



Select Committee on Economic Affairs

Corrected oral evidence: Brexit and the Labour Market

Tuesday 28 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 Sharkey; Lord Tugendhat; Lord Turnbull; Baroness Wheatcroft.

Evidence Session No 3

Heard in Public

Questions 27 - 38

Witnesses

[I](#): Professor Robert Wright, Professor of Economics, Strathclyde Business School, Strathclyde University; Mr Chris Murray, Research Fellow, Institute for Public Policy Research; Mr Colin Stanbridge, Chief Executive, London Chamber of Commerce and Industry.

[II](#): Dr Martin Ruhs, Associate Professor of Political Economy, University of Oxford; Dr Lucie Cerna, Research Associate, Centre on Migration, Policy and Society, University of Oxford; Dr Jean-Christophe Dumont, Head of the International Migration Division, Directorate for Employment, Labour and Social Affairs, Organisation for Economic Co-operation and Development, Paris.

Examination of witnesses

Professor Robert Wright, Mr Chris Murray and Mr Colin Stanbridge.

Q27 The Chairman: Good afternoon and welcome to the Economic Affairs Committee inquiry into Brexit and the labour market. We are grateful to you for joining us. The papers that we have seen show, perhaps unsurprisingly, a very significant concentration of EU migrants in London and the south-east, something like 50%, with the rest spread fairly evenly across the country in relation to the population. A couple of questions follow from that. First, does the spread surprise us, or does it give any insight into migrant behaviour in relation to the economy? Secondly, how does public support for immigration vary across the different regions?

Professor Robert Wright: It is hardly surprising that the bulk of immigrants end up in London and the south-east, because this area is obviously the economic driver of the United Kingdom. It has 15% of the population and is almost a mega-city at 9 million people, followed by Birmingham with 2.5 million, making London a real leader in population terms. I have had a look at the other regions, but Scotland is the one I am most familiar with. Scotland is also attracting a fair share of immigrants because there is demand for the jobs available.

The majority of the people who come to live in the United Kingdom are immigrants who are here to work, and they will go where the work is. A lot of work is concentrated in London, but it is also spread across other parts of the United Kingdom. That is a simple answer to the question; people go to where they think the economic opportunities are the greatest for them.

The Chairman: And does public support vary by region?

Professor Robert Wright: There is a lot of survey evidence on people's attitudes to immigration and whether they think that immigrants make an economic contribution, whether they are just benefit tourists or whether they steal jobs from native-born individuals. For the UK as a whole, people's view of immigrants is on average quite dim. There is not a great deal of appreciation for what people who come from abroad are contributing, and there is a lot of discussion about some of the negative consequences. We can see variations in people's attitudes, but they are not that great. Scotland is a little less negative than London and the south-east.

Mr Chris Murray: I agree that the key drivers are jobs and the economic vibrancy of the south-east and London, but other factors need to be considered. For example, London has a strong history of migrants, and there has been chain migration as people come to areas where the community is more familiar to them, which includes things like places of worship.

Also, a whole series of industries have their headquarters based in London, which is quite a big driver. London has a reputation as a global city which means that migrants may feel that it is easier to get a foothold here before they move off to other parts of the country. I would point out that this is a long-running, post-war onward pattern, but we have been finding, especially since the turn of the century, that the increases in other parts of the country are greater in percentage terms than they are in the south-east and London. I think that plays into the point about public support for migration.

We at the IPPR have been arguing for a long time that it is not only the raw number of migrants in an area that impacts on public support, it is the capacity of a local economy to absorb them. For example, the London borough councils are well versed in dealing with issues of multilingualism and all that comes with migration. However, while some areas such as the east of England have seen some pretty steep rises in migration, the local areas do not have the infrastructure in place to absorb the immigrants. Conversely, in areas where the rises have not been as steep, such as Scotland, support is perhaps a little stronger.

Mr Colin Stanbridge: From the point of view of the London Chamber of Commerce it is not surprising that London is a magnet for people wanting to come to this country. The only thing I would add to what has already been said, and which I think I agree with, is that because of the nature of the London economy there are always school staff shortages and therefore there will be jobs in them that people want to take. I want to amplify what Chris has said. There is a feeling that London is a city with a large number of migrants and is therefore where they will be more welcome than in other parts of the country.

The second part of your question was about the public reaction. I am a third-generation Pole and I am sure that that is the case for many people in this room if they go back two or three generations. A couple of years ago I went around my board asking them about this, and it turned out that around 50% were second-generation immigrants. Indeed, I do not think that anyone on the board of the London Chamber of Commerce was not at some stage an immigrant to London. There is a feeling that this is a place where we can live and thrive. The 60:40 referendum result was an overwhelming confirmation for remaining in the EU and therefore presumably was against all those things about immigration that allegedly drove the leave vote in the rest of the country. Part of it might be that immigrants feel that history is on their side in London and that there are communities that will welcome them.

Q28 **The Chairman:** The Government White Paper makes a distinction between skilled—the brightest and the best is the expression that is used—and the unskilled or the less skilled. In the work that you have done and the analyses that you have seen, do you detect a different attitude towards skilled and unskilled or semi-skilled people who are doing jobs that may be less attractive to the local population?

Mr Colin Stanbridge: In the work that we have done, we have made no distinction, because we believe that it is vital to have both skilled and unskilled people. When under pressure, it is easy for politicians to say that people who can invent graphene are of course welcome to come here, as are people who will pay large amounts in tax. A chamber of commerce is unique in business organisation terms in that we represent businesses of every size. At one end, we have British Airways and the banks, and at the other we have sole traders, and there is a demand for skills at all levels throughout. There is no doubt that London would grind to a halt without migrants. Starbucks would grind to a halt. I would not be able to buy my coffee or get my hospital or school cleaned. There are all sorts of levels apart from the obvious high-level jobs, and it is important that we do not make that distinction. When we debate the importance of migrant workers in London, we are talking about every type of migrant worker.

Professor Robert Wright: I prefer to think of skills as moving from low-skilled to high-skilled versus no skills or some skills. Everyone has a skill of some sort; it is just that some people have more than others. Looking at the situation in the United Kingdom—and I agree that London is important to the British economy—there is an issue here that is not being talked about all that much. Quite a lot of people with high skills are working in low-skilled jobs. You can see from the statistics that this is generating a lot of labour market turnover, because the people in those jobs do not want to stay in them.

Let us consider the emigration statistics, which we never talk about. Of the people leaving the United Kingdom, a fair number of them are going back to where they came from in the A8. Labour market turnover is expensive so, in the long run, rather than having highly-skilled Poles working in Starbucks you should set up an immigration system that matches people with the skills that are needed for a certain job, just as they do in Canada and Australia with their points-based immigration systems. That leads to less turnover and a better labour market match, so it is more efficient. This is what you are going to have to face up to when this Brexit thing goes through, when basically you will be stopping half your immigrants coming here—if the route they take is to say “No” after a certain date. How are you going to get these skilled people to work in Starbucks? If they cannot come from the A8 countries they used to come from, they will have to come from somewhere else, or you will not have those services. That is the challenge.

The Chairman: Do you have any data on the turnover of skilled versus less skilled workers?

Professor Robert Wright: We have tons. We can see from the census statistics the education level of individuals and what job they are doing. We have lots of ways to measure this in economics. Some economists will agree and others will not, but it is clear. It is interesting in a way, because if you have a highly skilled person in a low-skilled job you have a little productivity advantage or boost, because higher-skilled people doing

a low-skilled job are liable to be more productive, so you are getting a freebie through the kind of immigration system that you are in now with the rest of the EU. But we know from economics and from research around the world that labour market turnover can be very expensive. There is a cost to the economy and it hits growth. If Brexit goes through and we tear up 40 years' worth of trade deals, you are going to have to look for sources of growth somewhere else, and this is an additional cost that you are going to have to bear, which may not be trivial.

Mr Chris Murray: I would add that in advance of the referendum we ran a set of focus groups in areas that subsequently voted to leave. One of the most interesting conclusions was that the public have a very nuanced view of immigration and can make a real distinction between skilled, unskilled and highly-skilled people doing more skilled jobs. We found that the key motivator for not valuing the free-movement system was a sense of anxiety about the pressure that high numbers of low-skilled workers newly arriving in an area can put on public services, given their need for jobs along with the high levels of transience that comes with those low-skilled jobs. That can have a big impact on communities, because it interferes with learning the language and getting to know the local culture.

Q29 Lord Darling of Roulanish: I am interested in regional labour markets and the desirability or undesirability of having a separate migration policy for the different regions. The two examples that have come before the Committee are London, where people have made the point about the very high level of EU workers, and the other is Scotland, for similar reasons, although there is a distinct element there, which I am sure you are aware of.

I would be interested in learning from you the desirability of this, and then separately—dealing with the point in two halves—its feasibility. In relation to the desirability, some people have said that it would be terrible to have a different policy—at least in relation to the labour market, not the general immigration policy—while others think that it might solve some of the problems you have touched on. You said that you have produced a paper that covers this issue.

Mr Chris Murray: One of our papers looks not just at London and Scotland but at the north-east.

