

# **PRELIMINARY REPORT ON MIGRATION**

**11 JULY 2000**

## EXECUTIVE SUMMARY

1. This document is the preliminary report of the PIU/Home Office project on migration. It attempts to look at migration as a policy issue in the round: beginning with theory and background trends, proceeding to a discussion of the current policy framework and the economic and social outcomes it delivers, and concluding with recommendations for policy development.
2. Chapter 1 sets out the background to the report: a clear view, inside and outside government, that we need a new analytical framework for thinking about migration policy if we are to maximise the economic and social benefits of migration to the UK.
3. Chapter 2 discusses the economic theory of migration. This is similar to the theory of trade. So, like trade, migration is likely to enhance economic growth and the welfare of both natives and migrants; and restrictions on migration are likely to have economic costs. But there may be significant externalities – both social and economic – to migration. Moreover, migration is in some ways a more complex phenomenon than trade. People move for a variety of reasons, by no means all economic. And migration is not a one-way, one-off process. We conclude this chapter by looking at the empirical evidence: while far from definitive, it appears to support the conclusion that migration promotes economic growth.
4. Chapter 3 argues that the conventional picture of UK post-war migration was never the whole truth; and is conspicuously inadequate to describe current realities. Migration to the UK has risen sharply. This rise appears to be largely driven by economic forces, and is occurring across all categories – from work permits to asylum. It reflects a number of factors:
  - economic globalisation;
  - increasing economic integration and labour mobility within the EU;
  - increased political instability around the world;
  - the current strength of the UK labour market.
5. All but the last are related to globalisation; and are therefore not likely to reverse. Migration therefore appears to be on a secular upward trend. Indeed, over the medium to longer term, migration pressures will intensify in Europe as a result of demographic changes. But this should not be viewed as a negative: to the extent that migration is driven by market forces, it is likely to be economically beneficial. On the other hand, trying to halt or reverse market-driven migration will be very difficult (perhaps impossible) and economically damaging.
6. Chapters 4 and 5 examine the policy framework. Chapter 4, focusing on Home Office Aim 6, argues that it is clearly correct that the government has both economic and social objectives for migration policy. However, the current aim could be developed, and made more operational, to reflect better the overall objectives of the government, and the role of other Departments. Chapter 5 summarises current policy. It views migration policy as a continuum, running from entry controls to settlement to integration; thus, it covers not only entry control and settlement policy,

but also reviews other policies that impact on the post-entry integration of migrants into UK economy and society.

7. Chapter 6 then analyses the economic and social outcomes of policy, both for the migrants themselves and for the UK as a whole. The principal findings are the following:

- Migrants are very heterogeneous, differing at least as much from each other as they differ from the general population. There is some evidence that migrants are concentrated at the upper and lower ends of the skill and income spectrums.
- Migrants are reasonably successful in the labour market, with higher average incomes than natives, though lower activity rates. The key determinants of success are education and English language fluency, which interact in complex ways. Key barriers to migrant labour market success are lack of general knowledge about the UK labour market; restrictions on access to employment; and lack of recognition of qualifications and/or access to certification/re-certification.
- Migrants are highly concentrated where there is excess demand for labour: both geographically and in certain sectors, both high and low skilled. Perhaps as a result, there is very little evidence that native workers are harmed by migration. There is considerable support for the view that migrants fill labour market gaps, hence improving productivity and reducing inflationary pressures. However, continued skill shortages in some areas, and substantial presence of irregular migrants in others, suggests that legal migration is, at present, insufficient to meet demand at either the low or high-skill ends of the labour market. Migrants' impacts on congestion and other externalities are difficult to estimate, but may be important.
- The broader fiscal impact of migration is likely to be positive, because of migrants' favourable age distribution. Again, employment is a key determinant.
- Not enough is known about migrants' social outcomes. Migrants are not disproportionately involved in crime, nor do they disproportionately claim benefits, although once again there is considerable heterogeneity. As with natives, lack of employment is highly likely to be correlated with exclusion; in the case of migrants, this may be exacerbated by, and interact with, lack of English language fluency and more general lack of knowledge about UK society.
- The more general social impact of migration is very difficult to assess. Benefits include a widening of consumer choice and significant cultural contributions; these in turn feed back into wider economic benefits.

8. Chapter 7 and 8 assess the policy framework in the light of these outcomes, and make recommendations for policy development. In Chapter 7, several broad themes emerge about the present system:

- the entry control system is quite flexible in some areas, but not in others, and the different entry controls are not joined up;
- the entry control system is not closely related to the stated policy objectives. This is particularly true in the social area, where the – implicit and unvalidated – assumption has largely been that keeping people out promotes stability;
- there has been a little more consideration of economic objectives, but only in some areas, and in no great depth;

- securing the successful integration of migrants has not been a priority either in designing entry and settlement controls or post-entry policies.
9. Chapter 8 argues that, as a consequence, actual performance in relation to objectives is likely to be significantly sub-optimal in three key areas:
- The labour market: current policy does not meet demand either at the low or the high skill end of the labour market. This inflicts significant economic costs.
  - Irregular migration: because current policy does not meet the demands of the labour market at the lower end, it has led to high and increasing levels of irregular migration. This is both unsustainable and undesirable in economic, social and political terms.
  - The entry control system is not joined up with other areas of government policy, and post-entry policies do not address socio-economic objectives. In practice, entry controls can contribute to social exclusion, while there are a number of areas where policy could enhance migrants' economic and social contribution, in line with the government's overall objectives, but is failing to do so.
10. Finally, policy development is constrained by public opinion and the current tone of public debate. But policy could be significantly improved, through a combination of the following measures:
- a move to a simple, transparent and market-based system for high-skilled workers;
  - the introduction of a legal channel for low-skilled migration;
  - a post-entry migration policy, designed to ensure that migration does indeed achieve the government's economic and social objectives.
11. If the broad thrust of this is accepted, then it follows that there is one further indispensable prerequisite. A new approach to migration needs to be underpinned by a clear strategy for public opinion and public debate. Such a strategy would explain in concrete terms the economic and social benefits of migration; but would also emphasise the rights and responsibilities of migrants.

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# MIGRATION: PRELIMINARY REPORT

## 1. Background

1.1 The report of the PIU Strategic Challenges project, identified “a new approach to immigration” as a key challenge for UK government policy over the medium term. Based on the project’s analysis of the drivers of change, it argued current policy did not fully take into account a number of important influences and trends:

- globalisation, both economic and cultural;
- demographics, including the ageing population in the UK and Europe;
- EU enlargement;
- changes in public attitudes towards immigration and multiculturalism
- evolution of international rules;
- continuing pressure on the asylum system;

1.2 It concluded:

“The UK thinks of itself as an open economy; and when it comes to goods, services and capital it is. The benefits are clear and widely accepted. Yet not only the potential economic benefits of a more open immigration policy, but also the social and cultural benefits, are often ignored. All of these will become more important in a globalising world. Meanwhile, public attitudes have shifted and will continue to shift. An alternative approach to immigration policy would recognise the dynamic benefits of openness and treat immigration as an opportunity rather than a threat.”<sup>1</sup>

1.3 Similar themes were raised by the Home Secretary, who argued that “there is a danger if undue emphasis on control, especially in the face of asylum pressures, denies us the opportunity to develop migration policies with a longer term social or economic benefit.”<sup>2</sup> The Berlin Conference on Progressive Governance in the 21<sup>st</sup> century also highlighted the connections between economic globalisation and migration, concluding: “At a time of great population movements we must have clear policies for immigration and asylum. We are committed to fostering social inclusion and respect for ethnic, cultural and religious diversity, because they make our societies strong, our economies more flexible and promote exchange of ideas and knowledge.”<sup>3</sup>

1.4 It was therefore agreed by EA(PC) and by the PIU Steering Board that the PIU and the Home Office would jointly undertake work designed to assess the economic and social benefits and costs of migration; this would help to provide an analytical framework for policy thinking within the Home Office and other Departments on this topic. This report represents the initial output of this work. Further details on the research team, the sources and individuals consulted, and the project methodology are at Annex 1.

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<sup>1</sup> Report of the Strategic Challenges Project, Performance and Innovation Unit, January 2000.

<sup>2</sup> EA(PC)(00)3, 2 March 2000

<sup>3</sup> Communiqué of Heads of Government, Berlin Conference on Progressive Governance, June 2000.

## **2. The economic theory of migration**

### **The determinants of migration**

2.1 In a world of perfect information, zero transaction costs, free movement of factors, and so on, people would simply move to wherever their marginal productivity was highest. Based on this basic insight, economic models of migration, not surprisingly, tend to be based around the economic incentives facing migrants.

2.2 Labour mobility is much more complex, and less subject to the currently available tools of economic analysis, than capital mobility. Even very large differences in returns (wages) are not sufficient to induce migration in most people. And incentives other than economic – personal ties, cultural affinities, etc – are very important. Among the factors that enter into the migration decision are the following:

- labour market conditions in both the source and destination countries;
- laws and policy in both countries;
- information and information flows (which may be accurate or otherwise);
- chain migration effects (at the ethnic group, local/village, or family level);
- transport and transaction costs;
- capital constraints (which may influence potential immigrants ability to pay transport costs); and
- almost anything else that affects the desirability of living/working in the destination as opposed to source country, from ethnic or political violence to climate.

2.3 From the policy point of view, what is most striking is that given this long list, the policy debate in the UK seems largely predicated on a view that immigration is almost entirely within the control of policy, operating via the legal and administrative mechanisms of immigration controls. In other words, while economists' models of migration focus on individuals' decisions and the incentives they face, policymakers – and the public – have an internalised model of a pent-up “flood” of immigrants; if the tap is opened a little bit, more will come in, while if it is closed a little bit, fewer will come in. As the discussion in this report shows, this is not the case.

2.4 Another conceptual trap is the view of “the immigration decision” as a one-off. In practice, people migrate, for economic, family, or other reasons; they may initially intend to stay temporarily and then return or move on to a third country, or to settle; <sup>4</sup> in any case, they may subsequently change their minds and do something else. Globalisation increases the number and complexity of these flows: for this reason, we refer wherever possible to migration and migrants, rather than immigrants.

### **Does migration promote economic welfare?**

2.5 Economic migration is normally a voluntary market transaction between a willing buyer (whoever is willing to employ the immigrant) and a willing seller (the

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<sup>4</sup> The team leader for this project has “migrated” [according to the standard definition – moved between countries, intending to stay at least a year] four times since 1992, and will do so again in August 2000.

immigrant), and is hence likely to be both economically efficient and beneficial to both parties. Indeed, the basic economic theory of immigration is very similar to that of trade; and, like trade, immigration generally is expected to yield welfare gains. “As long as the marginal productivity of labour differs in various countries, the migration of labour is welfare improving.”<sup>5</sup> If all markets are functioning well, there are no externalities, and if we are not concerned about the distributional implications; then *immigration is welfare-improving*, not only for immigrants, but (on average) for natives.

- 2.6 One key difference between immigration and trade, however, is that – unlike goods or capital - immigrants are, as discussed above, economic and social agents themselves, with a degree of control over the immigration decision. So unlike goods or capital, immigrants are self-selected. Partly as a result, immigration is most likely to occur precisely when it is most likely to be welfare-enhancing. Countries which are abundant in labour will have lower wages than countries which are abundant in capital; workers will, if labour is mobile, have an incentive to migrate from the former to the latter, improving resource allocation overall.

*Distributional implications*

- 2.7 However, like trade, immigration has distributional implications. In general, immigration increases the supply of labour (and human capital); this is likely to reduce wages for workers competing with immigrants, and increase returns to capital and other factors complementary to immigrant labour. In general, this redistribution will favour natives who own factors of production which are complementary to immigrants; and hurt those who own factors of production which are substitutes.

*Market failures and externalities*

- 2.8 The analysis above assumes that markets are functioning well; in particular, that the labour market clears. If this is not the case, then the result may be different. For example, if there is a floor under wages (for example, because of a minimum wage) and immigration leads to the market wage for some native workers falling below that floor, then immigration may lead to an increase in native unemployment. While overall output will not fall, output per head and output attributable to natives may do so.
- 2.9 Immigration may also have externalities, both positive and negative, which impact on natives:
- congestion: immigrants could increase congestion in some areas, imposing costs directly on native workers and businesses;
  - neighbourhood benefits or disbenefits: immigrants could help to regenerate depressed neighbourhoods, or the reverse;
  - intangible social and human capital: immigrants may have attributes – entrepreneurialism, for example – that generate benefits for natives;
  - crime: immigrants might increase or decrease the crime rate if for whatever reason they were more or less prone to engage in crime;

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<sup>5</sup> Zimmermann, K., Labour Market Impact of Immigration, in Immigration as an Economic Asset: The German Experience, IPPR, 1994.



- diversity: natives may gain (tangible or intangible) benefits from interacting with immigrants from different backgrounds and cultures.

2.10 Immigration will also generate costs and benefits for government, which can be viewed as another (collective rather than individual) form of externality for natives:

- on the cost sides, immigrants will consume public services, and may be entitled to some social security benefits;
- on the benefit side, immigrants will pay taxes, both direct (if they are in work) and indirect.

#### *Long-run and Dynamic Effects*

2.11 In general, conventional equilibrium analysis would suggest that supply responses would act to mitigate the effects of immigration in the long run.<sup>6</sup> However, it is possible to imagine cases (generally reflecting increasing returns to scale) in which the long-run impact of immigration is greater than the short-run. For example, immigrants might bring with them the knowledge/entrepreneurial ability to start a new industry/industry cluster, which then expanded to employ natives and to encourage natives to start their own businesses in the same sector.<sup>7</sup>

#### **The bottom line...**

2.12 Theory suggests that immigration should have a positive effect on growth, but an ambiguous one on growth per capita (depending on the capital level of immigrants – if immigrants’ capital – human and physical - is on average similar to or superior to that of natives, the effect should be positive). However, as with trade, static estimates of the magnitude of such effects are small.

2.13 It is extremely difficult to estimate empirically the effect of migration on economic growth across countries, for two reasons. First, migration does not “cause” growth: the relationship is likely to run in both directions. Second, growth is affected by numerous other factors, and identifying the effect of migration is far from trivial. There is a substantial economic literature directed at this type of analysis – for example, looking at the effects of educational expenditure, or political freedom, on economic growth. This literature has not looked at migration (probably for data reasons). Of some indirect relevance are studies that have looked at population structure: summing them up, an OECD review recently concluded that “falling dependency ratios were likely to add positively to growth of per capita incomes.”<sup>8</sup> Given the normal age structure of migrants, that would imply that immigration would be likely to raise per capita income.

2.14 We have attempted to replicate this type of analysis for migration in European countries.<sup>9</sup> The results suggest that, as theory would predict, migration has had

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<sup>6</sup> For example, if immigration raises the return to capital, investment will increase, eventually reducing the marginal return back to its long-run equilibrium.

<sup>7</sup> This type of technology transfer/learning-by-doing mechanism is similar to that advanced in the trade literature to argue that trade liberalisation has dynamic as well as static economic benefits.

<sup>8</sup> Policy Influences on Economic Growth in the OECD Countries, OECD Economics Department Working Paper 246, June 2000, Sanghoon Ahn and Phillip Hemmings

<sup>9</sup> We regressed annual growth in the period 1991-1995 on gross immigration in the same period, and GDP at the start of the period, for 15 European countries for which Eurostat migration data was available over a reasonably long period. To deal with the causality issue, gross immigration was instrumented in two ways – the stock of resident foreigners at the beginning of the time series (1981) and

positive effects both on growth and on growth per capita. An increase in gross immigration of 1 person per 1000 resident population is associated with an increase in GDP of between 1.25 and 1.5 in a 1000. In UK terms, that means that one extra immigrant would be associated with an increase in GDP of about £18-22,000, compared to our GDP per head of about £15,000.

- 2.15 It should be emphasised that this type of analysis must be regarded as suggestive at most. There are a number of complex methodological issues here. However, the results are reasonably consistent with theory, with common sense, and with the more micro level results on immigrants' incomes described below.

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total gross immigration in the period 1987-1991. The results were similar in both cases (and with other alternative specifications).

### **3. Key trends**

#### **History**

- 3.1 A brief (thematic rather than comprehensive) discussion of the history of migration to Britain since the Norman Conquest is attached at Annex 2. As it shows – and at the risk of belabouring the obvious - Britain is a country of immigration and of emigration. The myth of a genetically and culturally homogeneous “white” population, to which was added a Jewish element in the late 19<sup>th</sup> and early 20<sup>th</sup> century, and a non-white element after World War II, is worse than just an oversimplification: it is positively misleading. Britain has always been relatively open, and the British population is now, as it always has been, the result of successive influxes of immigrants and the racial and cultural intermixture of those immigrants with those who were already there.
- 3.2 It is also reasonably clear, if impossible to quantify, that Britain has benefited considerably, in both economic and cultural terms, as a result. In retrospect, those benefits are widely accepted. Few (even those who do not have some Jewish or Huguenot ancestry!) would dispute that the Huguenots and the Jews have made major contributions to the British economy and society. Indeed, there is by now even some degree of consensus that Britain has benefited from the postwar immigration from the New Commonwealth.
- 3.3 We may pride ourselves in retrospect on our hospitality towards Jewish refugees, at the turn of the century and during the Nazi era; in fact, the actual record was mixed at best – and positively shameful in some respects. Similarly, blatantly racist attitudes towards immigrants from the New Commonwealth came not just from extremists or working-class communities, but from politicians and policy-makers at the highest level.

