundamentally an exogenously driven problem anywhere.

Lord Turnbull: But if you work on this other metric—on shortage occupations—some of the most serious shortage occupations may be some of the least skilled.

Professor Alan Manning: That is possible. The problem with social care is not unique to the UK. A number of other countries have preferential access for migrants as care-givers. Many countries face the consternation of ageing populations, pressures on public finances and so on, and it is very hard to find a way which combines that with the desire to keep immigration down. This is one area where those tensions are most acute. It is clear that one would want to look closely at social care, but it is also clear that it needs a joined-up policy; it is not a migration policy alone.

Q12 **Baroness Bowles of Berkhamsted:** We seem to have jumped into a lot of the things that I was going to ask, so perhaps I may skip ahead. What effect do you think the restriction on immigration will have, or relieve, in terms of wages? The Prime Minister said last month that immigration has put downward pressure on wages for working-class people. We have just been talking about that slightly in reverse in the sense that, if people do not come in, wages will go up. Is there a direct link, or is it more complicated?

Professor Jonathan Portes: It is likely to vary across sectors. Academic research so far suggests that there is little or no impact from immigration on wages overall. There is some downward pressure on

wages in low-skilled occupations—particularly in what is described as the low-skilled service sector. But my view, and I have said this publicly, is that the Prime Minister is being extremely disingenuous in the way that she expresses it. This effect is really quite modest. In a recent paper we tried to project the impact of reducing immigration by 100,000 a year through ending free movement. If immigration did indeed reduce by 100,000 a year, what would that do to wages in the low-skilled service sector? We found that, even by 2030, the positive impact on wages of that reduction will be only about 0.5%. So it is really a tiny impact compared with the impact of all the other things that are going on that affect wages for low-paid people—macroeconomic developments more generally, changes to the national minimum wage and the national living wage, technological change, sectoral developments and the rest of it.

Once you get down to the very micro level, either geographically or sectorally, you may find individuals, occupations or areas that have been more adversely affected. Overall, the idea that the problems that low-paid working people in Britain have with their wages are primarily, mostly or even significantly due to immigration does not get much support in the academic literature. The chance that restricting immigration will somehow provide a really large boost to the wages of low-paid people does not seem to be substantiated by what we see in the data.

Professor Alan Manning: It is also important, as Jonathan hinted at, to put this into the context of other things affecting wages. For almost a decade now since the financial crisis, all workers have had a really torrid time, with falls in real earnings. Obviously that is harder to bear if you are down at the bottom. But one would think from some of the discussion about the role of migration in this that workers at the bottom have done worse in the past decade, whereas actually they have done the best. Their real incomes have fallen, and that is harder to bear if you are a low-income person, but, because of the minimum wage and the national living wage, if you looked at the reports produced by the Low Pay Commission, you would see that it is the group that has had the smallest falls in real wages over the past decade.

Baroness Bowles of Berkhamsted: So there are other effects. Some people say that a combination of free movement within the EU and our not having as much worker protection has meant that we have been more exposed to greater inward migration. Is that a significant factor or is it a red herring?

Professor Alan Manning: The main driver of migration has been that, as was mentioned earlier, there are sizeable income differentials between the UK and eastern Europe. We have a relatively high employment rate, so it is relatively easy to get a job. We are not the only European country like that. We have seen similar flows into some of the Scandinavian countries and into Germany and so on, but that is why we have had such a high flow level. Norway has had higher flows on a per capita basis without having the same political consequences that we have had.

Baroness Bowles of Berkhamsted: And do you think we would be able

to continue or reinstate having seasonal workers so that the Polish strawberry pickers could come but would then have to go away again? At the moment, presumably they come and, once they have picked strawberries, they do something else. Or are they going away again anyway?

Professor Alan Manning: Going back to the data, I am not sure that we know what they are doing now. It is perfectly possible to go back to something like the seasonal agricultural worker scheme. Almost all other countries have some sort of temporary migration for very seasonal agricultural work. You need a large number of workers in one particular place for a few days, and that is not conducive to providing settled workers with a stable income and a stable home in which to bring up their families and so on. If, post Brexit, we were looking at controls on EU migration, it would be natural to look closely at something like that.