Lord Darling of Roulanish: Yes, I saw it.

Mr Chris Murray: To an extent, the desirability and the feasibility of the policy go hand in hand. Over the past 20 years we have seen an unprecedented level of devolution in Britain, which has given us the means to respond not just in relation to the devolved Administrations and the ongoing devolution deals but to immigration controls increasingly being devolved to the front line.

Lord Darling of Roulanish: Do you mean in relation to employers?

Mr Chris Murray: Yes, employers now have a legal duty to check people's immigration status, and I think the Home Secretary has announced that it will be a criminal offence if they do not do that. Also, landlords and banks are becoming responsible for these front-line controls, which means that we can take a much more varied approach.

On the question of the desirability, London and Scotland stand out because the elected leaders of those areas have said that they are interested in the idea, and indeed in Scotland there is a little cross-party interest in it. But I would argue that it is not just about those areas, it is about regions like the north-east. We have set up UK-wide systems involving UK salary thresholds and the amount of money that you have to be earning before you can bring a family member over, along with restrictions on study, work and investor visas. Because of the influence of London on the system, the levelling up for some regions has put any meaningful threshold beyond them and they are struggling to attract the kind of investment that comes to London in a straightforward way. The level of devolution that we have in the UK actually gives us across the kingdom the tools to use to pursue this desirable option, given the differences that we can see are emerging.

Lord Darling of Roulanish: Perhaps I may also invite your colleagues to speak, but staying with you for a moment I would welcome your comments on two things. One, I suppose, is the opposite of what you have been arguing, which is, "It would be unfair. If I have a factory in a region that does not have a more open immigration system, I would not be able to get the people with the skills that are needed". The second is that the model that you set out in your paper suggested that if you went to work in Edinburgh or Glasgow you would be tied to one job and presumably you would have live in one particular city. I am touching on the feasibility aspect here. Is that what you have in mind, or would there be a need for other controls as well?

Mr Chris Murray: In answer to your first question about unfairness, our proposal says that we would have a UK-wide system, because some visa groups need it. It would enable families or asylum seekers to live anywhere. But there are some that could incorporate a regional element that would tie people to a certain region. There would be a sort of twin-track approach with a UK-wide visa, as we have currently, and for regions like Scotland, which might decide that it wants to bring in 5,000 skilled workers, those visas would be tied to Scotland. People could apply for them, and if they wanted to move they would have to apply to the UK-wide group or to a different region.

On whether that would tie someone to a certain job, yes, it would, but essentially that is the system that we have already. If you have a tier 2 visa, you are tied to one employer. If you want to move, you have to apply to the Home Office for a different visa. An example would be someone holding a university visa who wanted to change institutions.

Mr Colin Stanbridge: There is obviously a lot of nervousness about introducing a new bureaucratic system. The points-based system was

introduced in, I think, 2008. We know from our members, especially those with smaller businesses, that it involves a lot of time and bureaucracy. I was involved in some LSE seminars, and I had not realised until I mistakenly downloaded all the paperwork just how great a burden it is. We know from evidence from our members how difficult the points-based system can be, and indeed many of them just give up on trying to bring workers in because they do not have the expertise that a large company can access. There is a degree of nervousness about that.

We would never claim to be experts on immigration policy or migration, but we believe that we are expert in the views of companies of every size. When we started our work immediately after the referendum, the biggest issue was access to talented workers, especially for smaller companies. I remember that at our first round table we had two small engineering companies, both of which said that 40% of their workforces were made up of EU nationals. The reason for that was because the bigger companies hoover up the domestic talent, so they must get those EU nationals.

The work that we have done, which I think we have sent to the Committee, has caused us to consider the idea of having a separate way of dealing with London. If I look at what we have put forward in our paper, the one that has the most chance of being successful is the shortage occupation list. There is a shortage occupation list for Scotland. When I first looked at it in 2008, there were an enormous number of occupations in comparison with London and the rest of the country.

Lord Darling of Roulanish: It included just about everyone, did it not?

Mr Colin Stanbridge: It did seem like it. The more cynical among us might have said that it was some sort of political sop to Scotland, a bit like the Barnett formula.

Lord Darling of Roulanish: You are straying off your subject.

Mr Colin Stanbridge: I realise that and I am terribly sorry, but I needed to get that off my chest. We looked at the sort of things that we could put forward, because 25% of the London workforce was born outside the UK. Some 24% of workers in financial services are foreign born, as are 36% of construction workers. We must have those workers, or London and therefore the UK economy will be severely harmed. One way of achieving it might be a shortage occupation list, which is a version of a regional immigration system. That is the sort of area in which we can put forward ideas at least to get the debate going, because if we do not have that debate we will find ourselves sleepwalking into a disaster.

Professor Robert Wright: I agree with those comments, but it is not all that complicated. Other countries have what can be called devolved immigration systems, or they share responsibility for immigration between different levels of government. You would need a different immigration policy for a region if there was a different demographic requirement. There are big differences across the UK with respect to the

impact that net migration makes on labour force growth. Let us take the example of Scotland. If you had zero net migration, the labour force would shrink. Any economist or businessman will tell you that you need a growing labour force with the right skills to achieve economic growth; I do not believe there is any dispute about that.

Let us think about how to get this. Canada, which was the first country to have a points-based immigration system, employs two methods. One is that Quebec has its own immigration system, and the other is provincial nominee programmes. Each provincial government, working with the federal Government in Ottawa, decides the immigration policy for their province. What happens is very simple. If you agree to work in a certain province that requires your skills, you can jump the queue of the points-based system, which now numbers more than 1 million. Canada has 1 million people who want to immigrate and they are queueing up in the points-based system. So there are lots of people, but who wants to wait for four years?

Once you get to a region, even if it was not your first choice, because everyone wants to go to Toronto, or to London or Edinburgh here, there is a very high probability that you will stay. I came to Scotland intending to stay for one year, and that was in 1991. The key to an immigration policy is to put people in the places where they are needed to begin with. How do you manage this process? There is no need for a complicated visa system that no employer can understand, because the visa can relate specifically to the region—Scotland, Wales or Northern Ireland—where the person is working. After that person becomes a British citizen, they can then move, but in Canada that takes three times 365 days of residency, and by that time there is a high probability that the person will remain in the original region. This type of system works better if you have a sub-national government working in conjunction with the national government, but we have not seen much of that happening in this country. We do not see Scotland working with the United Kingdom Government, particularly on things like immigration. The political will has to be in place for it to happen.

However, given the commitment of the Conservative Government to get immigration down into the tens of thousands at any cost rather than the current rate of 300,000, how is that going to happen? It was said earlier that the anti-immigration sentiment was probably the number one factor in people voting to leave in the referendum. It is a complicated political issue, but it is not a complicated policy or practical issue. We do not have to recreate the wheel. We can learn from Canada and Australia, which has basically adopted something very similar. The basic idea is to put people where they are needed to begin with and there is a prize at the end, which is citizenship. The UK works in the opposite way, with citizenship not being something that is necessarily encouraged as it is in Canada. That is why the system seems to work and we do not have problems finding skilled people or unskilled people to fill the jobs.

Lord Darling of Roulanish: This is my last brief question. If I emigrate

to Canada and move to Alberta, and six months later I pitch up in Vancouver, what would happen to me?

Professor Robert Wright: First, you are too old to go. They focus on young people and there is a threshold at the age of 50. The second thing is that you will sign a contract. You sign a contract with the Government of Canada, and if you break the terms of that contract you are breaking the law and you are subject to deportation. In fact, some provinces state in their contracts that your name will be turned over to the Royal Canadian Mounted Police, who always get their man or woman. So it is a legal requirement. But when we look at who is actually deported from Canada, 95% of them are people who lied on their application forms, not because they broke their contracts. It is not an issue. Some people say, "If you had this in Scotland, people would just come to Edinburgh, say they were going to work there, and then get on the bus to London". But if there was a contract, they would be breaking the law. The only complication is that there may be some legal implications or whether this can be done, but they do it in Australia and they do it in Canada.

Q30 **Lord Tugendhat:** Obviously we must learn from wherever we can, but I wonder whether Canada is an appropriate place for us to learn from, given its enormous size compared with this country and the very considerable differences between the provinces. It also appears from your last answer to Lord Darling that it would be difficult to apply such a system in England as distinct between England on the one hand and Scotland, Wales and Northern Ireland on the other. But my real problem is the fact that Canada is geographically so vast compared with this country.

Mr Chris Murray: Another parallel that could be drawn is with the Schengen countries. The same principle applies for getting a visa to work in Germany, but you would then get entry into the entire Schengen zone, which is obviously also a very big area, although it is made up of a number of smaller countries. You can travel anywhere and in theory you could pitch up in another country because there are no border guards to stop you doing so. But while there are big issues to do with how Schengen is governed, people moving between countries is not actually one of them. We in Britain now have a whole set of reforms that were brought in by the Prime Minister, Theresa May, when she was the Home Secretary, based on pushing enforcement away from the Border Force at Heathrow with its guards going around trying to catch people right out to employers, landlords, bank clerks, universities and colleges. We now have a much more robust system, and indeed some would say too robust an enforcement mechanism to consider bringing in nuances such as these.