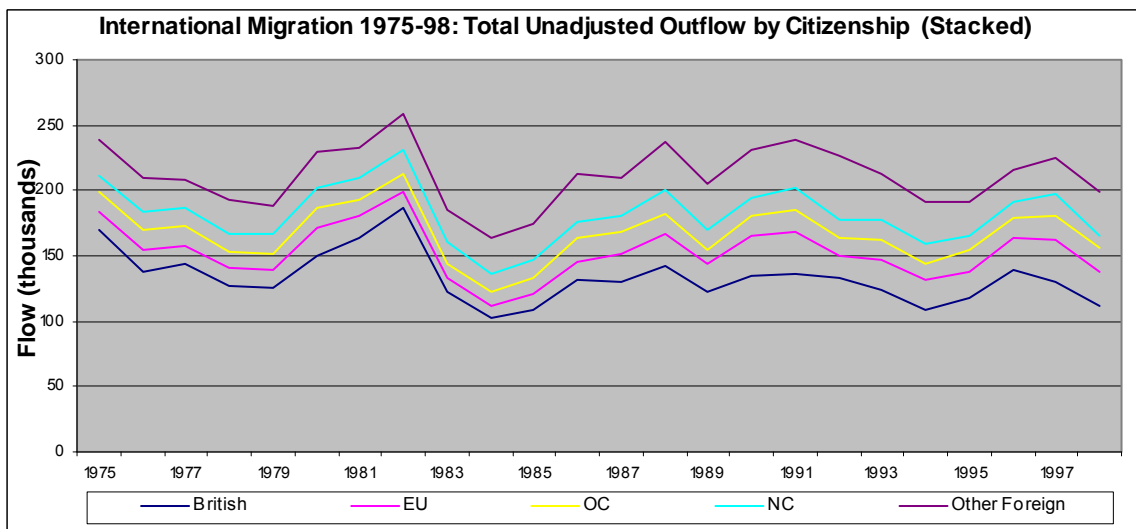
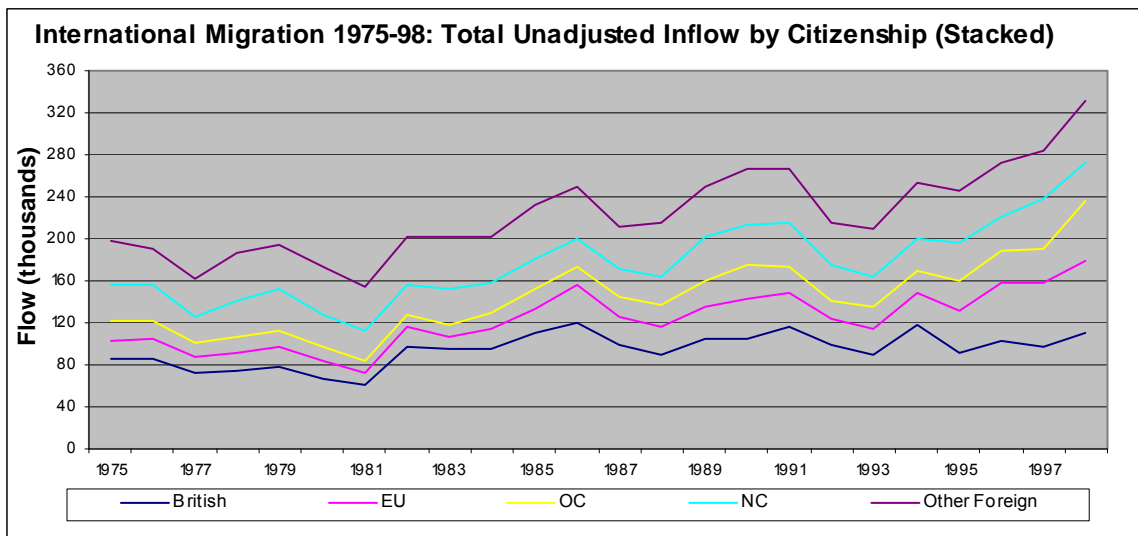
#### Immigration to the UK after WWII

- 3.4 The other key point that emerges from more recent history is that the conventional picture of post-war migration is, at best, an over-simplification. The standard account focuses on immigrants from the “New Commonwealth” (i.e., non-whites), with immigration seen as a succession of “waves”: first Caribbean, then Indians, then Bangladeshis (and perhaps now asylum-seekers). While at first migrants were welcomed as a valuable source of labour, racial tension led to successively tighter restrictions on immigration; by 1971 primary immigration from the New Commonwealth had largely come to an end. Many argued that immigration policy had been “settled”, with the following implicit deal:
  - no more primary non-white immigration, but some family reunion
  - no major changes to or much public discussion of the immigration system;
  - no repatriation of immigrants or their descendants; and
  - (to some extent) the promotion of equal opportunity and anti-racism so as to facilitate the integration of non-white immigrants (and their descendants).
- 3.5 There is some truth to this, but it presents a very partial and incomplete description. Just as it is a myth that Britain was a tolerant haven for Jews fleeing Nazi persecution, it is also a myth that there was a golden age of colour-blind immigration policy. Immigration was primarily a market-driven response to supply

and demand, rather than a policy-driven one. Nor is the picture of mass primary, and one-way, immigration in the 1960s and 1970s, reduced to a trickle thereafter, really accurate; inflows did not fall that much after 1971, and throughout the period there was substantial return migration.

3.6 Finally, immigration from the New Commonwealth, while an important demographic and social phenomenon, is by no means the whole story:

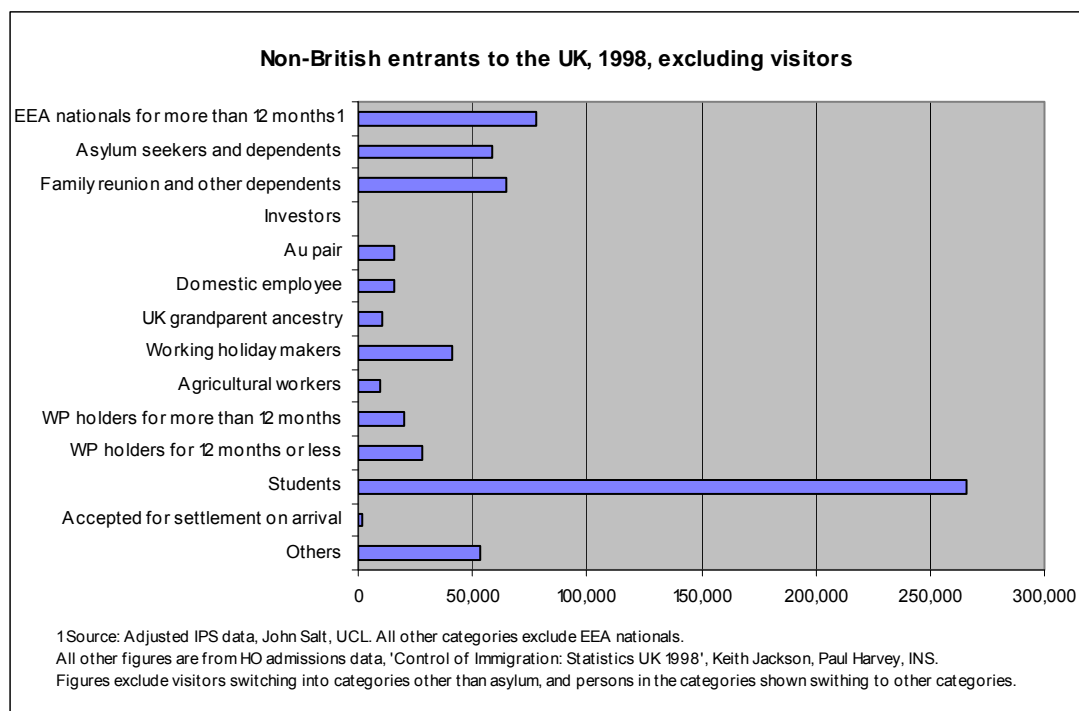
- there was substantial net emigration throughout the 1950s, 1960s and 1970s;
- there was substantial, two-way, Irish migration;
- there has always been significant, largely uncontroversial, labour-related migration via the work permit and other systems; and
- gradually, and with relatively little public debate or concern, the UK has become part of a European labour market.



## Recent trends

3.7 The conventional picture was never really the whole truth. But it is conspicuously inadequate to describe current trends. Net migration to the UK has risen sharply over the last few years. This seems to reflect the following factors:

- **Economic globalisation**, the most important example of which is the success and growth of the City of London. To refresh its intellectual capital, the City requires a continual infusion of new talent, as well as interchange with other such centers like New York. Globalisation also reduces transport and transaction costs, making it easier for people to move back and forth; and it improves and increases information flows, making people more aware of opportunities in other countries.
- Related to this, increasing **economic integration**, and in particular labour mobility, within the EU (as well as the declining effectiveness and enforcement of border controls – itself a consequence of economic integration).
- More problematically, globalisation has also seen **increased instability** in a number of countries (both in Central and Eastern Europe and Africa). And the fall in transaction costs, as well as having the obvious effect of making transport cheaper, enables the establishment of social and logistical networks that in turn allow people to come here, legally or otherwise.
- Britain's current **relatively strong labour market** (compared to most other EU countries).



3.8 The rise has been in all categories, across the board, not just in asylum-seekers or work permit holders. Econometric analysis (see below) shows that it has been closely correlated with economic developments, both short-term (the UK labour market) and long-term (the growth in trade and capital flows). Some interesting conclusions flow from this:

- Asylum and illegal entrants and overstayers (and, to some extent, even family reunion migration) are driven by economic forces as well as political ones.

Research shows that asylum flows are driven by political factors and perceived economic opportunity, rather than the availability of benefits or social services.<sup>10</sup> Illegal entry – difficult to measure, but probably increasing, and closely related to asylum – is also obviously an economic phenomenon.

- It makes little sense to view – as current policy and public debate appear to – the different categories that we place people in for immigration control purposes as conceptually distinct. People move in response to economic and other incentives, and they will switch between different migration categories in response to those same incentives.
- As a consequence of the above, it will be very difficult indeed to constrain the growth in migration. Policy can force migrants to shift from one category to another: for example, restricting economic/work related categories will induce some migrants to try to enter by the asylum route; restricting the right or opportunity to claim asylum will in turn induce some to enter illegally. But successfully controlling the overall numbers through immigration control policy is likely to be very difficult.
- And most importantly, it would clearly be counterproductive. As discussed in more detail in section 6, migration is essential to growth in some areas. Certain regions and sectors are highly dependent on migration, not just of work permit holders, but also of “working holidaymakers” and probably to some extent also of illegal entrants and overstayers.

## **EU aspects**

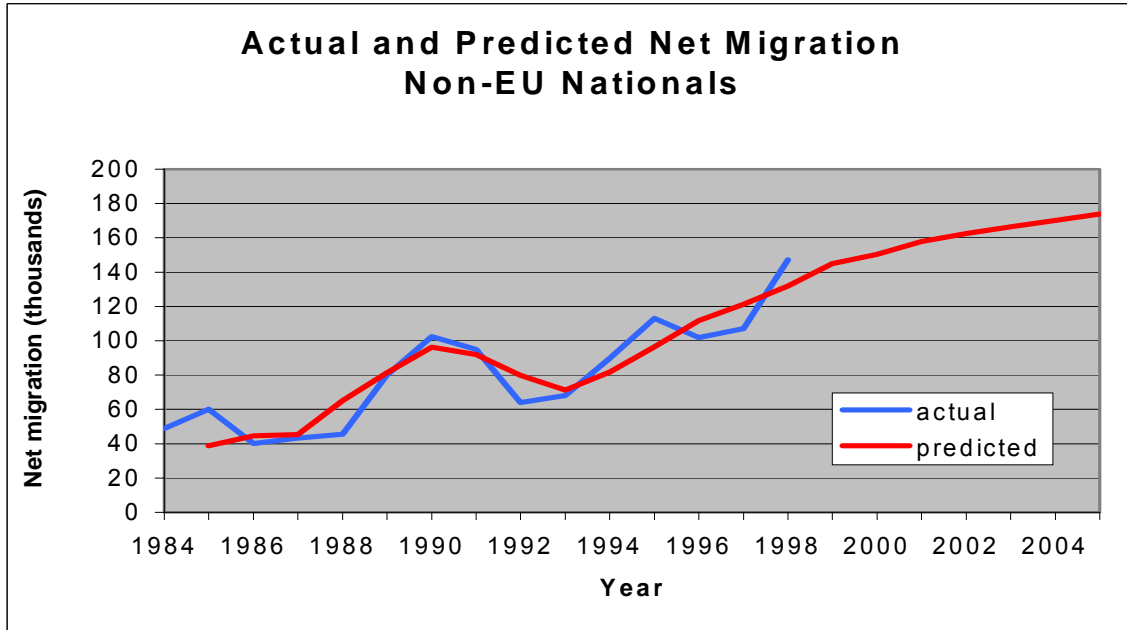
- 3.9 Not surprisingly – given the integrated nature of the European economy - the picture for the rest of Europe is not dissimilar. Historically, the origin and flows of migration to other European countries have depended – in addition to policy constraints, of course – on the countries’ relationships with former colonies, recruitment for outside labour during shortages in the post-war era, and proximity to war-torn areas. The poor European countries (Ireland, Italy, Greece, Portugal, and Spain) were traditionally countries of emigration, while the former imperial nations to the north (Belgium, France, Germany, Netherlands, UK) received a large influx of migrants after World War II.
- 3.10 But now all countries in Europe have a positive net migration, although the patterns of migration remain distinct with the sources of immigration differing by country. Scandinavian countries, Belgium, and Luxembourg have mostly European foreign migrants. France’s migrants have traditionally been from North Africa since the late 1950s and early 60s and this remains true today (64% of today’s immigrants are from outside the EU.) Portugal, which only recently began to feel the impact of immigration (due to its large emigrant population), has attracted many Cape Verdeans and Brazilians. Germany experienced the largest increase in absolute terms, due to waves of immigration from Central and Eastern Europe before German reunification. But despite these differences, EU countries have been increasingly affected by common factors, such as the Bosnian and Kosovan conflicts, and the recent rise in asylum seekers. With relatively restrictive attitudes towards legal economic migration, family reunification has increased in many countries as a legal means of entry.

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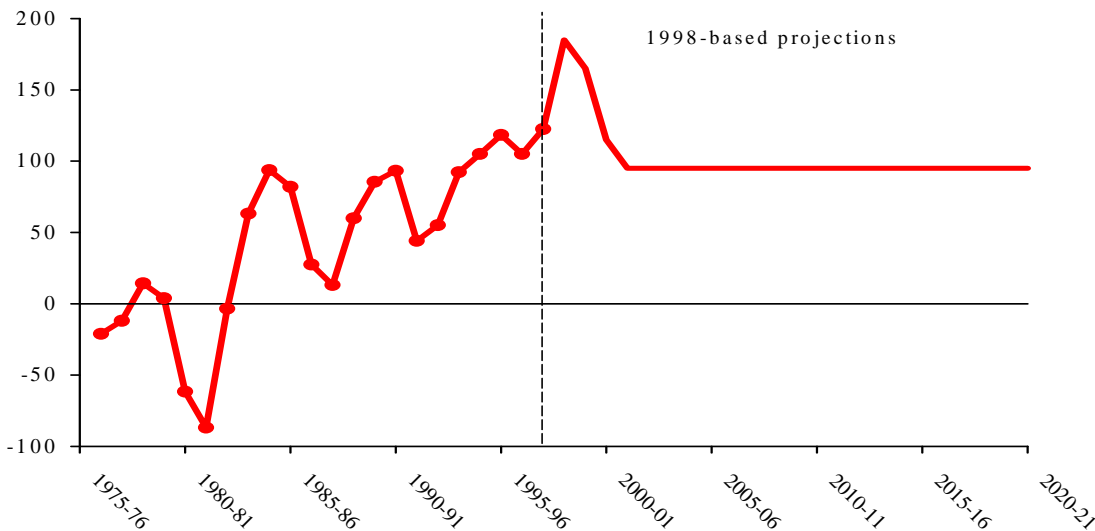
<sup>10</sup> [paper on asylum flows in Europe]

**Future prospects**

3.11 If the correlation described above continues, net migration to the UK (and to Europe) appears likely to continue at a historically high level in the short to medium term.



3.12 The graph shows actual net migration (of non-UK nationals) and a simple regression-based prediction. As can be seen, the regression performs rather well in predicting fluctuations in net migration. On this basis, the short to medium term trend would appear to be clear. This would seem to suggest that the ONS assumptions, shown below, are rather conservative:



3.13 Of the factors driving this trend, only the relative labour market position of the UK (being at least in part cyclical) is likely to reverse. While the economic cycle may in the short term result in some decline from the unusually high net migration

levels of the last few years, the long-term secular trend is likely to be increasing for at least the medium term. Moreover, we know that there are hysteresis effects: both because migrants acquire legal rights around family reunion, and because of chain migration effects.

3.14 Over the longer term – say 5-20 years – the pressures from outside seem if anything likely to grow:

- The decline in transaction costs driving globalisation will continue. In other contexts it has been argued that this could reduce the importance of location, and hence the incentive to move. However, this effect seems in practice to be outweighed by the – often intangible – economies of scale that only physical co-location can provide. Hence, rather than the predicted growth of teleworking, globalisation has actually led to the growth of industry clusters – the City and Silicon Valley.<sup>11</sup>
- Refugees generated by conflict have impacted on UK immigration policy numerous times in recent years (Uganda, Sri Lanka, Somalia, Afghanistan, Kosovo,). While geopolitics is more difficult even than economics to forecast, there are strong reasons to believe that the frequency of such conflicts is likely to increase.<sup>12</sup> There will be more Kosovos.

3.15 Another force that is likely to have powerful effects over the longer term is the aging of the UK and European populations. All European countries have fertility rates below replacement levels. With no net migration, the working age population of the UK would fall by about 2 million in the next 25 years, while the population over 65 would rise by more than 3 million; the support ratio would fall from more than 4 to less than 3.<sup>13</sup> For the EU as a whole, the support ratio will fall even further, to 2.66. This will, of course, have huge implications for the financing, provision and staffing of health, social service and pension systems.

3.16 Net migration of about 120,000 a year – less than in 1998, but somewhat higher than the ONS projections - would be required to keep the UK's working age population constant. But stabilising the support ratio would require net migration of nearly a million a year.

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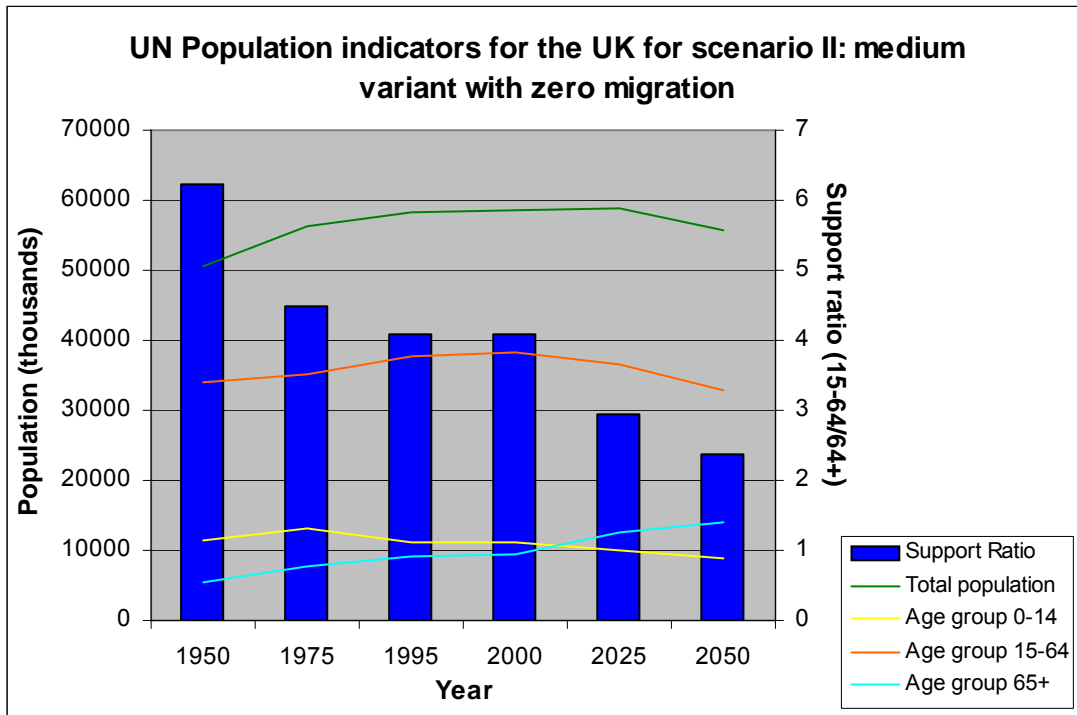
<sup>11</sup> These trends are discussed in more detail in the Strategic Challenges project paper, “The future and how to think about it”,

[http://www.cabinet-office.gov.uk/innovation/2000/Strategic/strategic\\_mainpage.htm](http://www.cabinet-office.gov.uk/innovation/2000/Strategic/strategic_mainpage.htm)

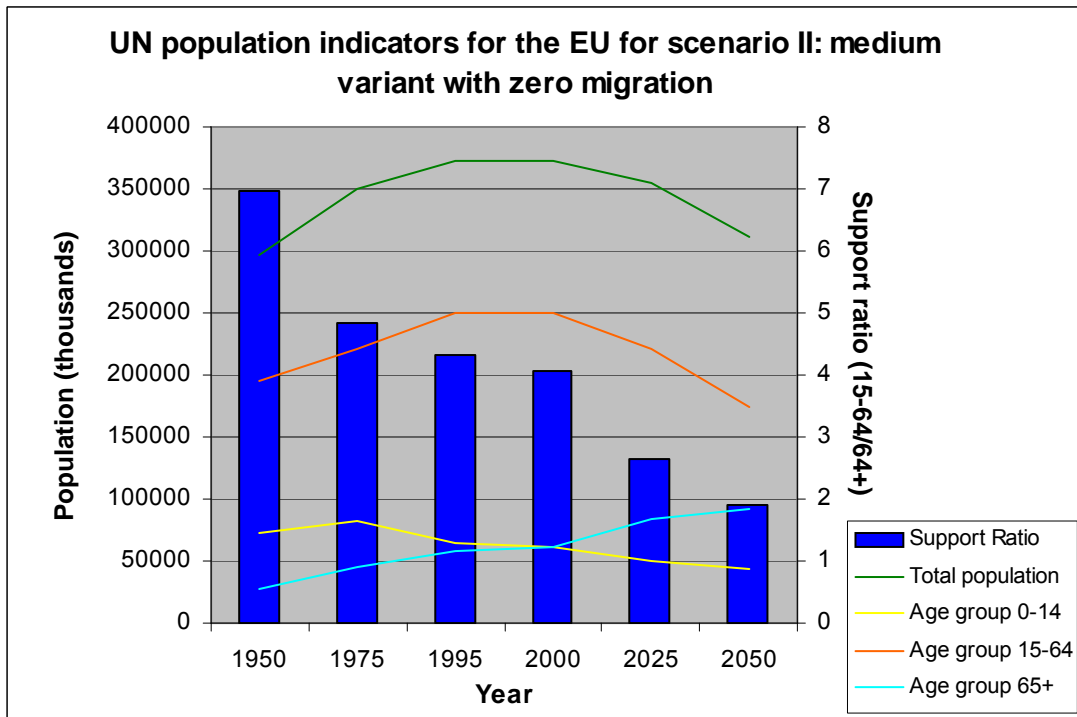
<sup>12</sup> The recent MOD Strategic Context paper argues that “such factors [exclusion, environmental and demographic trends] are likely to lead to increasing instability in many regions; ...refugees and displaced persons may be a growing phenomenon.”