Lord Lamont of Lerwick: It might have been slightly disingenuous of the Prime Minister to have said what she did in the way she said it, but is that not also true of many of the arguments that have just been made in favour of large-scale immigration? The fact that GDP gets bigger as a result of a lot of unskilled immigration is sometimes a reflection just of population growth rather than of GDP per capita, and it is GDP per capita that we ought to look at rather than GDP.

Professor Jonathan Portes: I agree that it is GDP per capita—

The Chairman: May I interrupt you? We have to suspend the sitting as we have a Division, which will take us five to 10 minutes. Could we put that answer on pause please?

The Committee suspended for a Division in the House.

The Chairman: Perhaps we could now resume. I think you were answering a question from Lord Lamont, which I am sure you can remember.

Professor Jonathan Portes: Lord Lamont asked about the impact of migration not on GDP, which is obviously positive, but on GDP per capita. This is an area where there has recently been a considerable amount of research suggesting that migration boosts not just GDP but GDP per capita. There is an OECD paper on this—the references are Boubtane and Dumont, and other colleagues. It found that migration in general boosts productivity and enhances economies but by varying amounts. For the UK specifically, the estimate was that a one percentage point increase in the migrant share of the working-age population leads to a 0.4% to 0.5% increase in productivity, and hence presumably, at least over the medium to longer term, in GDP per capita.

Given considerably more attention, not surprisingly, was the recent IMF publication, *World Economic Outlook*. The IMF published an accompanying research paper that, again, looked at the impact of migration on GDP per capita. This found that a 1% increase in the

migrant share of the adult population resulted in an increase in GDP per capita and productivity of about 2%, which is quite a large increase. In other words, according to the IMF estimate, which just looks at cross-country regression analyses, the positive impact of migration on growth, productivity and GDP per capita is quite large. Interestingly, for unskilled migrants, although the effect was somewhat smaller compared with skilled migrants, it was still quite large and quite positive. There have been a couple of other papers that also show positive results—some perhaps implausibly large. My conclusion is—

Lord Lamont of Lerwick: You said that this was the latest research, but it would be right to say that previous research has suggested different results.

Professor Jonathan Portes: I am not aware of any particularly substantive research that does not effectively assume that result before you get it. So I am not sure that I agree with that.

Professor Alan Manning: The MAC view traditionally is that the effects, both negative and positive, have been modest. But, again, I would go back to the point that there is a danger here that we are treating all migrants as a sort of homogeneous whole. Clearly, some sorts of migrants are very beneficial and others probably less so. One of the problems of free movement-type systems is that they put the decision to migrate solely in the hands of the migrant and do not allow people in the destination country to select the type of migrants they want.

I am perhaps a little more sceptical than Jonathan about those recent studies. Obviously the countries concerned—Canada, New Zealand and Australia—have had much higher proportions of migrants over decades. If these effects were there, you would see large differentials in income per capita between those countries and others, but I do not see those large differentials as being obvious in the data.

Professor Robert Rowthorn: I am a bit sceptical about the GDP per capita figures. One positive implication from the point of view of having large-scale immigration is that populations will grow considerably and therefore output will grow. In about 30 years' time Britain will have the biggest economy not in the European Union, because we will not be in the European Union, but in western Europe.

Lord Lamont of Lerwick: That was exactly my point.

Professor Jonathan Portes: I have long argued that, just as with trade, the ex-ante estimates of the benefits to the UK of joining the European Union based on static trade models were very small—perhaps 1% or 2% of GDP. I am not trying to make an argument about Brexit, because the fact that joining was a good thing does not mean that leaving will necessarily have the opposite effect, but let us put that to one side. However, the ex-post estimates of the impact of EU membership over the last 40 years are a positive benefit of more like 8% or 10% of GDP. I think that we, as economists, know that that is because we think

that the dynamic benefits—the benefits of increased competition, integrated supply chains and so on—are considerably greater than static trade models suggest. Therefore, given the analogy both formally and invariably, it is not surprising that the dynamic benefits of a relatively open and liberal migration system are considerably greater than the static benefits that you get if you look at a standard static model of gains from simply moving people around.