Lord Kerr of Kinlochard: I think I am missing something. It seems that there is no possibility of having regional immigration policies if the aim of central government is to drive down net migration. That means that you cannot have Sadiq Kahn or Nicola Sturgeon deciding on a separate policy. But if, as Mr Murray is saying, the system for the control of migration is becoming much more closely related to employers, is it possible to

envisage the issue of visas being related to particular professions or particular employers and that central government might decide to be more generous in relation, say, to London or Scotland than to regions where there is less demand for migration?

Mr Colin Stanbridge: That is actually what we put forward in our submission—specifically that business groups and organisations should work with the Mayor of London to devise lists of areas where workers are needed. There is an economic imperative in London's case and we will see what happens in two years' time. The Centre for Economics and Business Research, which did some work for us on our report, said that if we extend the current tier 2 visa system to EU nationals, by 2020 we will have lost 160,000 migrant workers from London, £7 billion in economic output and £2 billion in direct taxes. Those are significant figures. We are in the situation of a phoney war, which we are still in until 15 March or whenever Article 50 is triggered. It is easy for politicians to say that there is no need to think about immigration systems, but once the losses begin to bite, politicians, being practical people, will understand that they have to do something about it. The idea in the case of London is of the mayor, the GLA, the boroughs and the business groups being able to demonstrate that there will be significant shortages—because there will be. If our figures are correct about the financial services sector, it will have a devastating effect on the London economy, because however much people dislike banks and financial services, that sector is still the driver of success in London.

Lord Kerr of Kinlochard: Mr Murray, the Scots have told us that 90% of their recent population growth has come from non-native-born Scots, and they have produced worrying numbers about the likely rise in dependency ratios if migration were to be cut back. They seem to want more migrants in Scotland, whether from the EU or from the wider world. Can you envisage a situation in which the Scottish Government and the UK Government might negotiate what share of the national desired immigration numbers for particular sectors could go to Scotland?

Mr Chris Murray: It can be envisaged. The point that it is hard to maintain overall control on total numbers is true to a certain extent if you conceive of regional migration as the complete devolution of policy to the devolved Administrations with the Home Office having no ability to set a cap on any edict issued by the Scottish Government. There is a spectrum between where we are currently and that point. For example, if the Scottish Government were to add a year on to student visas to allow students attending Scottish universities to work, or they decided to lower the salary threshold for skilled workers to come to Scotland, the Home Office could still bring that regional flexibility into its overall system and the direction of travel that it wants to go in. Meanwhile, it would allow the Scottish Government to meet some of their own objectives. The Home Office could decide whether it wanted to add those numbers on to overall migration or negotiate them off another visa group, thus retaining the position of the central government policy.

The purpose of us producing these reports is to say that on the ground and in reality these divergences are opening up. The referendum was something of a flash of illumination on quite how far apart the areas of the country are moving, particularly on migration. So while I accept the point of your argument, which is that it is on the more unlikely side of what is coming, with conversation and some reforms it could be envisaged.

Lord Sharkey: If a cap on immigration is to be set by central government, presumably any regional scheme will be limited by that cap. No region would be allowed to take people to fulfil its demand if that is in conflict with the cap.

Mr Colin Stanbridge: All I would say is that when we started to talk about a London visa, which was a slightly headline-grabbing move to get the debate going, it seemed as if somehow there had been no variation in immigration policy at all. For example, until December 2014 we had a seasonal agricultural workers scheme. Governments recognise that there are needs and politicians therefore have a way of devising systems to serve them. Earlier I talked about the shortage list in Scotland. That is a regional immigration policy in all but name. Our view is that if there is a need, and we think there is a huge need in London, the Government will have started talking about it. This is nothing new and people have done the same in the past.

Lord Forsyth of Drumlean: I want to put it to Mr Wright that this seems to be a completely impractical proposition. How on earth would it be administered? This is to be done, as you say, by bank managers and employers having to cope with individual needs and people wanting to move jobs. How saleable is that to the public? I find the whole idea of groups or areas where people are and are not allowed to work pretty close to totalitarianism. It is an extraordinary proposition. I am thinking about Scotland, which is about to become the most highly-taxed part of the United Kingdom. If people start leaving Scotland to work in the south, the notion that more migrants should then come in to fill those positions seems a little in conflict with the notion of free movement in a properly functioning single market, which is the United Kingdom.

Mr Chris Murray: In response to your first point on front-line enforcement by bank managers and landlords, I would make the point that that was not an idea from the IPPR. It was Theresa May when she was the Home Secretary who brought in all these controls. It is being called the hostile environment, and the thinking behind it is that rather than spending government money on removals and deportations or on the border, which is more properly reserved for national security reasons—

Lord Forsyth of Drumlean: Would you add to this?

Mr Chris Murray: We would add a small component, but confirming whether someone has the right to work in this country is already a duty on an employer. Also, the point about people being tied to a certain

region and not being allowed to work in others is pretty much part of our non-EU immigration system as well. If you have a tier 2 visa you are tied to a certain employer, which for many people normally means going to the same place every day. If you are a student on a tier 4 visa you are tied to a particular institution, and it would be impractical to travel every day from a different part of the country and still try to meet the onerous demands of showing up at your college to complete your course. These rules are already in place in the system and we do not want anything that would compromise free movement, but obviously that is not what people have chosen.

Lord Turnbull: I refer to the largest employer in the land, which is the NHS, which runs as a national system. Let us suppose that you have a Serbian doctor and a nurse who is Slovenian, and therefore someone from a country that is already from part of the EU. A vacancy in Sheffield is advertised and the doctor wants to take it up. Does he have to apply to someone outside the NHS in order to get permission to move from one position to the other? That seems to be a ridiculous burden to put on the NHS. There should be free movement, and you would slow that down in quite a dramatic way.

Mr Chris Murray: We are going to be imposing controls on those people. The question is how we do it. We are not suggesting that we should scrap all the UK groups and that there should be no UK-wide visas. If someone has a job that requires them to move around, they should properly apply for a UK-wide visa. But a region may decide that it needs a certain number of migrants beyond the national allocation that they can attract. It is quite difficult to attract migrant care workers to the north-east, so that region might issue specific visas. If a care worker then wanted to move, under the current system they would be perfectly able to apply for a change to their visa.

Mr Colin Stanbridge: As I said earlier, the answer is that under the current system you probably would not have a Slovenian doctor there in the first place, and especially given Chris's point that employers are now responsible for managing the system there is going to be a level of bureaucracy. But I suspect that from our members' point of view, it is a price worth paying because they need the workers. We are going down this road because the Government have said that the limit will be in the tens of thousands—

Lord Turnbull: If we cannot have the Slovenian doctor in the first place, we will not have the Slovenian doctor. So where will that doctor come from?

Mr Colin Stanbridge: That is our point. There will be skills shortages and we will not be able to meet them.

Lord Turnbull: But you have an additional requirement that they must live in the 33 boroughs. That is the daftest thing I have ever read.

Mr Colin Stanbridge: They have to be employed within the 33

boroughs.

Lord Turnbull: No, you said that we should have a—

Mr Colin Stanbridge: I might have just changed that. These are ideas for consideration.

Lord Turnbull: Your paper states that jobholders would be required to live in the London region. That is the silliest thing I have ever read.

Professor Robert Wright: I think that the last three or four people have missed the key point of this, which is to get people to the places where they are needed. If you do not do that, you will see economic decline. We saw this in Scotland before the A8 countries joined. There were shortages, and both the labour force and the population were shrinking, but now both are growing. That is the alternative. I do not think that Canada is that different from the UK, Australia or anywhere else; there are different population densities across the country and different economic activity levels as in all countries, albeit in different dimensions.

What is key, and what you have missed, is that once you get the people into an area, there is a certain probability, a good one, that they will stay there. At the end, they can leave if they want. They are allowed to do that because they can take up Canadian citizenship. Without that prize at the end, you will have to have this kind of discussion. It has to be a policy that is credible and offers a clear prize at the end—getting people to where they want to be after putting them where they are needed to begin with. When you put them where they are needed at the beginning, there is a high probability that they will stay. That is what Canadian and Australian immigration has at its heart, and that is before we start talking about Quebec, which has its own system.

Lord Sharkey: Who determines what the need is? Is it determined by employers in the various regions?

Professor Robert Wright: Okay, let me explain how it works in Canada, and it is the same in Australia. The department for immigration and the department for employment are within the same ministry, so they talk to each other. The employment department states how many people are needed, talks to its sister agencies in the provinces, and decides on the numbers. It sets a target for the points-based system and the provincial nominee programmes, and the bureaucracy goes out there and finds the people. While I was in Scotland a couple of weeks ago, the Canadian Government were also there recruiting shipbuilders for our industry in Canada. That is the way it works. There is cross-government, cross-ministry and cross-department agreement. All are working towards the same goal. We are not saying, "Scotland wants more immigration because it needs a global labour force more than London, but London is saying that immigration has to come down to the tens of thousands".