<sup>13</sup> The support ratio is defined here as the ratio of the population aged 15-64 to that aged 65+.





Source: United Nations Report, 'Replacement Migration: Is it a solution to Declining and Ageing Populations?', March 2000, table IV.18.



Source: United Nations Report, 'Replacement Migration: Is it a solution to Declining and Ageing Populations?', March 2000, table IV.22.

3.17 The interaction of demographic change, macroeconomic forces and migration is a complex one. One way or another, the aging of the population will have to be addressed: presumably by some combination of net migration, an increase in the average working life, changes to entitlements, increases in contributions (either tax-based or private), and increases in productivity. There is no "right" level of net

migration to address demographic change. But three conclusions can tentatively be drawn from these trends:

- They will increase the economic incentives to migration, simply because, in the absence of migration, there will be strong upward pressure on wages (and downward pressure on unemployment); and as we have seen, a tight labour market will draw people in.
- They will increase the economic costs of restricting migration, because in the absence of migration labour market shortages – both general and sector-specific – will emerge, putting pressure on inflation and reducing growth. As noted above, the empirical economic evidence suggests that allowing the dependency ratio to rise would reduce (per capita) growth.<sup>14</sup>
- In addition, the alternative to migration may often be tax increases, which would also have an adverse economic effect.

3.18 More speculatively, these factors may in turn change the political economy of migration in both the UK and Europe, since immigrants will appear less like a threat and more as a way to avoid the more unpleasant alternatives of tax increases, benefit cuts, and economic stagnation.

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<sup>14</sup> Policy Influences on Economic Growth in the OECD Countries, OECD Economics Department Working Paper 246, June 2000, Sanghoon Ahn and Phillip Hemmings

## 4. Objectives of Current Policy

- 4.1 The preceding two chapters attempted to establish, primarily from an economic viewpoint, why migration is significant, and what the key exogenous trends are. In the next two chapters we examine policy: what are its objectives and the shape of the current framework. The Home Office's principal migration related aim, and associated targets, are shown in Box 4.1.

### BOX 4.1: Home Office Aims and Objectives

#### **Home Office Aim 6:**

*Regulation of entry to and settlement in the United Kingdom **in the interests of social stability and economic growth**, and facilitation of travel by United Kingdom citizens.*

#### **IND Key objectives:**

##### **Controlling admissions**

To control immigration into the UK by identifying and denying admission entering or attempting to enter in breach of Immigration Rules and removing them where applicable, while inconveniencing as little as possible those entitled or qualified to enter.

##### **Asylum and after-entry casework**

To determine claims for asylum and other in-country applications from foreign nationals wishing to vary the conditions attached to their stay in the UK.

##### **Determining citizenship**

To determine applications for British citizenship

##### **Enforcing immigration law**

To remove from the UK those here in breach of the Immigration Rules and to target those seeking to profit from abuse of the immigration laws.

##### **Providing asylum support**

To provide support, while their applications are being determined, to asylum seekers who would otherwise be destitute.

*IND targets, under their Public Service Agreement, are process targets, eg:*

- *To maintain the number of airline liaison officers at 20*
- *To remove 91% of non-asylum refusals*
- *To reduce average waiting time for citizenship applications to 15 months*

4.2 For comparison, Box 4.2 shows the aims and objectives of Citizenship and Immigration Canada.

**BOX 4.2: Mission of Citizenship and Immigration Canada**

CIC's mission is to build a stronger Canada by:

- deriving maximum benefit from the global movement of people
- protecting refugees at home and abroad;
- defining membership in Canadian society; and
- and managing access to Canada

The current Immigration Act has rather more specific and measurable objectives:

*Economic Integration:*

- To support the development of a strong and prosperous Canadian economy, in which the benefits of immigration are shared across all regions of Canada
- To see that immigrant and refugee families are reunited (including children up to 21 years old) to support their self-sufficiency and social and economic well-being

*Social Integration:*

- To promote the successful integration of permanent residents into Canada, while recognising that integration involves mutual obligations for new immigrants and Canadian society;

*Asylum Provision:*

- To offer safe haven to persons with a well-founded fear of persecution based on race, religion, nationality, political opinion or membership in a particular social group, as well as those at risk of torture or cruel and unusual treatment or punishment;
- To grant, as a fundamental expression of Canada's humanitarian ideals, fair consideration to those who come to Canada claiming persecution;

*Crime Reduction:*

- To promote international justice and security by denying access to Canadian territory to foreign nationals, including refugee claimants, who are criminals or security risks.

4.3 We will discuss below the interrelation between the current immigration control system, and other migration-related policies, and economic growth and social stability. But first it is worth considering whether this Aim is in fact a good and operationally useful description of the government's overall objectives for migration policy. Box 4.3 shows the government's overall objectives, and the overarching Aim of the Home Office and other departments that might have an interest in migration policy:

**Box 4.3: High level government objectives**

The government's overall objectives are:

- To increase sustainable growth and employment
- To promote fairness and opportunity
- To deliver modern and efficient public services

Relevant departmental aims:

DTI: to increase competitiveness and scientific excellence in order to generate higher levels of sustainable growth and productivity in a modern economy

DFEE: to give everyone a chance, through education, training and work, to realise their full potential and thus build an inclusive and fair society and a competitive economy

HO: to build a safe, just and tolerant society, in which the rights and responsibilities of individuals, families and communities are properly balanced, and the protection and security of the public is maintained

DCMS: to improve the quality of life for all through sporting and cultural activities, and to strengthen the creative industries

HMT: to raise the rate of sustainable growth, and to achieve rising prosperity, through creating economic and employment opportunities for all

DSS: to encourage work for those who can and security for those who cannot, the modern social security system will provide clear and enforceable gateways to enable people to meet their responsibilities and take the opportunities available to them.

FCO: to promote internationally the interests of the United Kingdom and contribute to a strong world community.

4.4 Taking these together, what can we conclude about the contribution of migration policy? Migration policy has both social and economic impacts, and it must be right that it should contribute to the government's overall objectives on both counts. However, there are a number of inconsistencies with the current aim:

- "Social stability" is neither a high level government objective, nor the aim of any individual department. Rather, the government aims to help create a fair, tolerant and inclusive society, with opportunity for all. Indeed, it might be argued that such a society could be described, not as stable or unstable, but dynamic. Moreover, running throughout the above high level objectives are the themes of social inclusion and of rights and responsibilities; these are clearly relevant to migrants, but are not captured in the aim.
- The current phrasing might be taken to imply that there is a trade-off between economic growth and social stability, with more of one implying less of another. In fact, our analysis of the economic and social outcomes of migration suggests that the two go hand in hand: an economically beneficial migration policy will also have positive social impact, and vice versa.

- Aim 6 relates only to control, rather than to post-entry policies: yet the latter are at least as important in determining migrants' contribution – positive or negative – to society. Migrant settlement is a two-way process, depending both on the willingness and ability of the migrant to adapt and integrate, *and* on the extent to which the host society provides access to economic, social and political life. Significantly, neither the debate on social exclusion, nor the indexes used to measure it, have hitherto embraced migrants as a category to be considered<sup>15</sup>.
- While the Home Office has responsibility for immigration control policy, migration has a wide range of impacts with relevance across government, not only to the Home Office. Most notably, DFEE, via the Overseas Labour Service, is responsible for the primary channel of economic migration, the work permit system. But DFEE has **no** economic targets or objectives for OLS; in fact OLS was not mentioned either in the PSA White Paper or the last DFEE Annual Report! DFEE also has responsibility for maximising the number of overseas students; but it is Home Office Rules which regulate their entry.
- Related to this, it is difficult to measure and operationalise the current Aim 6; this is demonstrated by the Home Office targets, which bear little or no relation to the aim.

4.5 This suggests, not that Aim 6 be discarded, or that the twin themes of economic growth and positive social impact be changed, but that it be developed, and made more operational, to reflect better the overall objectives of the government, and the role of other Departments.

4.6 We therefore suggest that it would be appropriate to have a cross-cutting PSA reflecting the broader objectives of the range of departments with an interest in migration, in particular the DFEE, the DTI, DSS and the FCO. Such a PSA would reflect the Government's overall objectives and the contribution that migration policy might make.

**Box 4.4: Proposed PSA for Migration Policy**

Aim: to promote sustainable growth and a stable, secure and tolerant society

Objectives might be:

- to regulate admission and settlement to the UK in the interests of sustainable growth and social inclusion
- to enable and encourage migrants to the UK to make the greatest possible contribution to sustainable growth and competitiveness
- to ensure migrants fulfil their responsibilities and are fairly treated
- to promote the contribution of migrants to social inclusion

4.7 This is intended primarily as an illustrative example as what a more developed, cross-cutting set of objectives might look like. We will therefore not discuss in detail the quantifiable targets or performance indicators that might be associated with the objectives. However, section 6 – which looks at the social and economic outcomes of migrants – should be read with this illustrative list in mind.<sup>16</sup>

<sup>15</sup> Opportunity for all, Tackling poverty and social exclusion, First annual report, Cm4445, 1999

<sup>16</sup> The range of indicators used to measure social exclusion include education, training and qualifications, housing, health, children in care, reliance on benefits, teenage pregnancies, employment and incomes,

## **5. Current policy**

5.1 Migration policy is a continuum, running from entry controls, to settlement, to integration. Thus, this section examines not only entry control and settlement policy, but also reviews other policies that impact on the post-entry integration of migrants into UK economy and society.

### **The current system of control over entry and settlement**

5.2 Immigration control is the responsibility of the Immigration and Nationality Department (IND) of the Home Office; the work permit system is administered by the Overseas Labour Service of DFEE. DFEE is also responsible for policy (but not the entry) of overseas students. Entry clearance is administered by the Home Office/FCO Joint Entry Clearance Unit.

5.3 At present, migrants (by which, in this context, we mean people who are coming for longer than a short visit) may gain entry to the UK through the following channels:

- the work permit system;
- a number of smaller work-related categories (including the working holidaymaker scheme, business visitors, etc);
- as students;
- the ‘asylum’ system; and
- the ‘family settlement’ system.

5.4 Of course, not all these migrants either wish to or are entitled to settle permanently in the UK. As set out earlier, some remain for only a few months; others for years; and some settle permanently. Others may arrive initially as visitors, and subsequently decide to stay longer, either legally or otherwise. In addition, nationals of EEA member states – as well as, of course, British citizens living abroad – have effectively unrestricted rights to settle in the UK.<sup>17</sup> It should not be forgotten that more than 80 million people entered the UK in 1998, a rise of [] over the last decade. Of these, perhaps ½ of 1 percent were migrants.

### Work permits

5.5 The work permit system aims to strike a balance between enabling employers to recruit or transfer skilled people from non-EEA member states and protecting job opportunities for resident workers. Principle features are:

- employers apply for permits which are granted if the criteria are met: there are no limits or quotas on the number of permits issued;
- the criteria are based around jobs requiring high level skills or, in certain known specialist areas (‘Keyworkers’), intermediate skills;

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rough sleepers, drug use, life expectancy and fear of crime. Some of these are discussed below. However, neither the debate on social exclusion, nor the indexes, have embraced immigrants and refugees as categories to be considered.

<sup>17</sup> The right is not completely unqualified: EEA nationals are supposed to have sufficient funds to support themselves without recourse to public funds. .

## **RESTRICTED – POLICY**

- for some posts the employer needs to show there is no suitable EEA worker. But this is waived in many circumstances, including known shortage areas, intra-company transfers, board level posts and posts associated with inward investment;
  - the immigration authorities generally accept a work permit as evidence for a decision to admit an overseas national to the UK;
  - there is relatively little post-entry control on the type of work that work permit holders actually do, or on switching between jobs (especially within the same company).
- 5.6 In 1999 there were about 80,000 work permit applications of which 88% were approved; the figure has been rising at about 10-15% per year. After 4 years, work permit holders may apply for settlement (except for Keyworkers). In practice a relatively small proportion appear to settle permanently in the UK. For example in 1998 3,160 work permit holders settled in the UK (although we do not know how many settled via other routes – for example by marrying a UK citizen).
- 5.7 The dependants of work permit holders are entitled to remain in the UK during the period for which the permit is valid, providing they can be supported without recourse to public funds. They have full entitlement to work (if their spouse's work permit is for more than a year), even if the job that they then fill would not meet the work permit criteria. In 1998 20,200 dependants entered with work permit holders. The work permit system is discussed in more detail in Box 7.2 in section 7.

### Other labour-related categories

5.8 Other entrants coming here for broadly economic reasons include the following:

- Working Holidaymakers. This category is open to individuals aged 17-27 from Commonwealth countries. In practice, the vast majority of applicants are from the “Old Commonwealth”. They are allowed to stay for up to 2 years, and are permitted to work in non-professional jobs. Originally intended as a way for young people taking a “trip around the world” to support themselves by working in bars and restaurants, there is anecdotal evidence that many people on this scheme are actually working in London schools, NHS hospitals and the City. Post-entry control is weak to non-existent.
- The Seasonal Agricultural Workers scheme. This allows a relatively small number of workers (the current quota is 10,000) to enter for a period of up to [3 months]. This category too was originally intended primarily to promote cultural interchange for young people from Eastern Europe, but now is entirely driven by the economic requirements of agriculture.
- Commonwealth citizens with a UK-born grandparent taking or seeking employment (about 2,000 were granted settlement in 1999).
- Smaller business related categories, including those establishing a new company; investing significant amounts; and nationals of countries with Europe/Association Agreements with the EU . Relatively few (a few hundred) people enter each year under these schemes, although the new “innovators” category aims to increase this number.



## Students

5.9 Students with a university place or studying in a recognised private institution are given leave to enter, although they can be denied entry if it is thought they intend to remain after completing their course. (12% applications are refused, rising to 20-25% from parts of Asia and Africa). Nevertheless, after completion they can remain for a year on the Training and Work Experience Scheme (TWES) and subsequently apply for a work permit.<sup>18</sup> 266,000 students were given leave to enter in 1998.

5.10 The Prime Minister launched a three year strategy in June last year to attract an additional 75,000 HE and FE students to the UK. The aim is to increase the UK's share of the English speaking HE market from 17% to 25%, and to double the number of FE students, to earn the UK an additional £700m in export earning. Research had established that immigration and work restrictions were affecting the UK's ability to attract students; relaxation of the rules, and a more 'user-friendly' visa service, is part of the package. The strategy includes:

- £5m marketing campaign with new 'brand' for UK education
- Sponsored Education Fairs and Exhibitions
- Ministerial promotion on overseas trips
- Streamlined immigration procedures to facilitate entry and extensions
- Relaxing rules for students and their spouses to work during and after study
- Increased number of government scholarships. £26m was spent on Chevening Scholarships, supporting 3,250 students, in 1997/8; with further investment in complementary schemes.

5.11 The result was an 18% increase in applications for visas to study in the UK in 1999. 73% of UK HEIs now have an international recruitment strategy. Post-graduate students are considered particularly important. DTI and British Council provide financial and practical support in recruiting abroad.

## Asylum

5.12 The asylum system for refugees operates in accordance with the UK's obligation under the 1951 UN Convention Relating to the Status of Refugees and its 1967 Protocol Convention, granting refuge in the UK on humanitarian grounds, to those "with a well-founded fear of persecution". However, large-scale migration to the UK of asylum seekers under the Convention is a relatively new phenomenon; the number rose from 4,000 in 1988 to 71,000 in 1999. There is a wide spread of source countries; the largest include Sri Lanka, Somalia, Turkey, former Yugoslavia, and China.

5.13 The proportion of those seeking asylum either recognised as refugees or granted leave to enter varies significantly according to the mix of applicants: from 80% during the Kosovo crisis, to 15% in February of this year, to 40% in May. Of those refused asylum only a small proportion are removed from the UK each year, although current policy is directed at increasing that proportion substantially. It is

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<sup>18</sup> The recent Work Permit Review found that the procedures were non-transparent and anomalous in some respects. Access to TEWS and, subsequently, to the normal work permit system is currently being streamlined; for example, it will be possible for an ex-student to apply for a work permit from within the country.

unclear how many of those who are not removed leave the UK voluntarily, and how many remain (illegally or via another category, for example marriage).<sup>19</sup>

5.14 Research indicates that the principal motivations for asylum seekers to come to the UK are the following:

- historical or colonial connections;
- the existence of an established community;
- perceived economic opportunity;
- perceived generosity of the asylum determination system.<sup>20</sup>

5.15 By contrast, there is little evidence that the generosity (real or perceived) of the benefit system, or of social service provision in general, plays much of a role in asylum seekers decisions.

#### Family settlement system

5.16 People who are settled in the UK have a right to bring their dependent children and spouses to the UK, subject to various qualifying criteria (non-recourse to public funds, intention to live together, etc.). Waiting times, especially for applicants in the Indian sub-continent can be very long – up to a year simply for a first interview – and verification procedures are often perceived as intrusive and sometimes discriminatory. Under certain circumstances, parents, grandparents and other relatives can also join UK residents. In 1999, about 65,000 family members settled in the UK; of these, about 25,000 were the wives of primary settlers, 15,000 husbands, 20,000 children and 4,000 parents, grandparents and other dependants. This represented an increase of about 20% on 1998, which in turn was 15% up 1997.<sup>21</sup>

#### Illegal migration

5.17 In 1998, more than 16,000 illegal entrants were detected, of whom 5,600 were removed from the UK. (Around 40% were from Europe, 30% from the Indian subcontinent; 15% from Africa.) A further 4,300 people who had breached their conditions of stay (mainly overstayers, or working without leave) were detected. The number of illegal entrants detected has been on an upward trend, sharply so since 1993. We do not know to what extent this reflects an increase in the number of illegal entrants actually resident, or entering. However, given that all other categories of migration were rising in this period, especially those directly related to economic incentives, and given that the upward trend has been consistent – so not simply reflecting the step change in enforcement that took place in about 1995 – it seems highly probable that illegal migration was also increasing fairly quickly. Of those detected, the greatest growth has been in those from Europe, reflecting rises in people from Eastern Europe. We have very little idea how many illegal entrants or overstayers are currently resident.