Lord Forsyth of Drumlean: Can I go back to the strawberry pickers? When I was a lad being brought up in Angus, I used to pick strawberries and raspberries. The bus would come at six o'clock every morning. Mainly women would go and they would pick all the strawberries and raspberries. Now, this work is done either by machines—although you say that strawberries cannot be picked by machines—or by people from eastern Europe. If it is not about lowering wages and costs, what happened when we joined the European Union to change that arrangement, which relied on local people and had gone on for years?

Professor Alan Manning: I am not sure that it changed when we joined the European Union. I am not sure, but I suspect that those were the days when many fewer women had full-time, regular jobs, so this was perhaps an opportunity to make some money.

Lord Forsyth of Drumlean: It was women and students.

Professor Alan Manning: Students used to do it. The other factor is simply rising living standards. It used to be that a holiday for people from the East End was to pick hops down in Kent, because that was the only way they could go to the countryside.

Lord Forsyth of Drumlean: No, this was not a holiday; it was a way of paying for school uniforms and the rest. It was a source of income. When you ask the farmers—the NFU—about this, they say, "People don't want to do these jobs any more". If that is the case, is that not firm evidence that having an open immigration policy encourages people to go for cheap labour at the expense of what could be indigenous labour?

Professor Jonathan Portes: I am not that familiar with the specifics of the strawberry industry, and I hope that I do not demonstrate my ignorance here, but my understanding is that that effect—the fact that it was difficult or impossible to recruit British workers for that type of job—was seen well before 2004, and in fact strawberry output has increased significantly since 2004 because of the availability of flexible labour from eastern Europe. Whether or not you think it is desirable, the fact that British workers do not do these jobs, in significant part at least, predated the significant flows of migration.

Lord Forsyth of Drumlean: I am really saying that whether it is worth people's while to do it has something to do with the clearing rate of wages.

Professor Alan Manning: Again, I am not an expert on the strawberry market, but I suspect that you would have to pay quite a lot to the domestic labour force to get people to do this.

Lord Forsyth of Drumlean: I agree.

Professor Alan Manning: The other important adjustment that agriculture can make is to grow different crops. You would expect growers to move out of strawberries, which I suspect are quite labour intensive relative to other crops, and to grow other crops. As Jonathan said earlier, British-grown strawberries would then become relatively more expensive and consumers would start substituting them with imported strawberries. In all these changes, one has to think of all sorts of consequences.

Lord Forsyth of Drumlean: Except that Scottish raspberries are the best in the world, but I digress.

Lord Tugendhat: Of course, a great many Poles work in Germany, which one would expect given the proximity. I was just wondering whether any work has been done on the extent to which the English language plays a part in determining decisions in countries such as Poland about whether to go to Britain, Scandinavia or Germany. My impression is that the fact that more people in Poland and other countries speak English than speak Swedish or even German is a factor. Another is people's belief that, as English is the universal language, time in England not only gets them a job and money but it provides them with a language that is more useful than any other language. How much work has been done on this aspect?

Professor Jonathan Portes: Instinctively, I think that you are right, but I am not aware of any serious research on this. There may be some attitudinal research in Poland or other eastern European countries on motivations. I suspect that you are right that one factor is that they learn English at school or it is attractive to learn English or to improve their English for their longer-term prospects. More broadly, London is London. It has a flexible labour market and lots of jobs. It is English-speaking but you can rub along with even a very basic level of English. Combined, these are hugely attractive characteristics.

Lord Tugendhat: One's observation of people in London suggests that that is an important factor.

Professor Robert Rowthorn: It depends on the type of job that they do. For example, seasonal workers normally just mix with each other—if you are Polish, Bulgarian or Romanian and mix with a load of other seasonal workers from your country, you are not going to learn much English. It depends on what you come into contact with in Britain. In construction, you come into contact with those migrants who speak English quite well.