Lord Sharkey: It is essentially a needs-based system. My question to you is who determines what the need is.

Professor Robert Wright: We have talked about the shortage list, but the problem is that it becomes out of date as soon as it is published. The information filters up from employers. It passes first to the provincial government—the Scottish Government in the case of the United Kingdom—and then to the federal government, at which point the immigration system kicks into action. What I am sceptical about is when people bang on about separate policies for London, for the north and so on. I understand the need, the demographic requirements and the economic consequences of failing to deliver the people with the relevant skills to the right areas, but it works much better when you share the responsibility across the levels of government. London does not have a government in the same way that Scotland does, but maybe it can build one in the future.

Mr Colin Stanbridge: We would argue and have been arguing—as has the second report of the London Finance Commission, of which I was a member—for more devolution of powers. We are already working with London Councils and the boroughs to try to address the skills shortages. Obviously boroughs and business organisations, and lots of other organisations, could come together. It is sad that we have to do that work, but we have to do it. Employers and London government have to come up with a plan for the skills shortages, and we have to convince people that there really are skills shortages. I am sure that sister organisations would be prepared to do that work.

Lord Livermore: On a point of clarification, we have spent quite a lot of time talking about skilled migration. I want to understand whether the regional visa system that Professor Wright talked about would work for unskilled labour and would ensure that unskilled labour went only where it was needed, and whether that could be a way of easing some of the political difficulties with unskilled labour that you identified at the outset.

Professor Robert Wright: Basically we have to look at the modern economy. Only two groups are growing in the labour market: low-skilled and high-skilled people. Why? It is because the low-skilled people are providing the services that the high-skilled people want. “The disappearing middle classes” is a phrase that sociologists use for a reason, and there is no reason at all why you cannot have an immigration system to attract any skill level. Tier 5 has never been put in place or suspended. That was low-skilled immigration and part of the points-based system. You do not need that if you have highly-educated Poles taking these jobs in the first place, which you will not have in two years if the current situation evolves into leaving the EU. So you are going to have to have such an immigration system.

Lord Darling of Roulanish: Actually, it was tier 3.

Professor Robert Wright: Whatever. It was a tier that they put in the system and never used. There is no difference; it is a person with a skill. If you identify a place, a vacancy comes up, the Government are told that they need this, and the policy is to get that person, whether high-skilled

or low-skilled. Really, that is what you are talking about: low-skilled and high-skilled people.

Lord Sharkey: In Canada, what happens if the provinces all together say, "We have a need for this many", and the central government says, "No, that's far too many"?

Professor Robert Wright: It never happens.

Lord Sharkey: Right, so it driven by the needs of the employers in the provinces.

Professor Robert Wright: That is right.

Lord Sharkey: So central government has no say in that.

Professor Robert Wright: Central government's responsibility is to issue the visas and police the process against criminal applications and things like that, but the information that decides how many people to take and at what skill level comes from the provinces. Is this your vote?

The Chairman: I am afraid we will have to pause there, and we shall be back after we have voted.

The Committee suspended for a Division in the House.

The Chairman: We come to the last question.

Q31 **Baroness Bowles of Berkhamsted:** We have been around some of this already. What difficulties would there be in enforcing regional immigration policies? What happens if people move from one area to another?

There is another question on the matching of skills, which I have been thinking about since some of your earlier presentations. Even if you have a regional immigration policy, how will you make sure that overqualified people are not still taking the low-skilled jobs and then seeking to move into other things?

Mr Chris Murray: Your point about low-skills matching is very important. One thing that is just a true fact of migration policy is that central government is not particularly good at judging the needs of an economy. That is one of the advantages that free movement has brought: it has allowed the free market to go with it.

One thing that I think is really important and that a regional migration system would bring is that it would, for the first time, incorporate into how we do migration policy in Britain a regional conversation about the impact of migration. Currently, local authorities, combined authorities and devolved Administrations take no responsibility for dealing with, and have no power to deal with, what migration brings them. Having a conversation with local people at a local level and saying, "We need low-skilled migration to fill these gaps, but we are going to put these things in place to deal with it. It will be restricted to these sectors, and we are

going to make sure that, in parallel with that, we work with the local community so that they skill up, and when those supply chain jobs come from the low-skilled economy, local people can get them”, is much more feasible than having it at the national level, which we have not really managed to pull off.

Baroness Bowles of Berkhamsted: But you have still not necessarily trapped them, if you like, in the right area. You are just going to hope that they get comfortable there and stay. The Scottish Fresh Talent scheme was for students, but the reports are that it was very difficult to govern and manage. The students just had to have an intention and then they could wander off wherever.

Mr Chris Murray: That is true, although the bigger issue with the Fresh Talent scheme was more that it was not very well signposted for students so that they could find out where they could go during it. However, we will clearly move into more bureaucracy as we move off free movement. So there was an issue with students not going. Also, it did not bed in over a very long time. Migration policy by definition takes a long time to implement and for the real effects to work through.

However, we are seeing the impacts of free movement now. That is why we favour a regional migration policy rather than a top-line national conversation in which people say to local areas, “Migrants are net contributors”, and they say, “That’s not how it feels in our local area, because we’ve got low-skilled migration and we’re not getting the benefits of that”. Situating that conversation where migration policy decisions get taken at a regional level gives local authorities and local leaders more power to deal with the implications.

Baroness Bowles of Berkhamsted: I get that from a matching point of view, but we are moving on to the enforcement point of view. Let us say that you have matched them and you hope that they will stick, because you hope that you have the skills match. However, other things can happen. The company might decide to move, or it might just want to post you off to a different branch office. When you are looking at the lower-skilled sector, if you have some way of tying it more stringently to a given area, are you creating the possibility of employees being put in the very precarious position that, if they lose their job, they are stuck if it is in an area that is not good for employment and they cannot move? What would they have to do then?

Mr Chris Murray: If it is going to replicate the sort of non-EU system that we have now, that is a criticism of our immigration system. If people come here on a visa and lose their job, or their company tries not to move them but to put them into another kind of job, they need to reapply. That is a legitimate criticism of the immigration system and its administration by the Home Office. We are looking for flexibility that can apply across all sectors.

Professor Robert Wright: Just to get back to the two points of your question, let us take the matching issue first. A points-based system is

like a credit score when you apply for a credit card. It is the company that decides whether it will give you the credit card or not, so it will be the Government and the immigration system in place that decide whether you are going to get a visa. If you are very skilled and you apply for a low-skilled job, you are not going to get it because you do not match it well. Again, there are a lot of ways of doing it, but that is the basic logic.

On the enforcement idea, in economics we talk about whether a policy is credible. The only way a devolved system of immigration could be credible would be if it is enforced. There would be a legal contract between the two parties. If that contract is broken, the person is subject to deportation. Some provinces in Canada are very strict about this. If you lose your job, you lose your visa. That puts you into an incentivised situation to get citizenship, but the key is to get people to the places where they are needed first. These things are not a great hindrance to putting a system like this in place in the United Kingdom. The big problem is getting political agreement, which is fundamental and has been mentioned before.

Mr Colin Stanbridge: The downside, as I said earlier, is the bureaucracy that would be created: the work that would have to be done and the pressure it would put on employers. We would not start from here, but we are going to have to do so and there will be skills shortages that will have to be met. We are in reality a small organisation, but we have done quite sophisticated pipeline work on construction skills. Along with KPMG and a model devised by the Greater Manchester Chamber of Commerce, we came up with some pretty useful hard figures on the number of dryliners or plumbers who are needed in order to produce 50,000 homes a year. It is not beyond the wit of people to do that and it will be a lot of work, but it will be necessary, because the result of not doing it will be that London—I am from the London Chamber of Commerce, so I am going to talk about the London economy—will be hit hard by the number of people we are going to lose from the workforce. We will find ways of doing it and I see no reason why we would not find those ways. It will depend on London politicians and London businesses proving that the shortages exist, and I think we will be able to do that.

Lord Tugendhat: I note that you keep mentioning citizenship. Can you explain one point to me? I have the impression that a high proportion of the people who come to this country from elsewhere in Europe are not at all interested in citizenship. A high proportion of the people going to Canada are doing so in the hope of becoming Canadian citizens.

Professor Robert Wright: No, it is not like that at all. In fact, it is the total opposite. Citizenship is a prize that allows you to be mobile in a country after you have agreed to move to a certain place and stay for a minimum period of time. However, the data suggests that when people get to that place, there is a low probability that they will then leave. This is one of the criticisms of devolved immigration—the idea that somehow everyone is going to turn up in Scotland, decide that they do not like it there, and then leave. In the end, citizenship really is at the centre of the

whole set-up. Without putting a priority on citizenship, it is going to be difficult for these regional systems to work.

Lord Tugendhat: I am probably being dim, but people are not interested in gaining citizenship. The Poles who come here are not interested in becoming British citizens. They want to make money and they may or may not stay. Indeed, most of them want to make money and then go home. Are the people who move to Canada going there to make money in order to go home again, or are they going to Canada because they hope to settle there?