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<sup>19</sup> All of the statistics included in the introduction are from the Government Statistical Service publication: 'Control of Immigration Statistics, United Kingdom, 1998'.

<sup>20</sup> ref

<sup>21</sup> In part, but by no means entirely, this increase reflected the delayed effect of the abolition of the "primary purpose rule" (delayed since settlement is granted one year after entry), and so represents the one-time clearing of a backlog of potential applications

## **Policies which impact on integration**

5.18 Virtually all areas of government domestic economic and social policy impact on migrants. In this section, we highlight the key policies; how these policies impact on the economic and social outcomes and impact of migrants is discussed in the following section. The area of policy with the most significant impact on integration is that on entry and settlement controls, restricting access to employment and family reunion.

### Access to employment

5.19 For migrants entering with work permits, or in one of the many other work related categories, such as au pairs, employment at some level is either required or permitted. Many overseas students are now also permitted to work, as are those entering as spouses. Rules preclude access to most jobs in the civil service, with some exceptions for Commonwealth and EU citizens.

5.20 The principal group officially excluded from employment is those waiting for a decision on refugee status. After 6 months, asylum seekers may apply for permission to work but the uncertainty of their status, and the number of months or years that they may be available to work, makes access to employment problematic. Those denied refugee status, but granted leave to remain, are entitled to work. There is currently no targeted provision in New Deal for refugees or those arriving under family categories. Documentation setting out entitlement to work and services is not provided. Nor is induction to the UK labour market. Some international qualifications are recognised (e.g. medicine from South African universities) facilitating access; others are not (e.g. medicine from US universities).

### Access to housing, health, education and benefits

5.21 Access to health, housing and welfare services is determined by immigration status. Those subject to immigration restrictions, whether spouses with accompanying children during their first 12 months, those on work permits or au pairs, are not entitled to any welfare benefits or social housing. [Entry to the UK is, for family members, dependent on evidence that they can be supported without recourse to public funds]. For grandparents, the restrictions on access to benefits and social housing remain for 5 years. Entitlements vary as the individual's status changes during a determination process. All migrants are entitled to emergency health care. Those remaining more than one year may use the NHS. Dependent children may attend state schools. Those 'settled' in the UK can obtain grants for higher education and pay home fees.

5.22 Support for newly arriving asylum seekers with no means of support is the responsibility of the Home Office National Asylum Support Service (NASS). Arrangements for dispersing them to designated areas across the country began in April 2000. The object of the system, which minimises cash payments and provides only a basic level of support (70% of income support), is to reduce the perceived financial incentive for asylum seekers to come to the UK. NASS is also intended to provide national coordination of services and relieve local authorities of a sometimes difficult responsibility.

5.23 Under the new dispersal arrangements, asylum seekers who receive a final decision will have to move out of their accommodation within 14 days. Those

eligible will receive advice on access to housing and benefits. A Home Office consultation paper has proposed a one-stop-shop advice service for those granted permission to stay.

#### English language training

5.24 Migrants to the UK are not required to learn English and no targeted assistance is currently given to adults, with the exception of some of the dispersed asylum seekers for whom local education authorities make provision. Since the 1960s, resources have been given to schools to provide language tuition, initially to the children of Commonwealth immigrants, more recently to children lacking English as a first language. Local authorities have to provide matching funding. Provision is uneven and HMI are seriously concerned about the skill levels of the teachers involved. The DfEE has earmarked an additional £1m to support asylum-seeking pupils in dispersal areas in 2000/1.

#### Family reunion

5.25 Spouses of an existing resident, and children accompanying a spouse, may only enter to reunite the family if they can do so without recourse to public funds, and the family has suitable accommodation for them. The rule applies even if the spouse has the potential to enter the labour market and provide support for the family. Asylum seekers who receive leave to remain may not apply for family reunion until a further 4 years have passed, even if they are employed and can support them. Overseas students and work permit holders may bring their spouses and children.

#### Equality

5.26 Since the mid 1960s, the UK has had progressively stronger legislation penalising employers and service providers who discriminate – directly or indirectly – against individuals on grounds of ethnic origin (but not religion, except in Northern Ireland). The legislation, when effective, benefits the significant minority of migrants who are not white. It is currently being amended to extend its provisions to cover public services such as the police, prison and immigration service; and to require public authorities to promote racial equality. Legislation to protect minorities from racial harassment and violence has also been strengthened.

#### Civic and cultural involvement

5.27 UK multi-cultural policy recognises the value of cultural diversity and funding is given at national and local level to promote cultural activities. Groups can also attract funding for self-help activities. It was originally intended that young people coming for working holidays, on the seasonal worker scheme (and presumably as students) would foster cultural exchange and return with a positive perception of Britain. However, in relation to those on working visits there are no policies directed at ensuring that this happens in practice. Little is known about the extent to which longer term residents participate in civic society.

#### Citizenship (nationality) policy

5.28 The government believes that 'encouraging citizenship will help to strengthen good race and community relations' and that 'one measure of the integration of immigrants into British society is the ease with which they can acquire

citizenship'.<sup>22</sup> Immigrants and refugees without restrictions can apply for UK citizenship after 5 years residence. There is an application fee of £120-150. While few obstacles are put in their way, there is no policy to encourage applications, other than to try to reduce the waiting time for a decision to 12 months. There is no ceremony. The significance of citizenship status is primarily access to a British passport and the ability to pass the nationality down to their children. However, it also entitles individuals to vote in local, national and European elections, and greater access to employment in the civil service.

Access to voting and candidature

5.29 British Citizens can vote in local and national elections, and those for the European Parliament. Citizens of Commonwealth countries can vote in local and national elections. European Union Citizens can vote in local elections and those for the European Parliament. Other immigrants and refugees cannot vote nor be candidates for election.

Legal flexibility to accommodate cultural / religious customs

5.30 The UK has been relatively flexible in allowing changes to the law that enable religious minorities to, for instance, hold marriages and funerals in the manner required by their religion. Sikhs are allowed to wear turbans instead of the otherwise compulsory crash helmet on motor bikes. Other groups do not benefit from this flexibility. It is not known what impact such rules have on migrants' attitudes to residence here.

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<sup>22</sup> *Fairer, Faster and Firmer, op cit* CM 4018.

## **6. The economic and social outcomes of migration**

6.1 Having described the current policy framework, we now proceed to examine outcomes. The impacts of migration are broad and varied across the economic and social spheres - with significant overlap and interaction between the two. Analyses often seek to measure 'benefits' and 'costs'. But it would be a mistake to define either too narrowly, or to attribute either impact to the migrants alone.

6.2 This section examines the various aspects of migration to the UK, looking at the outcomes that result from current policies. Where possible, we provide comparisons about the characteristics and impacts of migrants in other European nations, with the recognition that social and economic systems differ throughout Europe (Annex 3 examines the EU policy context in more detail). The principal findings are:

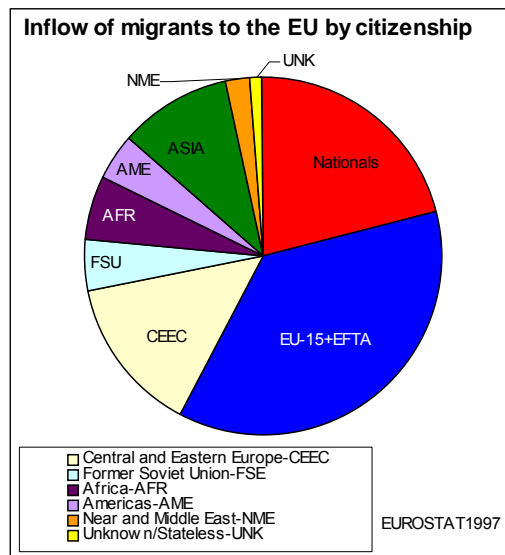
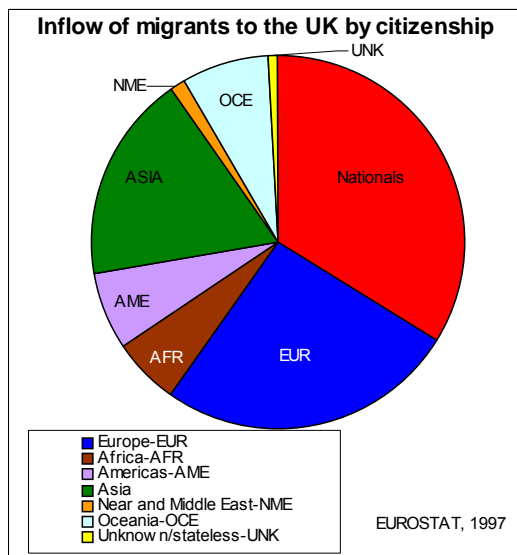
- Migrants are very heterogeneous – differing at least as much from each other as they do from the population at large, in many dimensions.
- Migrants are reasonably successful in the labour market – with higher average incomes than natives but lower activity rates. Education and English language fluency are key determinants of success and interact in complex ways.
- Migrants are highly concentrated where there is excess demand for labour – both geographically and in certain sectors. Perhaps as a result, there is very little evidence that native workers are harmed by migration. Continued skill shortages in some areas (and substantial presence of irregular migrants in others) suggests that legal migration is, at present, insufficient to meet demand. Migrants' impacts on congestion and other externalities are difficult to estimate, but may be important.
- The broader fiscal impact of migration is likely to be positive, reflecting migrants' favourable age distribution.
- Not enough is known about migrants' social outcomes. That said, the lack of employment is a key cause of wider social exclusion, and we do know that migrants are not disproportionately involved in crime, nor do they disproportionately claim benefits (though once again there is considerable heterogeneity).
- The more general social impact of migration is very difficult to assess. Benefits include a widening of consumer choice and significant cultural contributions (e.g. in the arts, literature, science and sport); these in turn feed back into wider economic benefits.

6.3 In all of the following, there is much that we do not know: for the UK and for other countries. Migrants are a small part of many datasets and are difficult to identify with precision in these sources. To use data on ethnic minorities would exclude the majority of migrants who are white, and include the majority of ethnic minorities who are not migrants (having been born in the UK). Annex [] explores these issues in more detail.

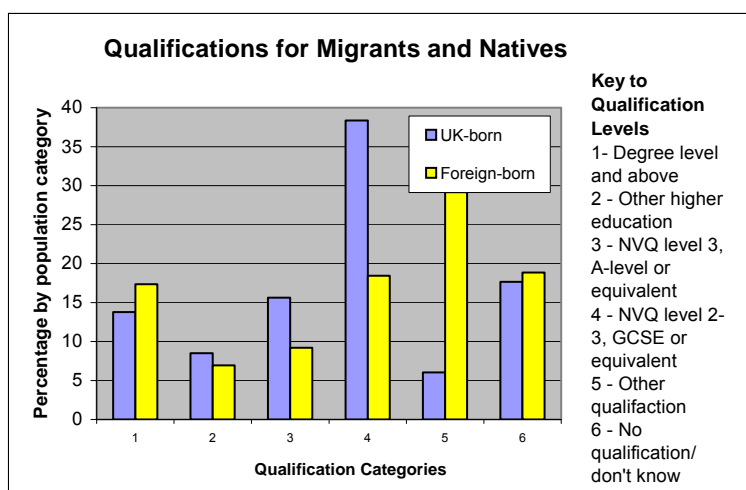
### **Characteristics of migrants**

6.4 As noted above, migrants are very heterogeneous – differing across many dimensions, and at least as much from each other as they do from the population at large.

6.5 There is no principal source country of migration. The largest single identifiable group is UK nationals (mostly returning emigrants, though some are born abroad). Other major sources are the EEA and Asia, but there are significant numbers of immigrants from every region of the world. This pattern of sources is noticeably different from the rest of the EU.



6.6 Education and skill levels are polarised within the immigrant population: that is, there are both more highly educated people, and more relatively unskilled. This polarisation between high and low-skilled migration appears to be a general European-wide phenomenon, suggesting that it reflects general economic and market trends more than country-specific policies.<sup>23</sup> And while asylum seekers and illegal immigrants probably do not show up in these statistics, other research shows they too are very heterogeneous, with a significant proportion of professionals.<sup>24</sup>



6.7 There are also characteristics that migrants will have in common. In particular, the self-selection of migrants is likely to mean that they are likely to be more resourceful, entrepreneurial, and ambitious than the norm – “The cowards never

<sup>23</sup> Reference to Metropolis paper on temporary migration (which argues that migrants to EU are primarily either high or low skill).

<sup>24</sup> The Settlement of Refugees in Britain, Home Office Research Study 141 (1995).

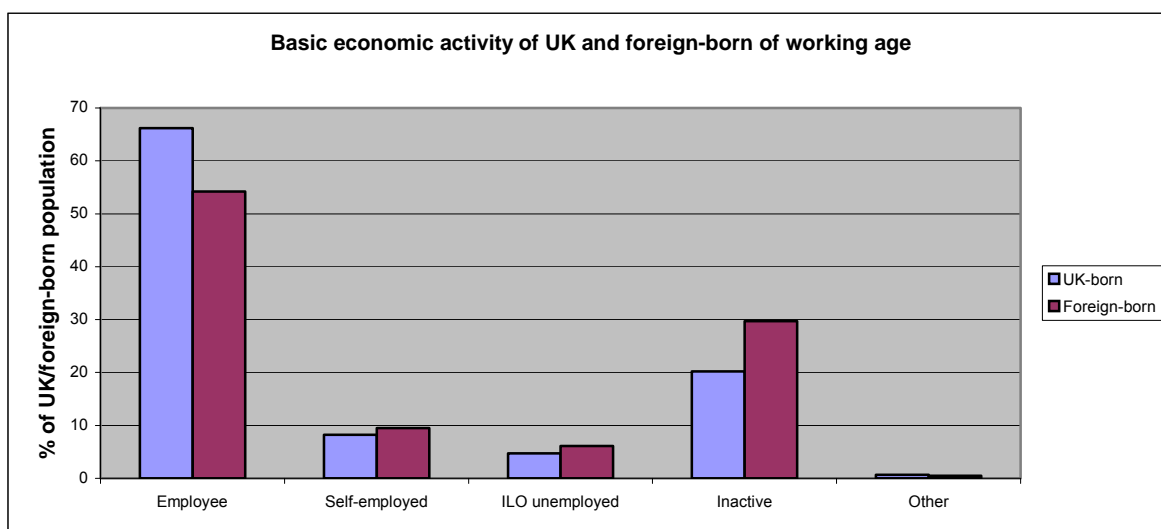
started, and the weak died on the way”<sup>25</sup>. It is more difficult to measure these qualities, because of the more general data problems, and because some are simply not measurable.

**Migrants’ labour market outcomes**

6.8 Migrants are reasonably successful in the labour market. Overall their wages are higher, though migrants are over-represented at both the top and the bottom of the income distribution, and they have lower activity rates than natives. Education and English language fluency are key determinants of success and interact in complex ways.

*Labour market participation*

6.9 Overall migrants are less likely to be employed and more likely to be unemployed than natives. In addition, migrants are half as likely again as natives to be inactive. Migrant activity rates increase with time after arrival in UK, but remain lower than for natives – though lower female participation (reflecting cultural factors as well as skills or opportunities) and the high proportion of students accounts for at least part of this. Levels of entrepreneurship and self-employment also appear to be high among immigrants (and higher among UK immigrants than those elsewhere in Europe).<sup>26</sup>



6.10 In France, non-EU immigrants face a 31.4% unemployment rate, compared to 11.1% for the French. Nearly half of immigrants under the age of 26 are unemployed, twice the rate of French nationals in the same age group<sup>27</sup>. Similarly, migrants are twice as likely to be unemployed as natives in Denmark, three times as likely in Finland, and four times as likely in Holland<sup>28</sup>.

*Wages and incomes*

6.11 On average, immigrants earn rather more (12% on average) than natives, but this conceals considerable variance. In particular, immigrants appear to be

<sup>25</sup> Traditionally said of Irish migration to the US: quoted in Julian Simon, *The Economic Consequences of Immigration into the United States*

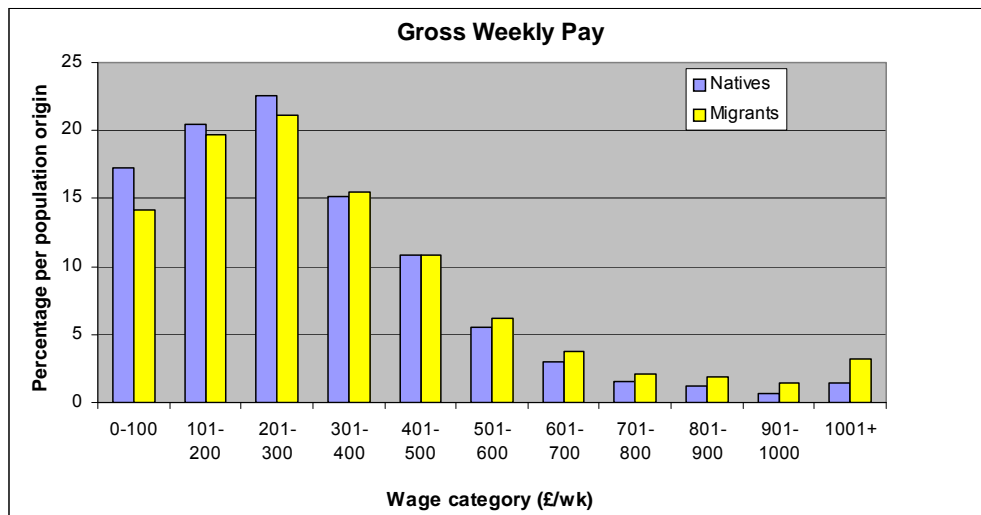
<sup>26</sup> See *Business Week*, “Europe’s Unsung Heroes”, February 28, 2000. And, for example, immigrants are twice as likely to own businesses in Denmark as natives (15% against 7%) – reported by FCO post.

<sup>27</sup> FCO report France.

<sup>28</sup> FCO report Finland and Netherlands; SOPEMI report.



significantly over-represented at the very top of the income distribution (reflecting those with very high wages), and at the bottom of the income distribution (reflecting their higher unemployment rates and lower participation rates). Migrants also tend to concentrate in declining sectors of the economy, as they are less able to match their skills with available opportunities (e.g., language, training or credential equivalence).



*Returns to skills and education*

6.12 UK research has shown that language fluency increases the mean hourly occupational wage for ethnic minority immigrant men by approximately 16½%<sup>29</sup>. Yet less than 60% of these ethnic minority immigrant men are fluent in English. This result is corroborated by similar experiences in other countries, e.g. in Canada and in Holland.<sup>30</sup>

6.13 When a separate effect is isolated for English language fluency, migrants appear to receive similar returns to education to those found for the UK more generally:

percentages	UK males (LFS analysis from Dearden, 1999)	ethnic minority migrant men (Shields and Wheatley Price, 1999)
return on O levels relative to no qualifications	22	16½*
return on A levels relative to only O levels	10½	9
return on a degree relative to only A levels	15½	17

\*O levels and fluent in English against no qualifications and not fluent

6.14 However, other studies have found that migrants’ qualifications are undervalued in the labour market. Bell (1997) and Shields and Wheatley Price (2000) both find that male immigrants receive a lower return per year of education than natives, and that education abroad is valued less than education in UK (using the GHS and LFS respectively). But, at least part of this result may be reflecting the effect of English language fluency (which is not identified separately in these studies).