Professor Alan Manning: As I said, Norway has a higher per capita flow than we do. I do not think that many of those migrants speak Norwegian, but perhaps the Norwegians all speak English. The incentives to migrate can often be very strong. To give a slightly random example, Korea takes low-skill labour from Nepal and Sri Lanka and those migrants have to pass a Korean language test. There are now lots of Korean schools in Nepal and Sri Lanka at which people are happily studying Korean in order to have the opportunity to move to Korea. There is a big incentive and I do not think that learning the language is an insuperable obstacle.

Q13 **Lord Burns:** I should like to begin by pressing a little more on this question of low-skilled labour and then move on to the question of higher-skilled labour and the adjustment mechanism when we have a reduction in immigration. As I understand it, the story that you are telling about low-skilled labour is that the migration we have had has had very little impact on wage levels and possibly a rather larger effect on output. I would now like to turn the clock the other way. There is a paradox. You are arguing on the one hand that there are industries that will suffer quite badly from a sharp reduction in immigration—construction, care and agriculture. Yet you seem to be arguing that this will not have much impact on wage levels as the economy seeks to adjust. I can understand that in some areas this may mean a switch between one industry and another because of the difficulties in recruiting labour. But it seems slightly odd that you are arguing that although we are in pretty much a full-employment economy and we are going to have shortages of unskilled labour in some important sectors, there is not going to be any impact on wage levels. Then, if I turn the story to the other side and say that we are now going to have a reduction in immigration of people working in the high-skilled sectors, where there is not the problem of these being unpleasant jobs—these are attractive jobs to many people—what do you think will be the impact on wage adjustment and output adjustment? I am very puzzled about the first—that somehow a great shortage of labour will not have any impact on wages. On the second, will the same thing apply and what adjustment mechanism do you anticipate for the highly skilled?

Professor Robert Rowthorn: I do not think that anyone is proposing a big reduction in the inflow of skilled labour. Even the Prime Minister implies that there will not be a big reduction, so I do not think that that is the big issue. The more general issue is that, when you think about the economy and look at particular sectors that have to attract more labour, the instinctive argument is that they need to pay higher wages. However, the academic evidence, such as it is, suggests that this is not the case on average. I agree that this is a bit of a puzzle—it has puzzled me for many years—but Alan has written an article specifically on this topic.

Lord Burns: I am thinking in particular of the construction sector in London, which, as far as I can see, is now almost entirely made up of migrant labour, certainly when it comes to house renovations et cetera. So, as I said, I find it difficult to imagine that there will not be a substantial impact on costs if migrant labour is withdrawn. That is unless

you say that people will no longer have their lofts done or their maintenance done and therefore the whole effect will be on output.

Professor Alan Manning: We are talking primarily about the self-employed. We have no study of the impact of immigration on the earnings of the self-employed because we have incredibly poor data on that. Everything that we have been talking about is about employees. Anecdotally, you hear people complaining about self-employed tradespeople and the effect that this has had, but I do not want to accept that at face value necessarily. The honest answer is that we just do not know.

Lord Burns: What about the care sector?

Professor Alan Manning: We touched on this earlier. We have been in a situation where you are selecting the sorts of migrants that you want. Then you might have a shortage occupation list, as we do now, which applies only to graduate occupations, but potentially it could include a wider range of occupations, such as social care, construction and so on. The question that you would want to think about is whether you want the system to be based around occupation or industry sector. When you are talking about really low-skilled labour, it is almost by definition immobile across sectors; it is not that these workers have a specific skill that means that they can only work in one job. You might argue that you want all employers of really low-skilled labour—I do not necessarily mean social care or construction—to compete on a level playing field. You might want some flows regulated in some way or you might not. That remains an open question.

Lord Burns: I am after what the effect would be. I realise that when it comes to the high-skill levels the demand could be great, but I am asking how, if we were to reduce the level of migration, the adjustment process would play through. There is no doubt at all that, in terms of low-skill levels, there is an expectation that levels of migration would be reduced. We are trying to identify that process of adjustment. A lot of people are saying, "You may want a reduction in migration, but I don't want my sector to have that reduction". We need them in agriculture, care and housebuilding. I think that we have to try to identify what the process of adjustment will be when those reductions in migration levels come through.