Professor Robert Wright: What the Canadian system does that the current EU arrangements do not is that it sets the hurdle to get into Canada very high. As I said, 1 million people have already fulfilled all the formal requirements waiting in the queue. When they get to Canada they want to attain citizenship because they can see its benefits. Citizenship allows them to move, and they can jump the queue on a provincial programme, which allows them to get in faster. I believe that the waiting time is now four and a half years from the point at which all the boxes have been ticked.

Q32 **Lord Burns:** I have a question on stock and flows. You seem to be arguing that the changes you envisage taking place are going to lead to large shortages of people in London, but I thought that the objective was to get the net migration numbers down, which means that the stock—in my normal interpretation of the word—would not decline. From what position are you arguing that there will be a great shortage of people? I presume that that would require net migration to be negative.

Mr Colin Stanbridge: Our research, as I said before, is that if you were to take the current tier 2 visa system and apply it to EU nationals, it would mean a reduction of 160,000 migrant workers in London. That is what the CBRE reckons.

Lord Burns: So you think that we will have a large negative migration level. I cannot understand that. The problem so far is that the net migration figures are very high and the aim is to try to get them down. However, you are now talking about negative migration levels.

Professor Robert Wright: You can get net migration down by increasing emigration—people leaving. If you want to reduce net migration, convince people to leave and your problem is solved. What you do not understand is that the traditional number of 400,000 people leaving has now dropped to around 300,000, which makes sense in a time of recession when there is less mobility. If you cut immigration to zero by whatever means, you will have negative net migration. Do not forget that almost all immigrants—

Lord Burns: The objectives that I can see being framed are in relation to net migration, not emigration.

Professor Robert Wright: Exactly. Basically, because policy has very little influence—you cannot stop people leaving unless you build a wall—

the emphasis of the discussion about how to reduce net migration has been conducted exclusively in terms of immigration. However, that is not a sensible target. In Canada, we have an immigration target of 250,000 a year. That is our immigration target, not our net migration target.

Mr Chris Murray: It also ties in a little with the point about citizenship. In Britain, we have moved over to quite a transient model. People come here, work for a certain period and then go home. That period can range from a couple of months to several years. A whole group of industries in Britain depend on a flow of labour rather than a stock within the labour force. If we were, as Mr Stanbridge says, to put all non-EU migration under the same rules as EU migration, the flow would drop massively, and that would have a very significant economic impact on some industries.

Lord Burns: But then we would have negative net migration, which, I repeat, I have the impression is not the objective.

Mr Chris Murray: Basically it is about reducing it from 300,000 to 100,000.

The Chairman: I am afraid that we have to draw this part of the session to a close, because we have to move on. Thank you all very much.

Examination of witnesses

Dr Martin Ruhs, Dr Lucie Cerna and Dr Jean-Christophe Dumont.

The Chairman: Welcome to this inquiry. I think you heard from the previous witnesses some of the areas that we are interested in. Baroness Wheatcroft will kick off with first question.

Q33 **Baroness Wheatcroft:** As you will have heard, we have learned quite a lot about the Canadian system. Could you tell us whether there are systems elsewhere in the world for dealing with immigration that you think are effective and worth examination?

Dr Lucie Cerna: There is always the question of what you mean by effectiveness. Most countries usually set certain objectives for what they want their migration policy to achieve, although it is often not well communicated to the public.

Baroness Wheatcroft: Let us say systems that work to deliver what the country wants.

Dr Lucie Cerna: Another common example is Australia, which is a little similar to the Canadian system, which is also a points-based system that seeks certain migrant characteristics, especially in relation to education, languages and work experience. There is also a regional scheme, and there are temporary programmes in place to attract people to fill mostly jobs where there are skills shortages. The good thing about the

Australian system is that, similar to the Canadian system, it has very good data gathering and analysis. With a lot of data, of course, it is easier to know who is coming in and who is exiting. There is also a lot of data on what the people are doing once they are in the country and on some of the labour-market and educational outcomes, which in theory makes it easier to decide how the thresholds and the criteria in the system need to be adjusted.

Baroness Wheatcroft: Would either of the gentlemen like to add to that?

Dr Jean-Christophe Dumont: There is a traditional distinction between what we call a demand-driven system and a supply-driven system. Traditionally, temporary migration is attached to a demand-driven system, and permanent migration is attached to a supply-driven system. That is the traditional thinking about different migration systems.

In a demand-driven system, labour demand means that the employer chooses. You need a job offer, you get a temporary contract first, which can be renewed, and maybe at the end you become permanent. A supply-driven system is typically the European, Asian and OECD model and is what we find in settlement countries such as Australia, Canada and New Zealand but not the United States, which has a different system. In a supply-driven system, people are traditionally selected by the Government based on the points system, as Lucie Cerna said, and are then admitted on a permanent basis. They can remain, bring their family and settle.

This distinction is old-fashioned and does not represent the way migration is managed today, because most of the systems have become hybrid; they have a bit of both. The best example of this hybridisation of migration systems is in the three settlement countries: New Zealand, Canada and Australia. I do not know if you have talked about this already, but it works in an entirely new way. It was invented by New Zealand, adopted by Australia and implemented recently by Canada. Quebec, in Canada, has just adopted the same model as the rest of the country. The idea is a two-step model whereby part of the selection process is conducted by the country to create a pool of talent that is immigration-ready. These people have been selected on the basis of education and language skills and on a number of other criteria, such as having a job offer or going to a specific region that we know has specific needs. That creates a pool of talent.

The three countries do it differently, but they all pick people from the pool. In New Zealand, it is only the Government who choose who to pick from the pool. In Australia, it can be employers, regions or the Government. You stay in the pool for two years, and obviously you stay in your own country. If you are not picked, you leave the pool and someone else can enter it. That system is both supply-driven—the Government have a role in choosing who is entitled to come—and, to various degrees, depending on the policy decision of the country,

demand-driven, because employers can in certain conditions access the pool.

What we see in a number of European countries looks like this in a way, although it is the other way around: employers select, but the country decides who stays.

Baroness Wheatcroft: Thank you. Could I ask Dr Ruhs the question in a slightly different way, bearing in mind the question that Lord Tugendhat asked the previous witnesses; I think you were in the room at that stage. Is migration to Canada and Australia different from the sort of migration that we have been seeing in the UK, which is more short term? Do you think that people migrate with different attitudes, in that people from Poland are coming here not with a view to citizenship but to make money and to go home, whereas if they take the plunge and go to Canada or Australia their motivation is often slightly different?

Dr Martin Ruhs: It is hard to generalise, but of course it depends on the category of migrant you are talking about. If you are talking about EU nationals like me coming to this country, most EU nationals, certainly those who are workers, enjoy most of the rights of British citizens except the right to vote. So in a way their incentive to naturalise here will be much reduced compared, for example, with someone who comes from a low-income country, who comes to Britain to work, to be successful and to naturalise. When you look at the statistics you see that EU nationals are less likely than non-EU nationals, everything else being constant, to naturalise here.

All countries have labour immigration and labour immigration policies. As Jean-Christophe said, more recently there has been a move very much towards a more employer demand-driven system. Basically we have fewer and fewer points-based systems that admit migrants on a permanent basis and more and more work-permit systems that admit migrants on a temporary basis, initially at least. Many of these temporary policies allow migrants to upgrade to permanent residence after some time. All the work-permit policies have to address three fundamental issues. First, how do you regulate the numbers coming in—the scale? Secondly, how do you select? Do you admit high-skilled, low-skilled? Thirdly, what rights do you grant people after admission: temporary or permanent status, access to the welfare state, family reunion? When you compare policies across countries you will see that different countries do it slightly differently.

A key point that I would make to the Committee when thinking about what immigration policies Britain should look to is that there are no best practices in labour immigration policy-making. That does not mean that it is all a history of failures, but that each policy has positive and negative aspects, and critically each policy comes with particular national institutions and national contexts. Sweden, for example, is one of the few countries, as far as I know, that currently makes no distinction in its labour immigration policy-making between low and high-skilled migrant workers. Nor does it have a particularly restrictive immigration policy; it

has quite an open immigration policy. But it gets relatively few migrant workers.

Why does Sweden have such an open admissions policy on paper but in practice gets very few migrant workers, EU nationals and non-EU workers? One reason is that it has a highly-regulated labour market. That means that if an employer wants to employ a migrant, that migrant needs to be employed at a collectively agreed wage, and trade unions, which are still pretty strong in Sweden, make sure that that happens. It is a regulated labour market, and it is the labour market regulation that constrains the employer demand for migrant workers.

Compare that to Britain or the US where you have a much more flexible labour market. Of course, migrants are supposed to be good for such a market, and one reason why migration is supposed to be a good thing is that it fuels a flexible labour market. That is why, if a flexible labour market adopted a Swedish-type admissions system, I would argue that you would be likely to see many more people applying to come.