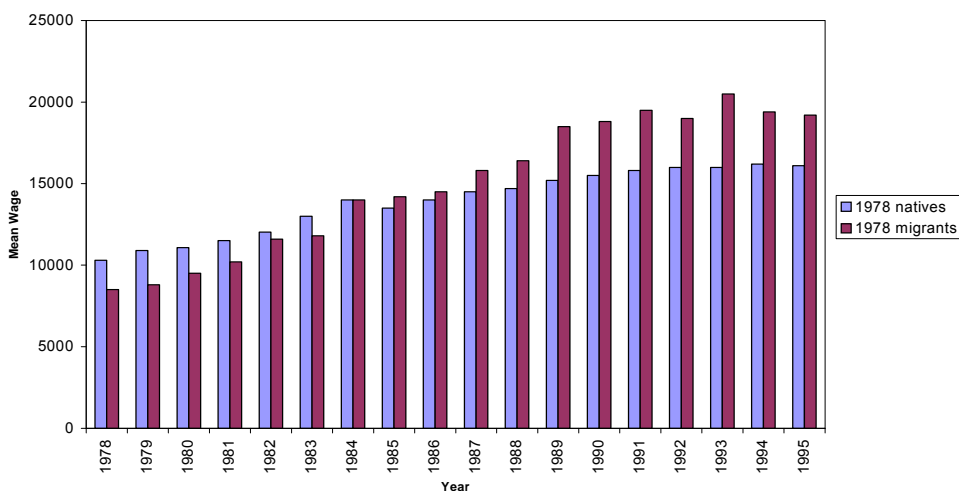
<sup>29</sup> Michael A. Shields and Stephen Wheatley Price, ‘The English language fluency and occupational success of ethnic minority immigrant men living in English metropolitan areas’, 1999 – using the PSI (1997) dataset.

<sup>30</sup> The most reliable data on migrant success and language skills is from Canada. See[]. See also Peter Kee and Hans van Ophem, “Immigrant Wages in the Netherlands: the Role of Dutch Language Proficiency,” in *Migrants in the European Labour Market* by Şaziye Gazioğlu.

*Migrants’ labour market outcomes over time*

6.15 There is a substantial literature in the US showing that immigrants generally begin by earning less than natives, but catch up and eventually overtake them – known as the “assimilation hypothesis”. UK research suggested that such overtaking did not generally occur for migrants to the UK<sup>31</sup>. However, recent research using National Insurance data suggests that UK migrants do appear to replicate the US pattern and to overtake native earnings after a certain period in the UK.<sup>32</sup> A similar pattern can also be seen in the economic activity data (see para 9).

A chart to show wages for those aged 25-30 in 1978 by migrant status (in 1997 prices)



*Other barriers to employment*

6.16 Supply-side barriers also contribute to immigrants’ lower labour force participation rates. Discrimination is pervasive in the EU labour markets and few governments have anti-discrimination legislation protecting ethnic or racial minorities, let alone immigrants.<sup>33</sup> A survey found that many employers across the EU are reluctant to hire refugees because of their ignorance about refugee issues and fear of the culture incompatibility.<sup>34</sup>

**Box 6.1: Refugee Doctors**

The *BMA News Review* says “Britain is squandering the talents of people who want nothing more than to get back into medicine at a time of national shortage of doctors.” It estimates there are 1000 doctors in this position in the London area, many of whom are doing unskilled casual jobs. There are criticisms that the language test doctors are required to pass is of a higher standard than expected from graduates from UK medical schools. But the real problem is the absence of any support and guidance to refugees on how to retrieve their medical career. An exception is a two year course at Hendon College to prepare doctors for the language test and refresh their medical skills. Having passed the test, it remains difficult to find a post because they have no references from UK jobs.

<sup>31</sup> Chiswick (1984) and Bell (1997), though the data set for each is relatively small.

<sup>32</sup> HM Treasury, unpublished research note.

<sup>33</sup> In June 2000, the Council of Ministers agreed on a directive prohibiting racial and ethnic discrimination in the workplace.

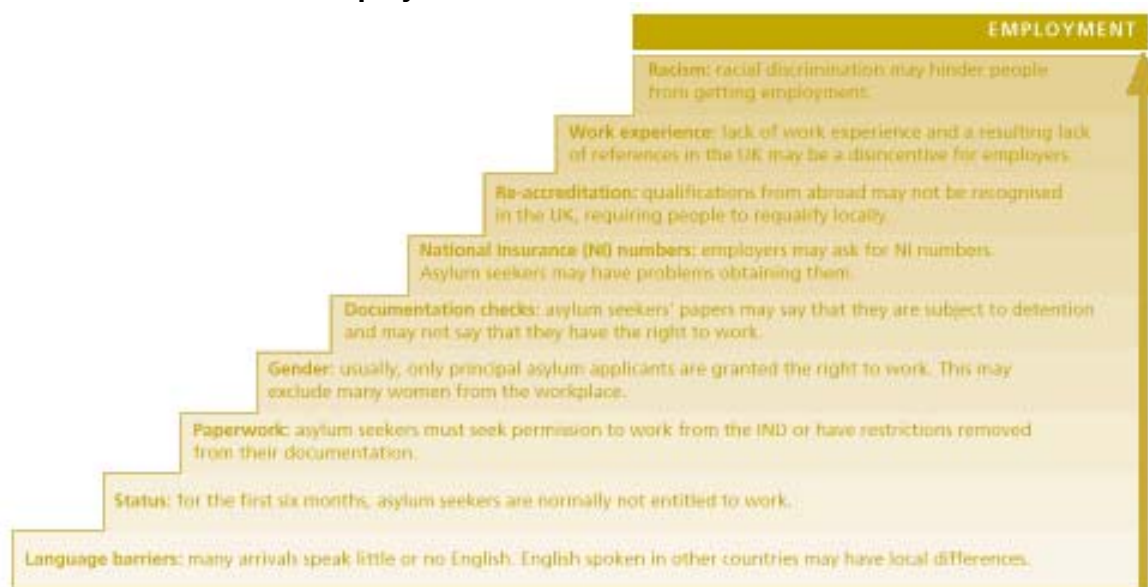
<sup>34</sup> Refugee Council, ECRE Task Force on Integration, *Refugees and Employment: the European Context*, November 1999.

Dr Nayeem Amim came from Afghanistan in 1993, heard about the Hendon course in the local paper and is now a GP Registrar in Dunstable, Bedfordshire. "This country saved me and now I have a chance to give something in return" he says.

Dr Mohammed Ibrahim arrived in Britain from Somalia in 1994. He worked as a security officer while studying English, supporting a wife and six children. "I didn't know my way through the medical system, there was no real support available and I didn't know whether my qualifications would be acceptable." His housing trust then sponsored him to do an MSc in epidemiology which he completed in 1997. He then heard about the Hendon course and is now studying for the language tests.<sup>35</sup>

6.17 These difficulties are most marked for refugees: a survey of 236 qualified and skilled refugees in London in 1999, who were entitled to work, found that 42% of those with refugee status and 68% of the asylum seekers were unemployed.<sup>36</sup> Similarly, a 1995 Home Office study found that only 27% of refugees were employed, while 36% were unemployed. This is likely to reflect difficulties in accessing English language training<sup>37</sup>, and a lack of knowledge of the UK job market<sup>38</sup>; as well as more general barriers to employment. These barriers were summarised by the Audit Commission in a recent report<sup>39</sup>:

### The cumulative barriers to employment



Source: p76, Audit Commission (2000)

<sup>35</sup> *BMA News Review* 29 April 2000.

<sup>36</sup> Peabody Trust/London Research Centre *Refugee skills-net, the employment and training of skilled and qualified refugees*. June 1999.

<sup>37</sup> The Audit Commission has reported ESOL classes as heavily oversubscribed, with several authorities having waiting lists of over 200 people.

<sup>38</sup> Duke, A, 1997, 'The resettlement experiences of refugees in the UK, main findings from an interview study', *New Community*, 22(3); found that those who have participated in government training schemes were more successful in obtaining jobs.

<sup>39</sup> Audit Commission, 2000, *Another Country: Implementing dispersal under the Immigration and Asylum Act 1999*.

**The concentration of migrants: sectorally and geographically**

6.18 Migrants can be either complements or substitutes for native labour, depending on the skills and sectors of the native workers. Overall, these effects largely cancel out, with migrants having little aggregate effect on native wages or employment. Migrants are highly concentrated where there is excess demand for labour – both geographically and in certain sectors. Continued skill shortages in some areas (and substantial presence of irregular migrants in others) suggests that legal migration is, at present, insufficient to meet demand. Migrants' impacts on congestion and other externalities are difficult to estimate, but may be important.

*Substitutes and complements*

6.19 As set out in section [2], trade theory suggests that factor mobility reduces returns to the factor that is imported, and increases returns to other factors. So high-skilled migrants, for example, should reduce wages for the high skilled and increase returns to capital and low-skilled workers (if, as seems likely theoretically and empirically, high skilled workers are complements for low-skilled workers).

6.20 Many econometric studies have examined the relationship between proportions of migrants and wages, employment and unemployment rates by region or sector – taking account of the difficult causality issues. Most such studies find little or no effect on the wages or employment prospects of natives, certainly not at an aggregate level.<sup>40</sup> The effect of immigration may be more pronounced for specific sections of the economy and population<sup>41</sup>, and much clearly depends on the economic and social environment, the particular characteristics of the immigrant and native populations and the extent to which they complement, or substitute for, natives<sup>42</sup>.

6.21 There is relatively little work in this area in the UK: what exists is consistent with the US evidence. Gang and Riveria-Batiz (1994) estimate that a 1% increase in immigrant labour will have an effect on native wages that is between +0.02% and –0.08%<sup>43</sup>. Zorlu (2000), basing his work on ethnic minority data rather than on immigrants, produces similar results though the effects are shown to be a little stronger (partly reflecting the biases in the data)<sup>44</sup>. Again, we see that different ethnic groups have significantly different impacts upon other groups. For example, it is shown that ethnic minorities are complements for each other except where they are of similar skill level, whilst they are substitutes for low and medium skilled, and complements for high skilled, non-manual white workers. These results suggest that both substitution and complementarity is occurring but that, in aggregate, the magnitude of these effects is relatively small and uneven.

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<sup>40</sup> The classic study in this field is Card (1990), which looks at the effect of the Mariel boatlift a huge and exogeneous influx of migrants to the Miami area. Borjas (1994) surveys the economic literature, finding no support for the hypothesis that the employment opportunities of US-born workers are strongly and adversely affected by immigration.

<sup>41</sup> For example, in Canada, Akabari and De Vortez (1992) conclude that no significant displacement of native workers, by either old or new immigrants, occurs overall, but that displacement is significant in labour-intensive sub-sectors.

<sup>42</sup> See tables [] in Appendix [] for a summary of empirical studies.

<sup>43</sup> Ira N. Gang and Francisco L. Riveria-Batiz (1994), 'Labour market effects of immigration in the United States and Europe: substitution vs. complementarity'

<sup>44</sup> Aslan Zorlu (2000), 'Ethnic Minorities in the UK: burden or benefit?', Department of Economics, University of Amsterdam.

*Sectoral concentration of migrants*

6.22 The fact that migrants are concentrated in certain industries and sectors where there are labour or skill shortages is clear both anecdotally and from the available data:

- **Health:** 31% of doctors and 13% of nurses are non-UK born; in London 23% and 47% respectively. Half the expansion of the NHS over the last decade – that is, 8,000 of the additional 16,000 staff – had qualified abroad;
- **Education:** In 1995-96, the Higher Education Statistics Agency showed that non-British nationals were 12.5% of academic and research staff, were most likely to be in medicine, science and engineering, and comprise over half the faculty of LSE;
- **IT:** the current gap between the number of qualified IT staff and potential jobs is estimated at 50,000 to 300,000, though the basis of these estimates is unclear;
- **Catering:** an estimated 70% of catering jobs in London are filled by migrants;
- **Agricultural labour:** there is significant excess demand for the Seasonal Agricultural Worker scheme, which is currently limited to 10,000 places per year.

6.23 It is important, however, to distinguish between the different reasons why migrants are concentrated in these sectors:

- In health and education, wages are constrained below market-clearing levels by public sector pay policy, and there are relatively clear procedures for recognising foreign credentials. Migration in these sectors, therefore, benefits the public sector – and hence the general public, as taxpayers and consumers.
- In IT and other private sector professions experiencing skill shortages, wages are unconstrained. But supply is constrained by lags in training natives. In the absence of migration, firms would bid up wages to the short-term market clearing level; after a lag, supply would respond. But the relative flexibility of the work permit system allows firms to import migrants. Migration in these sectors, therefore, reduces the wages of qualified natives (but only relative to what would be a temporary increase over the long-run equilibrium) and benefits firms.
- In relatively low paid and insecure sectors like catering and domestic services, unskilled natives are simply unwilling or unable, through lack of the most basic work-related skills (or a lack of mobility), to take the large number of available jobs. The effect of migration in these sectors is again to benefit firms, but it is not likely that natives are significantly disadvantaged: if migrants do not fill these jobs, they simply go unfilled or uncreated in the first place.

6.24 In all three cases there is significant net economic benefit to the UK from filling the gaps through migration. The result of migration is to reduce inflationary pressures and increase the efficiency of firms. However, several points should be noted:

- High-skilled migration reduces the skill premium (as skilled migrants are substitutes for skilled natives), compressing the income distribution. This represents a further benefit, since it is a market-driven way of reducing inequality and social exclusion. While it may also reduce the incentives for natives to acquire skills, wages are already likely to be above long-run equilibrium in the relevant sectors.
- Conversely, low-skilled migration may widen the income distribution, though provided that migrants are in fact employed this may not be significant (since the

bottom of the income distribution is almost completely composed of people without work, rather than the low-paid). It also depends crucially on whether low-skilled migrants move up the income distribution over time: it may be that migrants are likely to be positively self-selected: hard-working, entrepreneurial, and so on.

*Regional and local impacts of migration*

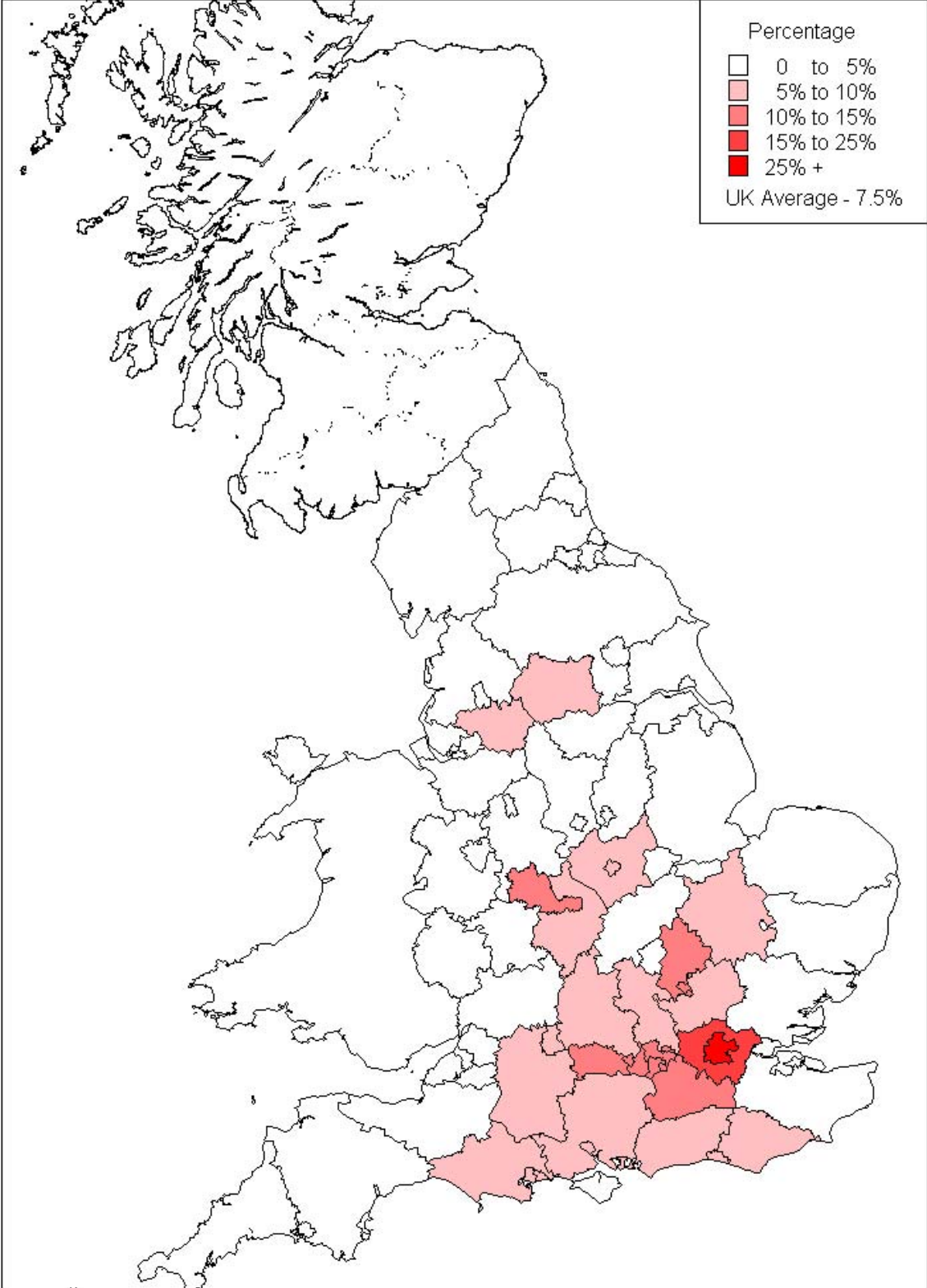
- 6.25 Immigrants are highly concentrated – and increasingly so – in London. Not only do over half of all immigrants live in London and the South-East, but more than two-thirds of new immigrants are settling there. There is considerable anecdotal evidence that this is both generated by and generating the recent economic and cultural resurgence of London. This concentration may also be fuelling an increasing divergence between London (and the South-East) and the rest of the UK.
- 6.26 Migration to the UK is unlikely to be completely independent of internal migration within the UK. There is some evidence<sup>45</sup> to suggest that the causal linkage runs both ways. Immigrants took jobs in the South East in the mid-1980s that could in theory have been filled by native migrants from the North, though this was only one of many factors limiting north-south migration. At the same time, the process of counter-urbanisation is likely to have increased the number of immigrants living in inner cities, as they occupied (social) housing that had been released as natives moved out. Similarly the US literature has tended to find that inflows of recent immigrants have little effect on the locational decisions of native workers<sup>46</sup>.