Professor Alan Manning: There are two issues. One is the eventual system that one has in place. The other is whether you need some process of adjustment from the current system to that system. Jonathan talked about the important distinction between stocks and flows. It is important to keep that clear. Even if, for example, you have no explicit low-skill work route, that does not mean that you will not have any low-skill workers. It is quite possible that we will have flows through the family route of EU citizens post Brexit. Some of those people might work in low-skilled jobs, just as non-EU people coming through the family route would often work in those areas. All that would have to be looked

at carefully. I would not want to make any rash statements about what the system would be.

Lord Burns: Your main pitch is that neither for low-skilled levels nor for the higher-skilled jobs do you expect the reduction of migration levels to have any significant effect on wages. Is that right?

Professor Jonathan Portes: What the evidence and data so far are telling us is that most of the adjustment will be in output, not in wages. In other words, employment in the sector will reduce roughly corresponding to the reduction in labour supply. That is the way that the British economy works—we have had pretty good evidence of that. There will be some adjustment in wages but, overall, looking at the low-skill occupations, that will be pretty minimal; it will not be the main margin of adjustment. That is what the evidence says.

On the high-skilled sector, it is rather worse. I do think that high-skilled migration will reduce. It is all very well to say, “Well, we’ll still want high-skilled workers”, but the offer we make to European high-skilled workers will be very different. At the moment, we say to European high-skilled and medium-skilled workers, “Come and we will treat you like one of us—like a British citizen. We might not let you vote, but apart from that you can bring your family, they can go to school, you can use the NHS and do anything you want just like you were British”. In future, we might say, “Yes, we still want you”—German banker or French computer scientist—“to come and work here, but it will be time limited and you’ll be tied to your employer. We may or may not impose conditions on your spouse. You may or may not have full access to public services and the rest of it, and we are certainly not going to regard you as one of us”. It is still an offer of a work visa, but it is a very different offer, and lots of people will not take it up. So, in my view, there will be a significant reduction in the number high-skilled workers.

What will that do? I always give the example here of people like us. People—not you guys, but in other contexts—often say to me, “Well, it’s all right for you. You’ve never had to compete with a migrant for a job”. That, of course, is rubbish. Economic research in London is a very migrant-intensive sector. There are loads of migrants here competing for all the sorts of jobs that I have applied for and all sorts of projects that I have bid for. Do I suffer from this? On a case-by-case basis possibly, but in aggregate clearly not.

Going back to what I was saying to Lord Lamont, the agglomeration of clustering gains are clearly greater. London is by far the most dynamic, successful and exciting place to do economic research in, both in the university sector and in the private sector in London, precisely because we are very open to foreign economists. The LSE probably has more Italians than Brits.

If the LSE stopped hiring Italians or Italians were more reluctant to come here, do I think that salaries for Brits would go up? No. The LSE would decay over time from being the world-leading institution that it currently

is in economics. That may or may not happen—I do not want to be over-dramatic and I do not think that it will—but on balance I do not think that there will be net wage gains to London and to high-skilled workers from restricting the supply of high-skilled workers coming to compete, because the clustering gains far outweigh them.

Lord Burns: Professor Rowthorn, do you agree?

Professor Robert Rowthorn: A lot of Americans come here, for example, and they have to undergo the same process of examination, although I accept that there may not be as many as there would be if we had free movement of labour into the country. But I am sceptical that the numbers would be so large as to produce a dramatic effect on the higher education sector in Britain if we had a reasonably open policy. Clearly, if we put every possible obstacle in the way, that would have a big effect.

Q14 **The Chairman:** Gentlemen, that brings us to the end of the session. Again, I apologise that we started so late, but it has been a very interesting and informative session. There were a number of references that perhaps we can pick up through the clerk.

There is one question that I would like to leave with you. In a number of answers, you came up with a very important point about the importance of training and of investment in training and skilling people up. It would be helpful if you could point us in the direction of some work that has been done recently on the pool of labour that would be available through a more assertive, well-financed and well-encouraged training sector. That is seen as part of the answer to this.

Professor Alan Manning: I will try. I am not sure that there is a huge amount that I will be able to point in your direction, but I will do my best.

The Chairman: As we have heard, London is the place to come for answers to these questions, so that is why I am addressing it to you. Thank you very much.