The broad point I am trying to make here is that it is very important to look at the policies of other countries—we would all say that you have to look at international experience—and to think critically about the transferability of particular models across borders. What is perhaps more useful is to look at particular policy aspects. One that is of central importance in most of these policies is how to operate effective labour market tests. Almost all work permit programmes in Europe put a requirement on employers to show that no EU worker is available before they can issue a work permit to a non-EU worker. In practice, these labour market tests are fantastically difficult to implement effectively and employers find ways around them. The experience is different in different countries. So when considering the international experience, you need to ask who is doing a good job of trying to make employers look seriously at the domestic labour market before they turn to migrant workers.

Lord Sharkey: Australia, for example, has a numerical cap on the total number of migrants. How is that cap set? In particular, how is the demand that you are talking about actually assessed and taken into account?

Dr Jean-Christophe Dumont: You need to distinguish between temporary labour migration and permanent, settled migration. There is no cap on temporary labour migration, which is closely correlated to the economic cycle. On permanent migration, there is what Australia and Canada call a target. It is not in itself a cap; it is a policy objective that can be met or not. It is not a binding quota or numerical limit. In the case of Australia it is quite a complicated system. The decision-making process is based on modelling and an analysis of the economic impact of the foreseen migration in its different forms: family, labour or humanitarian migration. A model is run to allow an estimation to be made of the short-term and the medium-term impacts, while other parameters such as labour market needs and the demands being made by the different states

are taken into account. Setting the target is a complicated process, but again it is not exactly a numerical exercise.

Lord Sharkey: Would you characterise it as essentially demand-driven?

Dr Jean-Christophe Dumont: No, it is about creating a pool, and the Government can select who will enter that pool. For example, people need to ensure that their qualifications are recognised by the Australian authorities. Once they go through all those processes they enter the pool and then they may be picked by the Government, which may decide to take a certain number of people from the pool for, say, the month. The ones selected are usually those with the highest number of points. However, it is not done because of demands in the market; it is done by the Government.

Lord Sharkey: I would just observe this. Can it be difficult for the Government to decide how many people to choose if the decision is not connected to demand?

Dr Jean-Christophe Dumont: There are several objectives to each and every policy in this area in Australia, one of which is to increase the stock of human capital in the country, in particular the number of skilled people who can contribute to its long-term economic development. There are objectives such as humanitarian ones, resettlement and so on, and decisions are made on that basis. On top of that, employers can pick people from the pool. The Government recognise that the demand is there and they know that employers are in a better position than they are to decide who should come in, so it is a mix of decisions.

Q34 **Lord Tugendhat:** The definition of “skilled” and “unskilled” worker differs from country to country. Here in the UK we require an undergraduate degree for someone to be considered as skilled, while in other countries the decision is made on the basis of skill levels in the trades, vocational qualifications and so forth. Can you say anything about which you think is more appropriate for an advanced and developed economy like this one?

Dr Lucie Cerna: “Skill” is actually very hard to define, and as you say differs from country to country. Many countries start from the basis of looking at educational attainment, so people need a first-rate education. The problem, of course, is that skills can deteriorate over time, and it does not take account of informal training on the job. It looks only at the credentials someone achieved when they graduated and therefore does not quite capture their skills level.

Other countries look at skills thresholds or their occupational values when seeking to classify a person’s skills. They try to group occupations at different skill levels, which takes more closely into account the tasks that are actually being performed in a job. When you look comparatively, in some countries adults with tertiary education attainment have lower skill levels than people from other countries with only secondary-level attainment. Many countries are moving more towards looking at

occupations and skills thresholds to capture the whole spectrum of skills in greater detail, rather than just looking at whether someone is low-skilled or highly skilled, because there is a wide range in between.

Some countries also look at salaries, but it is very hard to capture what the skills level actually means and they assume that a higher salary is associated with higher skills. Many countries use a combination of these different definitions. How skills are defined is very important, because it has repercussions not only for immigration policy but for policies around education and training.

Dr Martin Ruhs: I agree that different countries do it differently and that there is no single way of defining skills. Many countries use pay levels for the sake of simplicity. Moreover, there are a number of operational reasons why it can be hard to verify accreditations. Britain, for example, currently uses a combination of indicators to decide what is skilled and what is not. The point I want to add is that in all these work permit systems, the focus is shifting towards the characteristics of the job in the host country rather than the characteristics of the migrant. That is because we know that in practice there is often a mismatch, so that even lower-skilled jobs attract highly skilled migrants. To some extent that mismatch is inevitable, but the policy question remains: "Which jobs in our country should be open to be filled by immigrants?" The discussion often turns on what a skilled job is and how to think about that aspect.

Dr Jean-Christophe Dumont: If we consider wages only, they look like an easy and good proxy for skills. However, I want to emphasise that there are a number of limitations to using this indicator alone. In practice, it often leads a country to mixing up the different sets of indicators, including in the UK. For tier 2, for example, you have different parameters.

Wages are not necessarily ideal because they will vary throughout the life cycle. Younger people tend to have lower wages, so you may exclude younger people if you have only a wage differential or a wage differential that is not differentiated by age, as for example in the Netherlands and in Denmark. You also have a huge diversity of wages across occupations and regions. That is why, in the UK, you have distribution by occupation. The 25th percentile of occupation is one threshold, but it can be an issue in some cases.

Wages look like a very easy way to measure skills, but if you use them separately from other indicators they might not be the ideal way to look at this. H-1B in the US, for example, combines the three elements: education, occupation and wage. I am not saying that that is a good example, but a combination of these different parameters is usually helpful.

Lord Tugendhat: As I have the floor, I have one quite different question that I would like to ask. Would it be fair to say that within the Europe the United Kingdom is in a completely different position from any other country because of the language? By that I mean that a higher proportion

of people who come to work here are likely to speak some English than those who go to Denmark, for instance, speak Danish. Secondly, one of the attractions of coming here is improving one's English, because English is such a very useful tool not only in your home country but in developing your career potential in general. Speaking English is obviously in a quite different league from speaking Dutch or Danish. Does that put the United Kingdom in a position that makes it difficult to compare it with other European countries?

Dr Martin Ruhs: I would not say that it makes it difficult to compare, but English is clearly one important factor that makes many young people in particular come to the UK or to Ireland. In my view, the main driver certainly of EU migration to the UK is its flexible labour market and labour-market demand. The UK has quite a large low-wage labour market. It is relatively lightly regulated, so it is quite easy to find a job, and employers have significant demand for skilled migrant workers. The UK has serious issues in training its own nationals for certain occupations, so it is not surprising that employers sometimes even develop a preference in certain sectors for employing migrant workers, because they are simply better skilled. The English language is important, but I would not say that it is the overriding factor.

Q35 **Lord Layard:** I have a few questions about numerical targets. First, what is the record internationally of how well they have worked? Secondly, do you think that students should be included in any target? Thirdly, if I may ask a rather big question, if you were asked by the British Government to advise them on how to achieve their existing target, which I believe is 100,000, what would you advise them?

Dr Martin Ruhs: I will take the last question first. The target is extremely difficult, if not impossible, to achieve, because it is a net migration target. That means that if you want to reduce it significantly, you have to reduce the immigration of people who are likely to stay. If you reduce the immigration of people who are likely to leave anyway—such as students, arguably—you will not change that migration in the long run. Very few people think about the fact that if you reduce immigration today you will also reduce emigration tomorrow. That means that net migration will not change in the long run. So a net migration target is extremely difficult, if not impossible, to achieve, regardless of what happens after Brexit.

On the international record on numerical targets, you can say crudely that there is no scientific or economic justification for a particular number; that there is no optimal number. So why do countries have targets? You can of course regulate the scale of immigration through selection criteria. If you become very tough and say that you will select only highly-skilled people, you make the pool of eligible people smaller. Crudely put, some countries that might not have 100% confidence in their selection criteria introduce a cap and say, "Even if we don't optimally select, at least there is a cap".

The cap, the limit, often serves the political purpose of projecting control. If you are very certain that your selection criteria are the right ones and are effectively enforced, then of course in a way there is no need for a numerical limit. But it is extremely difficult to find a rational justification for the various limits that are around. There is no cost-benefit analysis that points to an optimal number in any of the countries that I am aware of. All these targets are in a way political targets that are superimposed on the system in order to suggest that there is an element of control.

Lord Layard: Are they generally achieved?

Dr Lucie Cerna: That depends on whether they are hard ceilings or targets. Some countries have numerical limits that are set in stone. In the US, for example, there is the H-1B visa scheme, which has a limit of 65,000 foreign nationals admitted per year currently. Once that limit is reached, which is usually within a week, you have no other recourse and employers often have to use another migration scheme to get the workers in, or they have to wait another year. That number was set a long time ago, in the 1990s. It has been adjusted at times but mostly because of the lobbying of special-interest employers who wanted it to be increased. It was decreased again in 2004. It is enshrined in legislation, and it is very hard to set.

Lord Burns: Is that a gross figure or a net figure?

Dr Lucie Cerna: It is the gross figure. The problem with these hard ceilings is: what do you do once they are oversubscribed or undersubscribed? What do you do once there are more people who want these permits than you currently have available? In the US, it is first come, first served. Some countries have rankings and try to rank applicants by criteria such as educational levels or salaries, which is also quite difficult. There are also examples of it being undersubscribed and people applying for a green card instead. In 2000, the ceiling was not reached a second time around, which sent the signal that it might not be so attractive and that it needed to be changed. In the end, it was abandoned and a whole new migration law was implemented. Norway even has a cap on highly-skilled workers, or at least used to, of 5,000. It was set with some considerations, but I do not think it was ever filled.