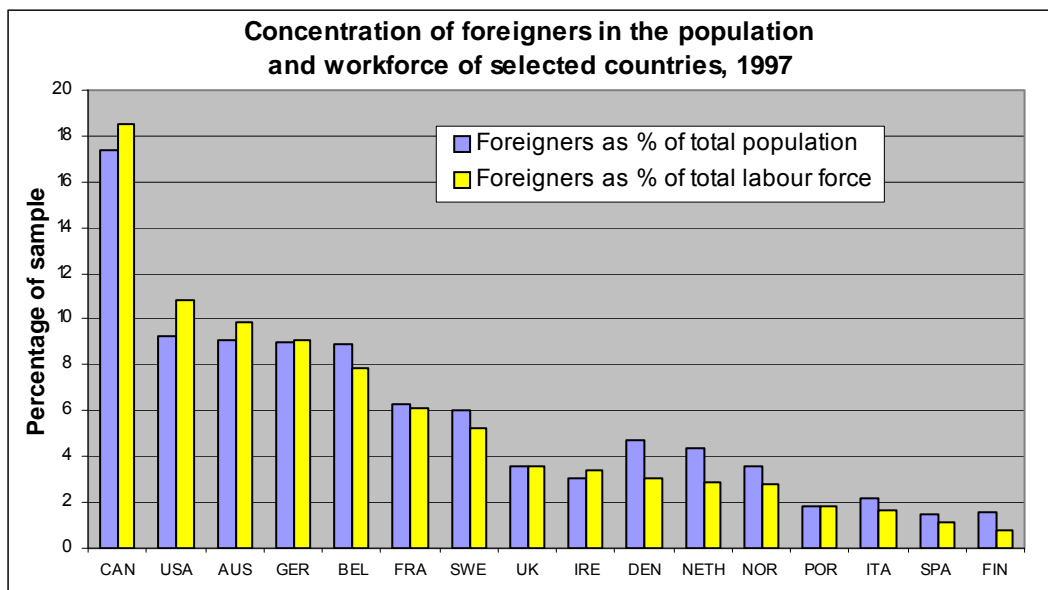
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<sup>45</sup> Champion, Fotheringham, Rees, Boyle and Stillwell (1998), *The Determinants of Migration Flows in England: A Review of Existing Data and Evidence*, DETR

<sup>46</sup> David Card (1996), "Immigrant inflows, native outflows, and the local labour market impacts of higher immigration", Working Paper 368, Princeton University.

### Migrants as a Share of Population





Source: *Trends in International Migration*, SOPEMI report, OECD, 1999.<sup>47</sup>

6.27 The migrant labour force (for this chart, foreign nationals) across developed countries varies in composition, characteristics, and concentration. Foreign workers are generally a small part of the labour force – usually less than 10%. But, in those countries experiencing economic upturns (e.g. Austria, Ireland, Italy, Portugal), the employment growth rate for foreigners was higher than for the total population.<sup>48</sup>

*Wider externality effects*

6.28 The relative concentration of migrants in particular areas means that they can contribute to a number of externalities. For example, they can increase the pressure on housing markets, transport and other infrastructure, and exacerbate over-crowding, congestion, and pressures on scarce green belt land (e.g. in the South-East). Equally they can bring skills, experience and know-how with wider benefits to the UK, and help to regenerate run-down areas. Where such negative externalities do occur, this is not in itself a reason to restrict migration, rather the underlying market failure should be addressed directly.

6.29 And it is not clear that migration has increased congestion and over-crowding in London. The population of London has increased at the same rate as the UK population overall over the last 20 years, at a time when other major cities in the UK have been shrinking, causing problems of under-use, neglect and decay. That immigration has helped to prevent this counter-urbanisation in London, and helped to regenerate otherwise run-down areas, suggests that the impact of migration can be both subtle and ambiguous.

<sup>47</sup> All data for 1997 except United States and Canada (1996); and total populations for France (1990) and Denmark (1996). Data have not been adjusted for definition irregularities amongst countries. See SOPEMI report notes, p38.

<sup>48</sup> SOPEMI report.



	<b>1981</b>	<b>1997</b>	<b>% change</b>
London	6,802	7,122	+4.7
Birmingham	1,079	1,014	-0.6
Liverpool	517	464	-10.3
Manchester	463	428	-7.6
20 largest cities in UK	14,569	14,743	+1.2
<b>UK</b>	<b>56,360</b>	<b>59,009</b>	<b>4.7</b>

Source: Office for National Statistics

6.30 The concentration of migrants in specific locations can also generate social effects, for example through the competition for jobs and resources in local markets. There is at least anecdotal evidence that high concentrations of migrant children lacking English as a first language can lead to pressure on schools which lack sufficient resources to meet levels of need, and to some concern and resentment among other parents. Tension may also centre on access to social housing, although the focus of debate has been on ethnic minorities, not necessarily migrants.

6.31 At the same time, monitoring has revealed that where local authorities were responsible for rehabilitation programmes in areas of the poorest public housing, ethnic minorities have often been excluded. However even in areas of high ethnic concentration the community remains predominantly multiracial. There is also concern that concentration may derive from fear of encountering hostility in areas with relatively few minorities.

### **Fiscal effects**

6.32 The broader fiscal impact of migration is likely to be positive, because of migrants' favourable age distribution. Likewise the fiscal impact is likely to be more beneficial to the extent that migrants are working as opposed to not working, working legally rather than illegally, and making full use of their skills and experience.

6.33 Immigrants have a direct impact on government expenditure and revenue by paying taxes, claiming benefits and consuming government-provided goods and services. They also generate indirect fiscal effects through macroeconomic and labour market impacts that alter the level, and growth, of GDP, and the returns to, and employment of, native labour and capital, as discussed in section [].

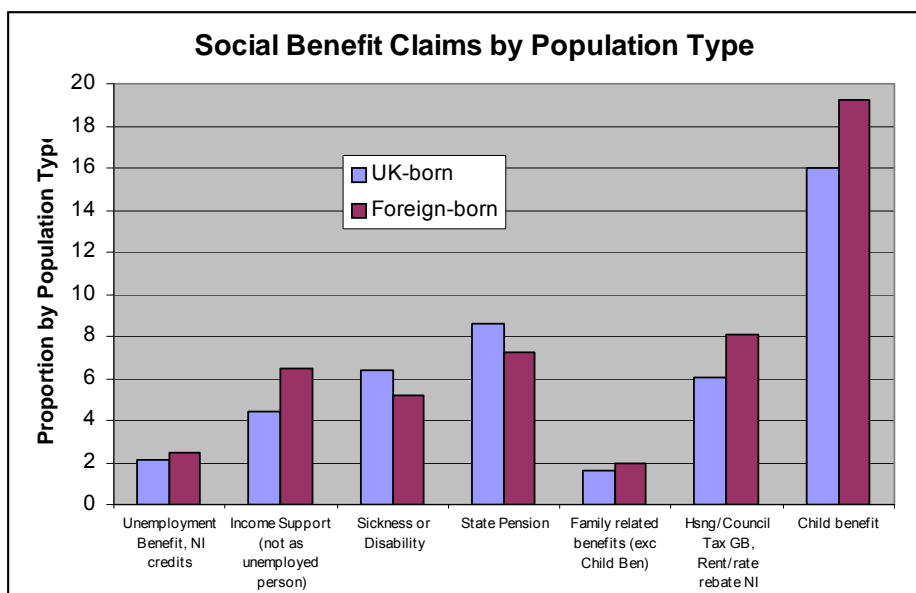
6.34 Broadly speaking, over the life cycle, natives are a net fiscal burden while they are in compulsory (state-financed) education; net fiscal contributors when they are in employment; and net burdens again when they are unemployed, retired and when they require expensive medical services. It seems highly probable that the same is true of immigrants. The age profile and labour market outcomes of immigrants, as described above, therefore suggest they are likely to make some net fiscal contribution – particularly since during the period in which they are most likely to be unemployed, immediately after arrival, they may be ineligible for unemployment benefits.

6.35 A recent US study found that migrants pay an average \$80,000 more in taxes than they receive over their lifetime<sup>49</sup>. A study on the fiscal impact of foreigners in West Germany indicated that this group contributed more to the economy than they received in transfer benefits.<sup>50</sup> Similarly, our initial analysis for the UK suggests that migrants contribute more in taxes and National Insurance than they consume in benefits and other public services (see annex [] for methodology and more details).

6.36 These results provide a one-off snapshot of the fiscal impact of the current cross-section of migrants. This reflects past migration policies, and the ‘average’ result masks the different impacts of different immigrants.

*Use/consumption of government services*

6.37 The foreign-born population claims most social security benefits at or about the same rate as natives. Migrants are more likely to be in receipt of unemployment and housing benefits, but less likely to be receiving sickness or disability benefits, or a state pension.



**Social outcomes**

6.38 Not enough is known about migrants’ social outcomes. As for natives, the lack of employment is a key cause of wider social exclusion. And the data show that migrants are not disproportionately involved in crime, nor do they disproportionately claim benefits. The more general social impact of migration is very difficult to assess. Benefits include a widening of consumer choice and significant cultural contributions (e.g. in the arts, literature, science and sport); these in turn feed back into wider economic benefits.

6.39 Social impacts can be real, without being quantifiable. We cannot measure the impact that Yehudi Menuhin (as an immigrant) had on those who heard his music

<sup>49</sup> James P. Smith and Barry Edmonston (Eds.), *The New Americans: economic, demographic, and fiscal effects of immigration*, 1997.

<sup>50</sup> Spencer, ed., *Immigration as an Economic Asset: The German Experience*, 1994.

or were taught by him: but he clearly had an impact. Some impacts can be quantified, for example increases in consumer choice, but many other contributions cannot. Similarly, while we can quantify migrants within aspects of criminal behaviour, their wider experience of social exclusion cannot be measured.

- 6.40 There is no data on many key outcomes and the data which does exist fails to distinguish between short and long term impact, which might be expected to differ significantly. It is also difficult to distinguish between possible macro benefits (or costs) and micro costs (or benefits), and little work has been done to identify whether the impact could have been enhanced, or avoided, by policy intervention.

#### *Consumer choice*

- 6.41 Migration has clearly benefited consumer choice. There has been a dramatic expansion in restaurants providing cuisine from across the world (including Indian, Chinese and Thai), and of a range of fresh and pre-packed foods which were unknown to consumers less than two decades ago.

- 6.42 Total sales in ethnic food in 1994 were valued at about £736 million, representing an extraordinary change in British eating habits. In 1996, there were 10,000 curry houses in Britain with 60 to 70,000 employees and a turnover of £1.5 billion – more than the steel, coal and shipbuilding industries put together<sup>51</sup>. The market in ethnic food for home cooking was in 1996 worth £129 million a year<sup>52</sup>.

#### *Higher education*

- 6.43 The UK is the second largest receiving country of foreign students after the US, with 16% of the total. In 1995/6 international students studying in public sector institutions in the UK contributed £600m in fees. International students enrich the cultural and intellectual environment of a university and its locality, stimulate new curriculum approaches and foster understanding between cultures. A significant number of the world's political leaders were educated in the UK including, most recently, the new President of Syria. The importance of this for the UK's relationship with the rest of the world should not be under-estimated.

#### *Other contributions*

- 6.44 Migrants have undoubtedly made significant positive contributions in social and cultural fields, and to public life. Some of the most public contributions to Britain have been in sport, art, music, publishing, fashion, architecture, dance and theatre. British art and cultural expression are a fusion, out of which has grown significant export industries from food and fashion to music. Many winners of the Booker literary prize over the last thirty years have been first or second generation immigrants – notably: Kazuo Ishiguro, Salman Rushdie, Timothy Mo, Michael Ondaatje and Michael Ignatieff. Similarly, three of the four artists short-listed for the Turner prize this year were born outside the UK. Nicholas Serota (director of the Tate) commented, "I think it's a question of recognising that culture here is much richer than we could define by those who have simply been born in this country"<sup>53</sup>.

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<sup>51</sup> *Independent on Sunday* 3 March 1996

<sup>52</sup> *Financial Times* 25 May 1996

<sup>53</sup> The diverse contribution made by immigrants and refugees is described in the comprehensive account published by the CRE, *Roots of the Future, Ethnic Diversity in the Making of Britain*. 1996

6.45 Migrants are particularly well represented in academia, education and medicine. Some outstanding examples of success include Sir Magdi Yacoub, a cardio-thoracic surgeon, originally from Egypt, who pioneered heart and heart and lung transplants in Britain; and Dr. A. Karim Admani, originally from India (and awarded an OBE in 1986), who set up Britain's first stroke unit in Sheffield in 1975. And, historically, migrants who arrived as refugees have been among those who have had the most impact on UK society – in particular, the Huguenots and the Jews.

**Box 6.2: Citizenship**

Acquisition of citizenship is considered an index of integration. Although policy does not actively encourage applications, they have grown at an average annual rate of 11% (1992-7). But it is not known how many foreign residents who are entitled to apply for British citizenship actually do so:

- of those entitled to apply and still in the UK, Home Office records (in 1997) showed 35% of a random sample had applied;
- of those who could be tracked down for interview, 58% had applied for citizenship – the vast majority successfully – most non-applicants believed they would do so at some stage;
- those married to a UK citizen were twice as likely to have applied;
- 29% were deterred by the long period of waiting their application to be processed (then 13 months, the current IND aim is to reduce the period to 15 months);
- 37% of non-applicants said they would apply if the cost were lower;
- 44% of them did not know how to apply, and 14% did not know that they were eligible;
- there was no fear of refusal.<sup>54</sup>

A 'strong attachment' to the UK was also significant in deciding to apply. Those from developed countries were less likely to apply, as were those whose country of origin did not permit dual nationality, and those who did not need visas for travelling abroad. Although citizenship confers the right to vote (except for Commonwealth citizens who already can), research found that 60% of those who had applied for citizenship in order to be able to vote, had not actually yet done so.

Research abroad suggests that the majority of migrants given permanent residence do eventually become citizens. Expectations of returning 'home' at some stage, prohibitions on dual nationality, and cost, all inhibit applications. Within the EU, migrants who identify most with their host country are those who have taken out citizenship or dual nationality: 70% identified 'entirely or a lot', whereas under 20% of temporary residents did.<sup>55</sup>

In Canada, citizenship ceremonies mark an important step in the integration process, held as a celebration. The occasion serves as a symbolic reminder of the obligations and privileges of Canadian Citizenship. A specially designed "Citizenship Oath" pledging is administered by a citizenship judge appointed by the government, and followed by a welcome reception.

6.46 Leaving aside the economic implications, whether the changes that have resulted from migration are a "benefit" is clearly subjective. However, considerable opinion poll evidence – see section [8] – suggests that most British people do regard it as such. There is no evidence that people feel "swamped" in a cultural sense: rather they regard immigration as having a positive effect on British culture. This is true

<sup>54</sup> *Understanding British Citizenship Application Rates*. Home Office (Nigel Charles). 1997.

<sup>55</sup> Enid Wistrich, David Smith, Tunc Aybak, *The Migrants Voice in Europe*, Middlesex University, 2000.

even for many of those who favour a more restrictive attitude to immigration controls.

*Criminal behaviour*

6.47 There are three ways in which migrant criminality may differ from that of the general population:

- the international criminal who travels across borders to pursue criminal activity, for whom screening at ports of entry is increasingly the focus of international cooperation between police forces to detect on entry;
- organised crime identified with a particular migrant group, including commercial fraud and trafficking in drugs, in illegal migrants and in women; also the focus of attention by police and immigration staff;
- crime associated with conditions of migration, and reception: including recovery of debts by migrant-smugglers, marriage rackets, breaches of immigration control, and crime associated with the migrant's circumstances (lack of work, hostel living conditions).

6.48 Migration has opened up new opportunities for organised crime. Data is necessarily tentative, but it is estimated that the global profit from trafficking illegal migrants is \$5-7 billion. We have no data on trafficking to the UK (the Home Office estimates 'thousands') but examples from abroad are illustrative. Some 750,000 migrants from former USSR entered Israel in the 1990s and £2-5 billion of Russian organised crime money is estimated by police to have been invested in Israel between 1991-8. The illegal migration of 600,000 Fukienese Chinese to the USA (1986-94) yielded an estimated \$3.2 billion profit to the criminal gangs and was followed by 'institutionalised Fukienese crime with its services and predation'<sup>56</sup>. In New Zealand, however, a study in 1997 of Asian immigrants found lower levels of offending than for the resident population<sup>57</sup>.

6.49 Data is kept on the national origin of the prison population. The picture it presents is distorted by the high number of drug traffickers arrested at ports of entry, who are likely to be 'visitors', not migrants who intend to stay. Nor are offences classified in a way that allows their trans-national character to be identified. Thus 8% of the prison population (5,100) were foreign nationals in 1998 (7% of men, 15% of women), compared to their representation in the UK adult population of slightly under 4% (unchanged from 1993).

6.50 For men, 38% were of European nationalities, 19% from Asian countries, 18% African and 16% West Indian. For women, 31% were European, 14% African, and 33% West Indian. Foreigners make up only 3% of white prisoners but 22% of black prisoners, the disproportionate number of black foreigners mirroring the disproportionate number of British black prisoners. A significant majority of the European foreign nationals were Irish, followed by those holding Dutch, Turkish and German nationality. Of those from Africa, the largest number are from Nigeria.

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<sup>56</sup> Gregory, F, 'Migrants and Transnational Crime', Chatham House 22-23 April 1999.

<sup>57</sup> Newbold, G, 1997, 'The emergence of organised crime in New Zealand', *Transnational Organised Crime* 3(3) (quoted in Gregory F).

6.51 For foreign nationals, 33% of men and 71% of women were sentenced to custody for drug offences (compared to 13% of British men and 27% of British women). A substantial proportion were arrested at ports and convicted of importing or exporting drugs, a sentence which carries a relatively long sentence.

6.52 In 1998, 16,500 illegal entrants were detected, up 50% on 1995. 'Illegal entrant' includes people who provided inaccurate information on entry, and some overstayers. It also includes asylum seekers found to have entered by deception, who are thus double-counted in the statistics. Deportation action was initiated against a further 4,300 people who breached their conditions of stay, mainly by overstaying or working. The collective term 'illegal immigrant' thus includes many who were initially given leave to enter lawfully. It is not known how many people are in the country unlawfully, nor the proportion of them who are working, paying taxes or drawing benefits.

6.53 There is emerging evidence that the circumstances in which asylum seekers are living is leading to criminal offences, including fights and begging. 15% of new cases reaching the Inner London Probation Services, for instance, are asylum seekers, as are 15-20% of those living in their probation hostels.

**Foreign population in prison by offence, compared to total prison population**

England and Wales 30 June 1998<sup>58</sup>

	<b>Foreign</b>	<b>Total crimes</b>	<b>Foreign as % of total</b>
<b>Total</b>	<b>3,546</b>	<b>52,159</b>	<b>6.8</b>
Violence against the person	608	10,944	5.5
Rape	211	2,373	8.9
Other sexual offences	99	2,422	4.0
Burglary	200	8,656	2.3
Robbery	327	6,626	4.9
Theft, handling	173	4,492	3.8
Fraud & forgery	193	1,199	16.0
Drug offences	1,311	7,893	16.6
Other offences	290	5,425	5.3
Not recorded	134	2,129	6.2

(NB: The total here is smaller than the 5,100 foreign prison population quoted earlier, because these figures are for population under sentence, and do not include those on remand).

*Social exclusion*

6.54 Migrants can also be socially excluded, which can cause personal and social problems. In part, social exclusion is the result of entry and settlement controls, designed to deter entry. Access to employment, health, housing and welfare services is determined by immigration status, as most of those subject to immigration restrictions are required to live without recourse to public funds (with the exception of emergency health care).

6.55 Lack of English is a further determinant of exclusion, disadvantaging migrants in the labour market and in accessing health and other services. 39% of refugees cite the lack of English as a barrier to their successful settlement, and 25-30%

<sup>58</sup> Home Office Prison Statistics 1998

arrive with little or no English. Those arriving under family categories may equally experience difficulties<sup>59</sup>.