The other issues are the more flexible targets that Australia and Canada have. Jean-Christophe has talked about which variables come into their thinking. Canada has also been thinking about absorptive capacity: how many people per year it can realistically absorb that can also be justified politically. Because it is more flexible there is a range, so this year Canada has 300,000 as a target, but it accepts anywhere between 280,000 and 320,000. It is a bit more flexible. Such targets are perhaps a bit easier to reach, but, in general, as Martin as said, these numerical targets, these ceilings, are not only difficult to set but difficult to implement and to achieve in the end. A lot of it is has to do with political considerations and telling the voters that the Government are in control, especially when they want to reduce the numbers, as the Government in the UK do.

Dr Jean-Christophe Dumont: I will just comment on that. The H-1B scheme—the temporary highly-skilled programme—in the US is a good example. The 65,000 numerical limit is actually a US trade commitment, so it cannot go below that number. It will be fixed for ever until they change their commitment in the WTO. The only thing they can do is increase the number, which, as you can see, always gives rise to a lot of political debate each and every time they try to change it.

One result has been the multiplication of exemptions. In the US you have 65,000 plus 20,000 for universities plus some exemptions in other categories. In tier 2, for example, the cap is almost 21,000, but with a number of exemptions. So you should look not only at a numerical limit but at everything that goes with it, including the conditions under which the limit can be revised.

A couple of countries are using numerical limits. Switzerland uses limits that are set at the national level and then distributed to the cantons and even according to some professions. The limit is set at a level that is never reached, so that is not a problem. If it is reached or passed, the number is always increased. You can see that this is not necessarily a binding element; it all depends on how you use it and it can be a useful tool to reassure the public. It can be used in a way that keeps it manageable, although you can also have a rigid system like that in the US—not the temporary but the permanent system. The EB2, which is the green card for the highly skilled, has a fixed number of 140,000 and changing it is a decision made by Congress, so it is never changed. On top of that, there is a numerical limit by country, which is no more than 7% per specific country. This means that the waiting time for India and China in the EB2 category is approximately 10 years. You can create bottlenecks if you do not have the capacity to adapt and manage your immigration system.

Q36 **Lord Burns:** Could you say something about the fiscal impact of immigration on different countries in relation to both high-skilled and low-skilled people? I gather that you have done some work on this.

Dr Jean-Christophe Dumont: The OECD has done some work on the fiscal impact of migration. The overall finding is that immigrants pay more in tax and make a greater social contribution than they receive in the form of benefits. In most countries, this is also true for the natives, because obviously there are other costs in the budget that are associated with public goods such as infrastructure, the police, the justice system, military expenditure and servicing debt. If you just look at what people contribute individually and what they get individually, immigration almost everywhere is beneficial, with very few exceptions. Our calculations show that France and Germany are among those exceptions, and I can explain why.

Once you take the other goods into account, migration remains positive in a number of countries, but obviously there are big questions around public spending. For example, should debt servicing be allocated according to the number of migrants? If you had no migrants, would that

mean that you could pay more or less interest on the debt? How you allocate this additional public spending is not an obvious decision. In the case of the UK, it ranges from plus 0.5% of GDP to minus 3%. At the end of the day, for the UK it is around zero, so it is not a big issue. You do not make decisions for or against migration on that basis.

Lord Burns: I am sorry, I did not quite capture that point. Of the various numerical systems that you have looked at, which, if any, would you suggest we should follow in the UK in relation to EU migrants?

Dr Martin Ruhs: Obviously the starting point is that you have open borders and therefore a completely free flow. Employers are used to having no barriers, so whatever you do will have to involve a gradual transition. One alternative would be to set up a work permit system with distinctions being made based on skill levels so that the system is more generous towards skilled workers than it is towards the lower skilled. There might be a job offer requirement involving a labour market test to ensure that employers look for British workers before employing EU nationals.

I do not think there is an obvious starting point for a numerical limit. You could look at specific sectors, listen to what employers say and consider the alternatives. It would therefore make sense in this situation to try to take an evidence-based approach by looking at the current demand, what the potential alternatives to immigration are in terms of attracting domestic workers, mechanisation and so on, and taking it sector by sector. That does not necessarily mean setting lots of different numerical targets for different sectors, but it is hard to come up with a number at this point or to say, "This is going to be the starting number post Brexit".

Dr Jean-Christophe Dumont: There are basically three questions here, which go back to the second question. One is whether there will be any form of preferential treatment for EU nationals in the current system. The second is: what about the demand for low-skilled jobs? There is a tier 3, but it has never been implemented, so should you create tier 3 or not? What is the experience in other countries of managing low-skilled migration? Obviously the OECD has a great deal to share on that point.

There is a third question, which goes back to your point. At current levels, net migration by third-country nationals is still in the hundreds of thousands. Even if you bring EU net migration down to zero you will still not meet the target of migration in the tens of thousands. This means that you are facing a trade-off between reinforcing selectivity and effectiveness on the migration system in general, not only from the EU, and keeping the UK's very positive position in the global competition for talent, which is facilitated by the English language. However, that is not the only argument you can use. People have choices across the globe. It could be that the restrictive nature of your policy becomes part of the UK brand and people start choosing other countries.

In response to your question, these are the three elements that have to be looked at carefully in order to meet the political objective and ensure that migration for the UK continues to support the economy.

Dr Lucie Cerna: Perhaps I may follow up on something that Jean-Christophe has said. On maintaining the UK's position in the competition for global talent, it is important to bear in mind that migration policies go only so far in reaching a target for the number of people immigrating. The highly skilled in particular have many choices, and they do not base their decisions only on a country's immigration policy. Many other considerations come to mind, such as whether there are work opportunities for the family, whether it is a safe country to live in, the job and research opportunities, which language is spoken, and sometimes what the climate is like. A lot of different considerations come into play, which makes it difficult to set hard targets and to say, "We want this many migrants", or, "We do not want any", because if labour migration routes are closed, some people might come in through family migration or other routes. That often happens when one permit route is made more restrictive. People find different ways of getting into a country by using other routes.

It is important to bear in mind that sending the signal that a country is becoming very restrictive to bring the numbers down also creates challenges if there are certain people that that country still wants to attract. The restrictions might put them off and they will go somewhere else. That has happened in the US, which has become quite restrictive, especially for skilled people on a temporary basis. Canada saw an opportunity in that and said, "Why don't you come here? We will give you a work permit and you can become permanent residents". That has attracted some people who might have gone to the US. They have gone to Canada instead. So quite a few considerations come into play when deciding which migration system to put in place.

There are issues around low-skilled workers. A question for the country is that if we do not have access to low-skilled workers from the EU, should we invest more in education and training among the resident population—the people who are already here?

These are more medium and long-term considerations, which some countries are looking at in more detail. Singapore used to be very open to foreign talent, but due to political tensions it has recently become more restrictive, giving preference to Singaporeans and investing a lot into the education and training of its own population. Singapore wants to decrease the level of foreign talent and provide more opportunities for its own people. These are some of the considerations that a country such as the UK will have to deal with, too.

Lord Layard: I want to go back to the fiscal point. You said that historically it more or less evens out, but looking forward it obviously depends upon who the migrants are. Are there not two general principles that would apply to migrants just as much as they apply to natives? In any society, the more skilled half of the population are net contributors

while the less skilled half are net beneficiaries. Equally, people of prime age are net contributors while the elderly are net beneficiaries. Economists are always making these points, and they seem to be to be rather powerful ones to consider for the future.

Dr Jean-Christophe Dumont: In the case of the UK, again, as I said, you will get different results depending on how you allocate extra spending, such as on servicing debt. From the fiscal point of view, along with Switzerland the UK has benefited the most from immigration. What we can show in the work of the OECD is that it is not that people are using the social system more but that the immigrants who are using it are overrepresented among the beneficiaries of social spending. The difference between immigrants and the native population comes from the difference in their contributions. In a country where integration into the labour market is less successful, you will see a more negative impact. In a country like the UK, where most people work, the EU nationals employment rate is close to 80%. That is above the UK norm, so the contribution is a positive one. In France, where that is not the case, if it were to take the level of employment by age, education and gender of immigrants up to that of the native population, it would add more than 0.5% of fiscal revenue to the country's GDP. There is a lot to gain from improving integration in countries like Belgium and France, whereas in the UK it is clear that immigrants are already making a large contribution.

Lord Sharkey: It is the reverse here.

Dr Jean-Christophe Dumont: Yes. That is the key parameter, and in a way it is even more important than skill levels. But you are right that there are differences in skill levels and age that should be taken into account in the long run.