- 6.56 There is also considerable evidence that migrants who are entitled to employment, but unable to demonstrate entitlement, are denied jobs by employers afraid of prosecution under 1996 immigration legislation. Migrants' lack of recognised qualifications can also cause difficulties in obtaining employment. Lack of documentation clarifying entitlement similarly leads to denial of services – including access to child benefit, housing benefit and NHS treatment<sup>60</sup>. Lack of documentation also inhibits access to essential private services (e.g. opening a bank account and connecting to utilities).
- 6.57 The outcome is difficult to measure. There is little data for migrants on such indexes of social exclusion as health, victimisation, involvement in crime or proportion of children in care. Where disaggregated data does exist, as on mortality, averages can mask large disparities within the migrant population.
- 6.58 There is sufficient evidence on asylum seekers and refugees to have cause for concern. We know they are more likely to be unemployed. The Audit Commission recently reported on asylum seekers' access to services, highlighting the high proportion of families in B&B or hostel accommodation, difficulties in accessing primary health care and children denied school places. Only 12% of social services departments had a strategy for dealing with refugees, 37% of local authorities do not have translation or interpreting facilities, and 55% of authorities only provide written material in English. The Inner London Probation Service can afford to give migrant offenders in its care 40 minutes of an interpreter, once a fortnight. Asylum seekers' reliance on vouchers may deny them access to local services, such as sport and leisure facilities, which are free to those on benefits. Self help organisations have helped to bridge the gap between disconnected refugees and public authorities.
- 6.59 Half of asylum seekers obtain permission to stay in the UK and, in practice, a higher proportion remain. The long term impact of reception arrangements on subsequent social exclusion is therefore significant. The Audit Commission argued that failure to provide asylum seekers with adequate support services "could escalate community tensions and incur substantial long term costs. An inadequate response will also cause severe distress to asylum seekers and constrain the long-term opportunities of those allowed to stay in this country".<sup>61</sup> A Home Office consultation paper has recognised the need to assist in the transfer from asylum to settled status: "There is a weight of evidence that refugees find difficulties in making the transition from support to independence and fulfilling their potential for development and contributions to society. ... there is a need to invest early in integration to promote a quick move from dependency to self-value and sufficiency through work and inclusion in community and society".<sup>62</sup>

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<sup>59</sup> Bloch, A, (2000) 'Refugee settlement in Britain: the impact of policy on participation', *Journal of Ethnic and Migration Studies*, vol 26, No 1, 75-88, January 2000; *The Settlement of Refugees in Britain*, 1995, Home Office Research Study 141.

<sup>60</sup> *A person before the law: the CAB case for a statement of rights for people with limited leave in the UK*. NACAB February 2000.

<sup>61</sup> *Another country, implementing dispersal under the Immigration and Asylum Act 1999*, June 2000. Audit Commission.

<sup>62</sup> *A consultation paper on the integration of recognised refugees in the UK*. Home Office, \*\*date\*\*

6.60 Racism and negative attitudes to migrants in the UK are similar on average to those across Europe<sup>63</sup>. There is no data on the extent to which migrants suffer harassment or abuse, although it can be assumed that non-white migrants figure within the high levels of victimisation among ethnic minorities. 13% of refugees in one study considered racism and discrimination a barrier to their successful settlement.<sup>64</sup> And, as noted earlier, local concentrations of migrants can cause tensions around schools and social housing.

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<sup>63</sup> Various Eurobarometers, on Europa web-site.

<sup>64</sup> Bloch A, 2000, op cit



## **7. Assessment**

7.1 In this section, we try to bring together a picture of the overall shape of policy, in the context of its broad economic and social objectives. There are a number of caricatures of both the objectives and the outcomes of the current immigration control system, which are held by different groups in society and opinion-formers:

- that the objective is to reduce immigration to the absolute minimum possible<sup>65</sup>;
- that almost anyone can come here and claim benefits, and have free and sometimes privileged access to jobs and social services<sup>66</sup>;
- that policy allows in rich or skilled Americans, but not Indians or Jamaicans.<sup>67</sup>

7.2 But the picture of the current system which emerges from the above is rather different, and more complex, than any of these. Several broad themes emerge:

- The system is quite flexible in some areas, but not in others. In particular, as described above, the work permit system is relatively flexible, albeit complex and discretionary, for skilled workers. A more detailed assessment of the work permit system is shown in Box 7.2. But the asylum system is not: even someone who would clearly qualify for a work permit, like a doctor, is not eligible to work (for at least 6 months) while waiting for their claim to be determined, and will be sent back if the claim is found to be unjustified. Similarly, someone in the family settlement queue in Islamabad – where the wait for a first interview is nearly a year – will gain no benefit from already having a job lined up in the UK, unless it is one that would qualify for a work permit.
- Related to this, the different entry controls are not joined up. There is no assessment of the trade-offs or interaction between the work permit system and the working holidaymaker scheme, even though they both clearly have implications for labour market developments in certain regions and sectors; or between the asylum system and work permit system, even though it is clear that the lack of an economic route for low and medium-skilled immigrants has contributed to the rise in asylum seeking and illegal immigration (although quantifying this connection is very difficult). These interactions between the different migration channels, and the different type of migrants, are shown in the table below.

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<sup>65</sup> For example, the Times, June 20, 2000, “quoted” policy as follows: “Official policy... is ‘to keep new immigration to a small and inescapable minimum’”.

<sup>66</sup> For example, the Sunday Mirror, 20 September 1998, “All manner of Riff-Raff...are now coming to Britain...because we’re the softest touch in Europe.”

<sup>67</sup> For example, Bill Morris, General Secretary, TGWU, writing in the Independent, April 14, 2000: “By heralding measures to stop people entering Britain, the Home Office has given life to racists”.

**RESTRICTED – POLICY**

Type of migrant	Economic (low-skill)	Economic (high-skill)	Political
<i>Migration channel</i>			
<i>Work permit</i>	No	Yes	No
<i>Working holidaymakers &amp; temporary workers</i>	Yes	Yes	No
<i>Family reunion/union</i>	Yes	Yes	No
<i>Asylum</i>	Yes	Yes	Yes
<i>Illegal/irregular</i>	Yes	?	Yes

- The entry control system is not closely related to the stated policy objectives.<sup>68</sup> Where social considerations entered into the formulation of immigration control policy, the (unvalidated and implicit) assumption has generally been that immigration – especially non-white immigration – was per se bad for social stability. The primary objective of parts of the entry control system has therefore been to deter applicants, not to promote subsequent inclusion. But because entry and settlement rules control access to jobs and services, and family reunion, they have a significant impact on social exclusion
- There has been slightly more consideration of economic objectives, but only in some areas, and in no great depth.
- Nor do the trade-offs, if any, between economic and social objectives seem well identified. For example, the rules on students' entry deliberately discourage those who might choose to remain to pursue their careers, although the economic benefits of such migrants seem obvious. But any negative social impact of foreign students who choose to remain, having found gainful employment, is entirely speculative.
- The discussion of some of the policy levers that impact on migrants' integration and settlement suggests that securing the integration of migrants has not been a priority in designing entry and settlement controls or post-entry policies. While access to citizenship, voting, and pre-16 state education is liberal, many migrants are excluded from employment, benefits and social housing. Family reunion is means tested. For those entitled to work, targeted language assistance, induction, and guidance on re-establishing careers is generally not available. Lacking documentation clarifying their entitlements, many appear to be excluded from work and benefit for which they are eligible. Once past immigration control, relatively little thought is given to the economic or social impact of migration per se one way or the other; social exclusion policy has not addressed the particular circumstances of migrants. Insofar as migration considerations enter policy formulation, it is as a subset of race equality policy.
- The interrelations between the various policies and schemes and the two key objectives of economic growth and social stability are shown in Box 7.1. As can be seen, there is little explicit connection, and almost no evaluation (of any sort, even subjective, recognising the difficulties of quantitative evaluation in these areas).

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<sup>68</sup> The 1998 White Paper *Fairer, Faster and Firmer – a Modern Approach to Immigration and Asylum* (CM 4018) addressed only two aspects of integration directly: the provisions to support asylum seekers, and policy on access to citizenship.

<b>Box 7.1: migration, the relationship between policies and objectives</b>		
<b>Route of entry</b>	<b>Economic objectives</b>	<b>Social objectives</b>
Work permit scheme	Employer-led and hence (imperfectly) related to demand. But criteria inevitably arbitrary, with some potential benefits lost. No evaluation.	No explicit connection. Exclusion of low-skilled workers presumably intended to protect low income natives, but no evaluation.
Family reunion	No connection	Implicit assumption that keeping people out promotes stability. No evaluation.
Overseas students	Relatively permissive attitude to entry reflects export earnings. No evaluation of potential wider economic benefits.	Attitude to entry presumably reflects value of cultural interchange, not social stability as such.
Asylum	Policy of deterrence reflects public expenditure costs. Policy on dispersal and denial of access to employment not obviously economic. No evaluation of longer-term economic implications.	Policy of deterrence and dispersal reflects perceived damaging effect on stability in some areas. No evaluation.
Working holidaymakers	No explicit connection. But in practice fill some labour market demands not addressed by work permit scheme.	Liberal attitude to Old Commonwealth reflects gains from cultural interchange, not social stability as such. No evaluation of current imbalance between Old and New Commonwealth.
Seasonal workers	Fill labour market gap in agriculture. No evaluation.	Despite original intention, no longer any connection.
Post-entry policies	Very little explicit connection, although some policies evaluated with reference to economic objectives more generally.	Variable. Some policies designed to promote inclusion.

**Box 7.2: the work permit system**

Rationale and reality

The objective of the work permit system is to “strike a balance between enabling employers to recruit or transfer skilled people from non-EEA member states and protecting job opportunities for resident workers”. As described above, the test is therefore that a) the job meets the appropriate (skill-based) criteria and b) no EEA resident is available (unless the job is in a shortage sector, in which case this test is waived).

Does this make economic sense? With the exception of a very small number of individuals, there are few jobs – certainly not tens of thousands - for which no “suitably qualified and experienced” EEA resident exists *at a sufficiently high wage*. So the test is that residents are not readily available – either for that individual job or in the sector - *at the prevailing wage*. But this too is problematic. The prevailing wage is endogeneous: it is itself the result of decisions on work permits. If we stopped letting people in, the prevailing wage would rise; if we let in more, it will fall.

So in practice work permits are granted in sectors where there is clear upward pressure on wages, and where companies have difficulties recruiting residents. This means the system is relatively flexible, and it minimises complaints from both companies and workers – since those workers who are harmed are precisely those who are doing well anyway. It also means the system is likely to have some dampening effect on wages at the upper end of the skills spectrum, reducing upward pressures when demand is high, since work permits are relatively easier to get. But it is not necessarily either market-driven, or attuned to the ultimate economic objectives of the government.

Is the system “market-driven”?

The current system is sometimes described as “market driven”, because the government responds to work permit applications from companies, rather than setting quotas; and because the identification of shortages is largely driven by (anecdotal) evidence from employers. But in two respects the system is not market-driven, in a way which has no parallel elsewhere in government:

- it requires the government to take a view on what the “right” or “market” or “prevailing” wage is for a particular job in the private sector;
- It requires the government not only to *identify* skill shortages/gaps – which we do to some extent elsewhere – but to *constrain* firms’ employment decisions on that basis.

Anywhere else, we would call this central planning! Ironically, the DFEE’s own Skillsbase website sets out a number of reasons why this is likely to become increasingly difficult, such as the increased importance of “generic” (and usually non-measurable) skills, such as flexibility and teamwork.

Disadvantages

Despite the above, the system is relatively flexible, and recent changes have made it more so. However, no matter how well administered, there are a number of disadvantages that are inherent in this type of system:

- it is difficult for civil servants to second-guess the market. For obvious reasons, and as has been the experience with IT, shortage areas will be identified imperfectly and with lags. This may be economically damaging;

- any system based on defining the characteristics of a job with reference to skills or qualifications will inevitably involve arbitrary dividing lines and decisions;
- despite best efforts, any system of this sort will inevitably be relatively complex and non-transparent.<sup>69</sup>

As a consequence, there are likely to be three economic costs inherent in a system of this type:

- people who fail to qualify under the current system, but would bring economic benefits;
- people who would (probably) qualify under the current system, but who employers do not recruit because it is complex and non-transparent;
- The regulatory burden (on both government and the private system) of this relatively complex system.

In section 8 we set out our suggestions for a radical simplification of the work permit system, which would preserve its flexibility while largely eliminating the above disadvantages and maximising the economic benefits.

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<sup>69</sup> A useful exercise for anyone interested would be to visit <http://www.dfee.gov.uk/ols/apply.htm> (one of the more user-friendly government websites around) and to try to determine whether, say, Goldman Sachs could recruit a business analyst from the Indian Institute of Management Development.

## 8. New Policy Framework

8.1 Our assessment of the current policy framework, based on the outcomes it delivers, identified a number of concerns: notably that the system is rather unjoined up, and not closely related to its stated objectives, either economic or social. This in turn means that in three key areas actual performance in relation to objectives is likely to be significantly sub-optimal:

- The **labour market**: current policy does not meet demand either at the low or the high skill end of the labour market. This inflicts significant economic costs.
- **Irregular migration**: current policy, because it does not meet the demands of the labour market at the lower end, has led to high and increasing levels of irregular migration. This is both unsustainable and undesirable in economic, social and political terms.
- The **entry control system**: current policy is not joined up with other areas of government policy, and post-entry policies do not address socio-economic objectives. In practice, entry controls can contribute to social exclusion, while there are a number of areas where policy could enhance migrants' economic and social contribution, in line with the government's overall objectives, but is failing to do so.

8.2 Finally, policy development is constrained by public opinion and the current tone of public debate.

8.3 In each area, we think substantial improvement is possible. We believe a combination of the following measures could address these problems:

- a move to a simple, transparent and market-based system for high-skilled workers, including students;
- the introduction of a legal channel for low-skilled migration;
- a post-entry migration policy, designed to ensure that migration does indeed achieve the government's economic and social objectives.

8.4 If the broad thrust of this is accepted, then it follows that there is one further indispensable prerequisite. A new approach to migration needs to be underpinned by a clear strategy for public opinion and public debate.

### Skilled migrants

8.5 Economic theory and evidence are unequivocal. Migrants taking jobs with relatively high earnings are likely:

- to generate significant net economic benefits to the UK;
- to generate significant fiscal benefits to the Exchequer;
- to be socially included;

- to have a beneficial effect on the income distribution and on the functioning of the labour market.

8.6 The current system allows a considerable number of relatively high-skilled workers to enter. However, it is ad hoc and not market-based. While it functions reasonably well for larger firms, the relatively complex and non-transparent nature of the system means that there is likely to be significant potential migration of skilled workers which does not occur under the present system. The historically high concentration of new migrants, both by location (in London and the South-East) and in certain sectors, suggests that there is considerable unmet demand. There are three broad options for change:

- adopting a quota or threshold/points system based more than the present system on immigrant's skills or qualifications, and less (or not at all) on the job the migrant is coming for;
- basing the system more on skill shortages/broad categories, rather than emphasising the specific requirement of no available EEA resident. This is broadly the direction of current policy;
- moving to a genuinely market-based system, where the primary determinant of entry is simply that the applicant has been offered a high-skilled job.

8.7 The main advantage of a points system would be that it would be transparent, and, if it could be determined what characteristics were associated with migrant success, it would allow a more rational selection process. Some other countries have adopted point-based systems. But this would be a step away from a market system. To work well, it would require the government to know what characteristics of migrants were closely correlated with economic and social benefits; as shown in section 6, this is difficult, and becoming more so.

8.8 Trying to rely more on the targeting of skill shortages is even more problematic. Countries that have done so – e.g. Canada – have moved away from this route. The current debate about IT is not so much an argument for doing it, but an illustration that any government attempt to forecast skill shortages at the industry level will inevitably be well behind the curve. As the report of the National Skills Task Force said – and both experience here and abroad confirms - : “detailed forecasting of future skill needs is impractical. Planning should be indicative rather than directive”. In general terms, this is an uncontentious statement of the government's philosophy and approach to the labour market.

8.9 But any work permit system based largely on identifying skill shortages or gaps by definition involves a substantial element of central planning. Instead, we recommend the following:

- A genuinely market-based system for work permits. People offered jobs (or who can demonstrate earnings from self employment) paying more than a certain threshold figure: perhaps 1.5 times average earnings, or 5 times the minimum wage, would have a right to a work permit (subject to the existing, limited checks on character, criminal record, etc.). The threshold could be lower for younger workers, including students.

- In order to join up this scheme with other categories, there should be no bar to those currently in the UK – notably those here as overseas students, asylum seekers or under the Working Holidaymaker scheme – from applying for work permits on the same basis as those outside the country. People already here, and particularly those with UK qualifications, are more likely to be of economic and social benefit than those applying from outside – it is counterproductive to prevent them from applying (and positively perverse, as happens sometimes at present, to force them to go abroad to apply).

8.10 The most important characteristic of this scheme is that it avoids the problem that we don't know what characteristics of migrants determine good labour market outcomes, by simply letting in people who – by definition – have good outcomes!

8.11 If a scheme of this type was adopted, key issues for consideration would be the following:

- Should there be a charge for the work permit? If so, should it be regionally based to reflect externalities and regional wage differentials?
- Should there be “reserved occupations”, which would qualify even if earnings were below the threshold (the obvious candidates would be public sector occupations which currently pay below market rates), with or without a transition mechanism?

#### Low skilled workers

8.12 It is now widely recognised (see below) that zero or near-zero migration of low-skilled workers to the UK is neither an available nor a desirable policy choice:

- It is not available, because market forces are too strong. As section [] shows, the economic forces and incentives for migration of low-skilled workers to the UK are significant, and are likely to intensify. Short of abrogating the 1951 Convention, searching every truck that arrives at Dover, intensifying checks on the 86 million people who pass through immigration control each year, and instigating round-the-clock coastguard patrols over our many thousand miles of coastline, significant levels of economic migration will continue.
- It is not desirable, because those market forces simply reflect economic reality; current high levels of irregular economic migration (via illegal entry, overstaying, and the asylum system) show that, perhaps even more than with high skill migrants, there are very high levels of potential demand. Restricting that demand imposes substantial economic costs on the UK economy. As section 6 shows, even low-skilled migrants, if they are in work, are likely to be economically beneficial to the UK as a whole. Nor are they likely to significantly harm either the employment or income prospects of low-skilled natives.

8.13 The policy choice is therefore whether low-skilled migrants come, as at present, through illegal immigration and the asylum system, or whether some fraction of that flow could and should be diverted into legal channels. In this light, the advantage of opening a legal channel for low-skilled migration would be the following:



- if conditioned on work, there would be significant economic and fiscal benefits relative to current large flows of (working) illegal immigrants and (non-working) asylum-seekers;
- any adverse labour market effects for the low-skilled would be less than with illegal immigrants – since legal migrants would be paid at least the minimum wage;
- social inclusion (and consequent political) problems would be significantly less.

8.14 A key question here is what is the substitutability between illegal migrants/asylum seekers and legal low-skilled migrants. It is unlikely to be one, since no conceivable scheme will allow in all those who might want to come to work. On the other hand, it is likely to be considerably greater than zero, for the following reasons:

- The untapped pool of potential low-skilled migration is lower than sometimes believed (for example, while there are literally hundreds of millions of Chinese whose potential income here is much higher than in China, most illegal Chinese entrants come from one or two very small areas).
- Related to this, a legal migration scheme, if accompanied by other measures, could help generate the positive information flows and feedbacks needed to reduce illegal migration.
- There is significant evidence that legalisation helps return migration.<sup>70</sup> As discussed in section 3, economic migration is not a one-off decision; many people want to move back and forth. But illegal or irregular workers may not have this option.

8.15 Most importantly, a legal migration scheme would act on the demand side as well as the supply side. By filling the jobs that are currently unfilled, or filled by illegal/irregular workers, the demand-pull factor for economic migration by irregular means will be reduced. How would such a scheme operate? There are a number of important policy choices here:

- A system where access was determined by pre-arranged employment vs. one where this was not necessary (where some sort of other selection procedure or lottery would be required).
- Where on the spectrum of temporary (as with the current agricultural worker scheme) vs. semi-permanent (as with work permit holders) this scheme should fall.
- A system with different procedures for individual countries – presumably with country quotas – or one which treated applicants the same regardless of country.
- Whether the system was in any sense joined up with the asylum system – for instance by allowing some potential asylum-seekers to apply in their countries of origin, as with the US refugee resettlement program, and to give them the right (and obligation) to work.

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<sup>70</sup> ref

- Whether the system was in any way joined up with the family reunion system. For example, by giving some preference to those who have some connections (distant family, friends, other social networks) in this country, but who would not meet the family reunion test – whether because insufficiently close family ties, or because the family cannot support the migrant without recourse to public funds.

8.16 One possible model would be the following:

- Initial entry would be temporary, perhaps for two years. After that, entrants would be able to apply – experience suggests many would not want to do so, but a significant proportion would – for extension to semi-permanent status. But extension would not be automatic; the applicant would have to demonstrate both social and economic integration into the UK.<sup>71</sup>
- The scheme should be largely employer based (it is likely intermediaries would develop to service the labour needs of smaller employers). Employers would be obliged to provide certain services, e.g. English language training for people who could not speak English, help in finding accommodation, etc.
- However, in addition to the employer based part, there is a strong case for joining up this system with both the refugee and the family reunion system. This could be by reserving some proportion of places for potential refugees/asylum seekers (perhaps via applications outside the UK, as with the US Refugee Resettlement Program) and by giving some preference to those with social connections here.

#### Post entry policies

8.17 Migration policy should be seen as a continuum, running from entry through to settlement and to social and economic integration. At the moment, most migrants cease to be regarded as an appropriate subject for policy, unless they either break the rules, in which case they are subject to enforcement action, or they are non-white, in which case they are regarded as part of the broader ethnic minority agenda. We see a specific role for post-entry migration policy, designed to ensure that migration does indeed achieve the government's economic and social objectives.

8.18 Post entry policies should be based on three principles:

- **information:** the provision of information, eg about access to the job market and about social customs makes it more likely that migrants will adapt quickly and successfully;
- **flexibility:** recognising the very differing skill levels, and contributions, as well as needs, that migrants bring;
- **facilitation:** policies should be designed to facilitate migrants' inclusion and their economic success.

8.19 Running through all of these is the overall government theme of rights and responsibilities. Migrants have rights: to be fairly treated, not to be discriminated

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<sup>71</sup> There are a number of criteria against which this could be measured, including employment record, English language facility, any UK qualifications gained, UK social networks, etc. It would be important to devise such criteria to encourage social as well as economic integration.

against, etc, and more generally to a reasonably welcoming environment; but they also have responsibilities: to work if they are able, to make a good-faith effort to learn English, to contribute to UK society not just economically but more generally.

8.20 Specific proposals in this area could include:

- Induction: simple literature and practical guidance for all migrants on the basic information needed to operate in the UK.
- A migrants' charter of rights and responsibilities: a clear statement of entitlements, which migrants can show employers and service providers, and a statement on their responsibilities.
- Related to this, a New Deal for non-economic migrants, including a requirement to study English, to do work placements and to accept suitable work.
- Mentoring schemes, including former migrants as mentors.
- A de-regulatory review of UK recognition of qualifications to remove unnecessary restrictions and facilitate refugees to requalify where necessary.
- Greater symbolic importance to the achievement of UK citizenship (including citizenship ceremonies, etc).

#### Public opinion

8.21 A new approach to migration policy along the lines described above would need to be not only accompanied by, but underpinned by, a clear strategy for public opinion and public debate. Government has tended to assume that negative public opinion on migration is a given that is beyond its control. In fact, research (and common sense) suggests that past governments have had a significant influence on public opinion; sometimes reinforcing public anxieties, however, rather than seeking to inject greater balance into the debate. On other issues, government has been strategic and proactive in addressing public opinion. It could do so on migration.

8.22 A communications strategy on migration would need to be delivered across-government. It would require greater data, and research on the impact of migration, than is currently readily available. It would seek to put the public debate on migration onto a more rational, informed basis by ensuring that the facts were available, and that the public were aware of the contribution which migrants make. And it would seek to avoid negative imagery, while not avoiding difficult issues. Myths could be diffused; inaccurate stories re-buffed.

8.23 It is a commonplace in “liberal” discourse that general British public opinion would favour a more restrictive immigration policy either than we have now or than would be economically rational, either because the population at large is racist, or because – rationally or otherwise – people feel economically threatened by immigrants. As in some other areas discussed in this paper, this is only part at most of the truth:

- It is correct that public opinion favours relatively restrictive policies on immigration. However, this is balanced by a generally positive attitude to past immigration, and attitudes on race and immigration are becoming more positive over time.
- One likely explanation of this is that younger people and those with higher education are much less likely to be racist and hence anti-immigrant. This suggests that, as the average education level of the population increases, and as older cohorts die off, attitudes towards immigration will continue to improve.
- People draw sharp distinctions between “legitimate” and “illegitimate” immigration. Several surveys show that about 75% of respondents are concerned about illegal immigration. But a substantial majority think “political refugees” should be allowed to stay.
- Recent research shows that anti-immigrant sentiment is closely correlated with racism rather than with economic motives. In particular, it is simply not the case that the poor or unemployed are more anti-immigrant than others. In fact, controlling for education people on lower incomes and the unemployed are **less** racist and anti-immigrant.

**Q10. Do you agree or disagree that immigration into Britain in general makes the country open to new ideas and culture?**

Agree	67%
Disagree	27%
DK	6%

**Q11. Do you think that Britain's asylum and immigration laws need to be tightened further, or do you think that they are strict enough at present?**

Should be tightened	53%
Strict enough already	36%
DK	11%

[Source: ICM February 1999]

8.24 There has recently been some sign of a turnabout in public debate of immigration policy. In the week beginning June 20, 2000, all five UK broadsheets (the Financial Times, Times, Daily Telegraph, Independent and Guardian) all had editorials making a number of the points discussed above, and calling – in very similar language - for a liberalisation of policy towards **low-skilled** immigrants. Similar articles have appeared in the Spectator and the Economist, as well as the New Statesman and the London Review of Books.

**Few of the thousands who have abandoned home to come to a country whose language they may not speak want to live off the state... The problems of immigration are made much worse when the new entrants are forbidden to work and given benefit: then they really are a drag upon the nation, with no incentive to be honest. If they must work to live, most of them will, and this is good for our prosperity.**

Daily Telegraph, June 19, 2000

**A better approach would be for governments - both in the UK and western Europe - to look again at their immigration policies to see if there are more civilised ways of controlling the flow of people across borders. .... In fact, immigrants have generally been a very positive force for economic development - the US is proof enough of that. As Europe's population ages, an inflow of immigrants is likely to be an economic plus.**

Financial Times, 20 June 2000

**We should look for ways of allowing larger numbers of migrants in – both for the hi-tech industries and for the low-tech service industries**

Independent, 20 June 2000

**If they'll work, let them come**

Spectator, March 2000

8.25 What are the implications of this for policy and strategy? If the basic thrust of this paper is accepted, then:

- It is not sensible to try to downplay the issue. Education and people's personal exposure to migrants make them less likely to be anti-migrant. The most negative attitudes are found among those who have relatively little direct contact with migrants, but see them as a threat.
- It is important to emphasise the positive contribution, both economic and social, that migrants make to British society – not just in vague terms, but with clear and specific examples. The evidence is clear that migration is necessary and desirable.
- As with other aspects of globalisation, people worry about security – economic and otherwise. So as with trade, for example, it is important to emphasise both that migration is by and large a good thing, but that the government should and will take a pro-active role in managing it for the general benefit.
- As with the state provision of services more generally, perceived fairness is very important. People object strongly to the unemployed receiving benefits for nothing, but are relatively happy for the state to spend money on helping them find jobs.<sup>72</sup> This suggests that migrants (including asylum-seekers) would be much more favourably perceived if they had clear obligations and responsibilities – in particular to work – as well as rights. As long as migrants are perceived as getting “something for nothing”, public attitudes will be negative.

<sup>72</sup> See the British Social Attitudes Survey, 1999.

**Box 8.1: the economics of immigration control**

*“we are not suggesting a substitute for effective immigration controls”*

Home Secretary, memo to PM, 29 June 2000

*“resolving the problem of the undeclared worker requires more than just policies to control migration flows”*

Jean-Pierre Garson, **Directorate for Education, Employment, Labour and Social Affairs, OECD**

It is of course correct that whatever control system is chosen, it should be operated as effectively as possible. But it is necessary to examine “effectiveness” in this context:

- In particular, we should not confuse means with ends. The end is the economic and social benefits of migration, not the perfect control system;
- and controls are part of policy. So we need to evaluate economic and social implications of controls. Some are likely to be negative;
- in particular, 100% enforcement is invariably sub-optimal: Type 1 vs. Type 2 errors.

What can economics tell us specifically about controlling illegal immigration? We know that:

- the price of trafficking is high: perhaps up to £20,000 from some regions
- increasing the stringency of border controls increases the price, but does not seem to have a substantial effect on demand – at best it diverts it to other routes.
- however, demand is very sensitive to labour market conditions

What are the implications of this:

- simply trying to improve controls is highly unlikely to be successful. But demand is inelastic; the price will rise, but demand will not fall very much;
- a tax or regulation induced-wedge (at reasonable level) would be feasible; that is, migrants/employers would be prepared to pay rather than enter illegally;
- but to reduce the quantity of irregular migration will require a reduction in labour market pressures.

## **ANNEX 3: THE EU POLICY CONTEXT**

This annex seeks to provide an overview of the factors and policies affecting immigration throughout Europe. While this annex does not purport to be comprehensive, it does raise many questions as to how policy is – and should be – developing in European nations. The introductory section highlights primary economic and social determinants which should be considered in developing European migration policies. Note that many are the same issues faced by the UK. The second section examines the current policy framework of migration in select European nations as well as at an EU level. We introduce the future of migration policies, especially within EU institutions, in the last section of this annex.

### Factors Affecting Immigration Policies in Europe

- **EU demographics**

An ageing population raises crucial questions about the value of restrictive immigration policies. The dependency ratio<sup>73</sup> has increased significantly so that the burden on generous social systems will be more severe as less people in the population are working and others need supportive care. According to UN projections, an estimated 47.4 million immigrants will have to enter the EU by 2050 to maintain population at current levels. This figure implies that 16.5% of the European Union's population would be composed of immigrants (and their children) by 2050.<sup>74</sup> Currently, immigration is responsible for nearly two-thirds of the (very low) population growth in the EU.<sup>75</sup>

- **Labour market implications of ageing**

The fact that the age structure of the population varies throughout European countries implies that certain regions will be more affected by the ageing demographics. This affects employment rates, as younger immigrants might choose to live in an area with a younger working population. In turn, employers might seek to establish themselves in areas with younger working populations as well, further deterring job creation in older aged areas. Île-de-France, for example, accounts for 20% of France's working age population and has the highest employment rate in France.<sup>76</sup> As a result, many countries have taken measures to counteract a tight concentration of migrants in particular urban areas. This issue will gain importance with the accession of the Central and Eastern European countries (hereafter, CEEC).

- **Discrimination**

Discrimination is pervasive in EU labour markets and few governments have anti-discrimination legislation protecting ethnic or racial minorities, let alone immigrants.<sup>77</sup> A survey of ethnic minorities in Europe found that 40% of respondents had experience some form of physical or verbal abuse due to their ethnicity. Some ethnic groups and countries fared worse, such as Blacks in France.<sup>78</sup> Growing anti-immigrant sentiment, coupled with persistent high unemployment, has enabled extreme right-wing groups to

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<sup>73</sup> The proportion of seniors (65+) to the working age population (15-64).

<sup>74</sup> United Nations Report, "Replacement Migration: Is it a solution to Declining and Ageing Populations?" March 2000.

<sup>75</sup> European Commission, "Employment in Europe," 1999.

<sup>76</sup> European Commission, "Employment in Europe," 1999.

<sup>77</sup> In June 2000, the Council of Ministers agreed on a directive prohibiting racial and ethnic discrimination in the workplace.

<sup>78</sup> Wistrich and Smith, *The Migrants' Voice in Europe*, Middlesex University Press, 1999.

gain a political voice in a few European countries (e.g., France, Austria). These forces exacerbate issues of social exclusion for immigrants. Initiatives have been taken in certain EU countries to combat racism and xenophobia, including codes of conduct in criminal justice agencies, and use of criminal law to combat xenophobic offences.

### Immigration Policies in Europe

- **Principal Migration Policies**

EU member states have developed similar immigration policy structures to the UK, with the three basic categories (work permits, asylum and family reunification) for legal entry. But while the systems may appear similar, countries have allowed significant differences in their implementation. France, for example, rejects more than 80% of its asylum applications, while the same proportion of applications succeed in Belgium. Sweden receives few immigrants under its work permit system, while nearly half of Germany's legal non-EU immigrants enter with a limited period worker permit.

Quota systems are in place in some countries to selectively limit or promote specific characteristics of immigrants. In terms of restrictive policies, some countries, such as Spain, have established quotas to limit legal entrants by country of origin. Others have quota limits per type of entrance permit (e.g., limited number of long-term work permits). On the more permissive perspective, perceived skill shortages have led a few other countries to implement or expand work permits for specialised technical fields (e.g., doctors, IT).

The greatest variation, though, is seen in the different, and somewhat incoherent, approaches taken to the immigration of low-skilled workers. On the one hand, some countries have implemented strict asylum entry rules, penalised carriers of illegal immigrants, indirectly supported uninviting environments, and so on. Yet, other countries, particularly to the south, have turned a blind eye to flows of illegal immigrants and have enacted a number of amnesties for illegal residents.

The inconsistent nature of migration policies within the EU undermines the efforts of a member state's policies. With the creation of the Schengen external border, migrants can move between EU countries relatively easily, even though their working papers are not transferable between member countries. The remainder of this section illuminates the EU's efforts to legislate common policies across member countries to eliminate the unwanted effects of migration.

- **Developing an EU migration policy**

The coordination of EU members' refugee, asylum, and visa policies has been a contentious issue since the 1986 Single European Act. While references to an immigration policy for third country nationals was removed from the final Act, the issue continued to receive much attention. The Schengen agreements - which removed most internal EU borders - and its incorporation into the Treaty of Amsterdam prompted greater coordination of migration policies in light of increased non-EU immigration.

While member nations still maintain authority on the issues, the Tampere summit in October 1999 concluded that the EU must develop a common asylum and immigration policy with a secure external border. Members agreed that the policy should be aligned with the Geneva Convention, respect human rights, facilitate integration for legal immigrants, and intensify the fight against racism and xenophobia. The European



Council has intensified the quest to secure greater cooperation between member states and Europol to fight and dismantle international criminal networks involved in human trafficking.

Recent EU policies, though, have allowed for national restrictions on asylum, where entrants from certain countries would not be recognised as asylum seekers at member countries' discretion. The UNHCR decried this decision as inconsistent with the 1951 UN Convention relating to the Status of Refugees and its 1967 Protocol. Yet, countries like Germany and the Netherlands have lists of so-called 'secure' countries from which they automatically reject asylum applications.

The Treaty of Amsterdam and the Tampere summit have developed an institutional framework for the development of an EU migration policy. Member states' growing problems with illegal migration have indicated that national policy-making is not necessarily going to be the sufficient in governing migration, but requires "cooperative transnational and comprehensive multidisciplinary approaches."<sup>79</sup>

*Future Trends in Migration Policies*

• **Recent Policy Changes in Select European Countries**

	<b>Asylum Policy</b>	<b>Reunification Policy</b>	<b>Economic Migrants</b>	<b>Illegal Immigration</b>
AUS		Accelerated implementation of policies; allows spouses to obtain working status after 5 years of residence		
BEL	Decreased number of applicants through border reviews	Person entering under reunification policy cannot in turn have their family enter		Strong penalties in place, especially for repeat offenders
GER	Restricted asylum to specific countries (no bordering countries can request asylum); initial review makes presumption that claim is unfounded	Constitutional protection since 1990 with stricter conditions (e.g., self-sufficiency of family, adequate housing, children under 16)	Plans to give 20,000 green cards to computer (IT) specialists	
ITA		No real policy: having family in Italy can be entrance justification for non-EU migrant.		Regularised 25000 in past five years. Another amnesty expected before 2005. Lax border control.
NETH	Due to Germany's law changes, also decided to restrict 'secure' country applicants;	No legal constraint on family reunification.		Significant increase in deportations

<sup>79</sup> Austrian Presidency, European Commission, "Strategy Paper on Migration and Asylum Policy," 1999.

**RESTRICTED – POLICY**

	<b>Asylum Policy</b>	<b>Reunification Policy</b>	<b>Economic Migrants</b>	<b>Illegal Immigration</b>
	application rejected automatically if entrance on a tourist visa.			
SPA		Must have lived more than 1 year in Spain and have a renewed permit to benefit from policy (extends to parents) since 1994.		Still not a priority

• **EU policy prospects**

How migration policy will be developed at the EU level will largely be shaped by the imminent integration of the Central and Eastern European applicant countries.<sup>80</sup> The population of the 10 CEEC is expected to increase the labour force in the EU-15 by nearly 30%.<sup>81</sup> While no countries have positioned themselves against the principle of CEEC accession, several of the bordering countries - of which Austria and Germany are the most outspoken - are reluctant to allow the free movement of people without a transition period. This transition would, according to trade theory, reduce the negative impact in wages and unemployment expected with the inflow of a large, mostly unskilled labour force. Most studies show, however, that there is little, if any, significant impact overall on either economic indicator.<sup>82</sup> Yet, there is lingering public concern that low-skill workers and certain industries might be hit hardest. The European Commission, though, has clearly indicated that it will not support a transition period.

The underlying theme in EU policy remains one of restriction. With certain countries like Spain and Italy who have had difficulty in implementing tight border controls, an EU directive/policy would accelerate the pressure of compliance. The growing flow of illegal immigrants noticed in past years in Austria, Greece, Italy, Portugal and Spain, along with the CEE accession, provides a political background for the creation of a tightened, homogeneous asylum policy. It is expected that the post-Tampere work will incorporate the major countries' views - especially Austria, Germany and France - whose politics are sensitive to racial and migration-related issues.

The EU's activities on migration policy remained slow, if not fragmentary, since the adoption of the Treaty of Amsterdam, but were recently reenergized by the Tampere summit. The Commission has indicated that it is examining the legal position of long-term legal residents (i.e., especially as to whether they would have a right to work and reside in another member state); asylum procedures; residence of students; work permits; and other aspects of entry of third country nationals.

The Commission recent proposal on family reunification was the first proposal regarding migration following the Treaty of Amsterdam. Twelve members (UK, Ireland,

<sup>80</sup> Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, and Slovenia. Non-CEE applicants include Cyprus, Turkey, and Malta.

<sup>81</sup> Tino Boeri and Herbert Brücker, "The Impact of Eastern European Enlargement on Employment and Wages in the EU Member States," 2000.

<sup>82</sup> Ibid.

and Denmark are nonparticipants) are proceeding with the development of a directive. Current issues debated include the definition of a family relative, conditions (if any) associated with the right, and validity of applicant's residence permit as a criterion for family reunification.<sup>83</sup> A vote on a draft directive on third country nationals' right to reunification is expected in the summer of 2000.

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<sup>83</sup> DN: PRES/00/183, 226<sup>th</sup> Council meeting, Justice and Home Affairs, Brussels 29 May, 2000.