Dr Martin Ruhs: I will briefly add to that. I agree that age, skill levels and earnings are key, but the other two factors that will have an impact are how the welfare state is designed, which varies across countries in how income is re-distributed from the top to the bottom, and how contributory it is. The other very important consideration is whether or not migrants' access to the welfare state is restricted. In practice, a lot of work permit programmes around the world for low-skilled workers restrict their access to certain types of welfare benefits, at least for a certain time. Of course, Britain is doing that under its tier 2 system, where skilled migrants from outside Europe often have no recourse to public funds with no access to means-tested benefits for some time. At the moment that is not a big issue, because they are all skilled and will be earning relatively high salaries. But when we come to EU nationals it will become a much bigger issue in the future. If you have a work permit system for EU nationals to take on low-skilled work in this country, what access will they be given to the welfare state? Will they be given in-work tax credits, child benefit, access to social housing and so on?

Q37 **Lord Forsyth of Drumlean:** It was very evident during the referendum campaign that no one in the public meetings that were held complained that we have too many doctors, scientists or engineers coming into this

country, yet the economic evidence suggests that there is some indication that wage levels are depressed by migration. The overwhelming perception, rightly or wrongly, is that people are somehow losing out on employment opportunities. Although employment levels might be quite high, we have a very substantial pool of people, some of whom are not included in the figures, who do not have skills. I just wonder whether any of the systems that you have looked at around the globe try to get employers to do more in the way of training, thus bringing up the skills of sections of the workforce in return for being able to access, particularly among the lower-skilled, opportunities from abroad. That seems to be the key to restoring balance over time. Is that wrong?

Dr Jean-Christophe Dumont: There are several ways in all systems to ensure a degree of protection in the labour market for native-born people. The labour market test mentioned earlier is fine if a native-born permanent resident is available to take up the job. That is one way of doing it, but some countries go much further. In Canada, for example, there was a big issue regarding temporary foreign workers. The Canadians have seriously strengthened their temporary foreign worker programme, which is not always about the low skilled. Part of it applies to the low skilled and part of it applies to the highly skilled. According to the wage being earned, whether it is above or below the median provincial wage, people have different rights when it comes to getting a one-year permit or a longer one. They make a distinction according to the employers' degree of dependency on those workers.

Lord Forsyth of Drumlean: I understand, but I wonder whether a quid pro quo could be introduced into the system. In the earlier part of the session we talked about the problems in London and the fact that there are lots of people in the rest of the United Kingdom who would love to work in London but cannot afford to do so because of housing costs and so on. People come from eastern Europe and live in conditions that people in this country would not live in, while employers say, "We haven't got the skills", but actually it is easier for them to take people on at the minimum wage and do nothing about training and so on. The question is whether we can somehow tune the system to make employers do more to tackle the lack of skills in our domestic market.

Dr Lucie Cerna: In the US, for instance, employers have to pay fees, part of which go towards training domestic students. There are other examples, especially for employers who take on a certain percentage of foreign migrants. Those employers have to pay into an education and training fund for students. That is a trade-off or a deal with the employers so that they can bring in migrant workers, but through fees they must pay into an education and training fund that domestic students can benefit from. That is one way of making employers pay towards helping the domestic population.

Dr Martin Ruhs: The larger point you have raised is very important, which is simply that if you want to reform the immigration system and reduce immigration levels, you have to ensure that other public policies

are conducive to that. If you do not train people, employers will keep on demanding migrant workers. If your housing policy does not enable people to live in the places they are needed, it will not be possible to fill certain public sector jobs, particularly if the wages are not adequate. Importantly, if labour market standards are not enforced—this country has a lightly regulated labour market with very limited enforcement of the minimum wage—the more exploitable people are, the greater the demand for them. When Sweden opened up its labour market to EU workers in 2004, it strengthened its labour market standards. It said, “Okay, we will let people in but we will make sure that the bottom of the labour market is not breached”. All those other public policies—training, education, housing and welfare—have to be considered when you think about reforming the immigration system.

Baroness Wheatcroft: Housing costs are obviously part of the issue, but have you come across any evidence elsewhere that the local workforce in wealthy countries is prepared to take on the jobs that are currently being done by migrants? For instance, you will not get a cup of tea in this building unless it is served by someone who has come from another country, and our care homes are staffed almost entirely from abroad. If the fence were to go up, have you seen any mechanism come into play whereby the locals take on those jobs?

Dr Martin Ruhs: My brief answer is that it is very hard to find international evidence to show that once an immigration inflow stops there is a huge inflow of domestic workers into jobs that used to be done by migrants. What we have often seen is that if immigration stops, jobs are mechanised or rationalised away. Technology takes over. That is not to say that it is not possible, but if you are asking me for examples to show that jobs that used to be done by migrants are now being done by domestic workers again, I cannot think of any off the top of my head. There are not many experiences that would suggest such a transition. .

Dr Jean-Christophe Dumont: There is one case that we can point to, which is Spain in the context of the recent economic crisis. The unemployment rate increased so much that people started to look for jobs they had not considered before, notably in the agriculture sector, but that did not necessarily meet all the demand. You have to make a distinction between different types of demand. There are cases where the working conditions are clearly not attractive enough, but there are other cases. We did an analysis of Europe looking at changes in occupation over the past 10 years. We found that in growing occupations, on average 15% of the recruitment was of migrants, including EU migrants, so they are overrepresented in those occupations.

In declining occupations—those that have lost employment over the past 10 years—25% of recruitment was of migrants. Obviously young people entering the labour market see that these occupations are losing momentum and there are no prospects in them, so even if there is a discrepancy between retirement and recruitment need, they do not go into them no matter what incentives are offered. There is a limit to the

capacity to adjust the system with the national workforce, although, yes, perhaps automation can supplement that.

In answer to your question, the point is to create a system of incentives that will make employers invest in training. What works in the case of Sweden is that it is more costly for Swedish employers to recruit from abroad. If you ensure that it is more costly to recruit from abroad than to train and develop the workforce in your own country, you have a solution to the problem.

The Chairman: Thank you. In the last few minutes, perhaps we can turn to the final question.

Q38 **Lord Turnbull:** Can I get your views on the earlier discussion, which I think you heard at least the tail-end of, which is whether some of these controls could be operated at the sub-national level? The argument seemed to be that you can attach right of entry to an employer. You know who the employer is, you know who the worker is, and the permit can be issued for where you want them to be. Is that feasible, and has anyone who is operating in the European market—I am not interested in Canada because I think there are 250,000 square metres per person—made it work?

The other thing that strikes me is that this is based on a very old-fashioned view of the labour market. There used to be an employer and the workers would go down the pit or to the factory or the office. Today, the employer has an office that is registered somewhere, a site that the workers are attached to, although they may do the work somewhere else—lorry drivers being one of the best examples—and who live 50 or 60 miles away. So I am rather suspicious about the idea of using the location of the employer, if you know what that is, as the basis for regionalising a work permit scheme. Would you like to comment on that?

Dr Martin Ruhs: Sub-regional schemes are often set up partly for political reasons, perhaps because some regions are in decline and are trying to attract workers. Obviously there is the enforcement issue of how to prevent people from leaving their jobs and taking up work elsewhere. The answer depends partly on whether you have enough internal enforcement capacity. Under tier 2 in the UK, work permits are already being issued for specific employers. But as you say, the employer could have offices all over the country.

Lord Turnbull: The employer is also free to redeploy his workers.

Dr Martin Ruhs: Yes, you could have a sub-regional policy that did not allow that, but there would be all kinds of issues and complications with it. Having said that, some countries are doing it. I understand that Switzerland issues some work permits that apply only in particular cantons. My view is that it might be possible but that there are significant enforcement considerations. As you say, what is an employer nowadays, and how many offices might that employer have around the country? That is also an issue.

Dr Jean-Christophe Dumont: If you will allow me, I will take the example of Canada, even if it is in a different context. What I heard in the previous testimony shows from the evidence that we have that the situation is different. Canada has a federal programme and a provincial nominee programme that in 2005 accounted for 7% of total inflow and now represents more than 25%. A recent evaluation of the provincial nominee programme showed that it is quite successful. People tend to stay. Most of those who enter the country through the programme remain in the province. Some will leave. You would always expect a certain number to leave the country or to go elsewhere, but around three-quarters stay in the province.

Enforcement is one element in this, but the question is whether the environment being offered is a good one. Are there job opportunities, is the community a welcoming one, is there a good education system and is the housing affordable? If the province is favourable for settlement, people will stay. Provinces are investing in that quite successfully. The success rate is not 100%, but in most cases it is working.

There is an area where it does not work in Canada: the Atlantic provinces. It is much more difficult to keep people there due to the weather conditions, a much smaller market and the fact that there are fewer immigrants in much smaller communities. There are similar problems in some other provinces, but it is the Atlantic provinces that have retention issues.

Lord Burns: Like Scotland, then.

Dr Jean-Christophe Dumont: Yes. It is not about the programme itself but whether the environment is sufficient to retain people. People need a good reason to go and live in a specific region. If they have good work opportunities and they can make a living, they will stay. However, if you try to enforce something like that through policy, it is most likely that it will not work.

The Chairman: On that extreme weather note, I thank you all for coming along this afternoon, and I am sorry that we kept you waiting. Thank you very much for joining us.