



MIGRATION ADVISORY COMMITTEE

EEA-workers in the UK labour market: Interim Update



March 2018

Migration Advisory Committee

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Chairman's Foreword

In July 2017, the Home Secretary commissioned the MAC to report on the current and likely future patterns of EEA migration and the impacts of that migration on the UK. The intention is to provide an evidence base for the design of a new migration system after the end of the implementation period in 2021. We were asked to deliver a final report in September 2018, but with an option to produce interim reports.

This interim report is an update on some, but not all, of our work on this commission. There are advantages and disadvantages to producing it. Migration in general and the connection to Brexit in particular is a topic that attracts a lot of discussion, not all of it well-informed from our perspective. We did not feel the MAC should be absent from this discussion for the 15 months from commission to final report. However, we are wary of producing an analysis which is incomplete that may lead readers to fill in gaps and pre-judge what our final conclusions might be. The update tries to be clear about what we have done and what is still to come and to warn against jumping to premature conclusions.

What the update does is to summarise the responses to the Call for Evidence we published in July 2017, alongside a briefing paper providing a summary of the roles played by EEA migrants. There were 417 responses to our Call for Evidence (a record for a MAC commission). We are today publishing them on our website. We are very grateful to all those who responded and engaged with us. As an evidence-based body, it is important that we examine, through our own analysis, what we are told. The views expressed to us may not be representative – inevitably we are more likely to hear from groups who are better-organised and have the desire to respond.

The responses are grouped in two broad themes. The first is what employers told us about why they employ EEA migrants, and what might happen if a more restrictive migration policy was introduced. The second general theme are issues with a regional dimension. These themes seem the best way of summarising the views expressed to us but should not be taken to imply that the MAC endorses a sectoral and/or regional approach to post-Brexit migration policy.

What employers told us

The vast majority of employers do not deliberately seek to fill vacancies with migrant workers. They employ EEA migrants when they are the best or, sometimes, the only available candidates. The expansion of the EU in 2004 marked a qualitative and quantitative change in EEA migration. Workers from the older member states have been, and remain, more likely to work in high-skilled jobs than the UK-born but this is not the case for those from the new member states. After 2004, employers in some sectors, especially the lower-skilled, found they now had, through free movement, access to a new well-qualified and highly motivated labour force. These sectors then had a 'tail-wind' which formed the basis for expansion in employment.

Employers in all sectors are concerned about the prospects of future restrictions on EEA migration. The high-skilled are concerned about having EEA workers subject to the current non-EEA system, which they do not hold in high regard. The lower-skilled

are concerned that the impact of restrictions is likely to be greatest on them. Any proposals for restrictions are likely to be opposed by many employers as increasing costs and bureaucracy. Some may regard this employer opposition as sufficient proof that any restrictions are misguided.

A thriving business sector is vital but it is part of the means to the end of providing a high quality of life for UK residents, an objective that the MAC has always used in evaluating migration policy. How the lives of UK residents are affected by EEA migration requires a full assessment of the impacts of that migration, not just the perspectives of employers. Our final report will consider a wide range of impacts: on wages, unemployment, prices, productivity, training, the provision of public services, public finances, community cohesion and well-being. Nothing in this update should be used to pre-judge our conclusions on these questions.

Some think a greater sense of urgency is needed, that action is needed now. We do understand the importance of migration policy, but coming to the right, rather than a rushed, conclusion is what matters: our work is for a system coming into force from 2021. Some sectors are currently experiencing difficulties in recruiting and retaining EEA migrants, problems that are emerging without any change to the migration system and reflect the realisation of risks for business models that have become heavily reliant on EEA workers. Migrants have a choice and it cannot be taken for granted they will choose to come to the UK: migration flows can change very rapidly, as the fall in EEA net migration since the referendum shows.

Regional Themes

Migration is rarely the only policy available to deal with a problem and always needs to be compared with alternatives. This principle is illustrated by some of the regional themes we consider. Migration can help alleviate the problem of an ageing population though ONS projections suggest the impact is modest. Policies to raise the pension age are much more effective as long as older workers remain in employment. Remote areas, mostly in Scotland, face the prospect of population decline but this might be better addressed by policies to address why people leave rather than drawing people in.

Northern Ireland is unique in the UK in having a land border with an EU country. Immigration controls on EEA (but not Irish) citizens would not require any border infrastructure: rights to work are checked in the workplace not the border. It is the flow of goods and services, not people, that makes the border issue challenging.

All MAC reports are a team effort, but the volume of Call for Evidence responses has made this report especially challenging. I would like to thank the other members of the committee and the secretariat for their work on this update.

A handwritten signature in black ink that reads "Alan Manning". The signature is written in a cursive, flowing style.

Professor Alan Manning

Executive Summary

Introduction

1. In July 2017, the Home Secretary asked the MAC to set out the current patterns of European Economic Area (EEA) migration into the UK and the impact on the UK's economy and society. We were also asked to consider how the immigration system aligned with a modern industrial strategy. The intention is to provide an evidence base for the design of a new migration system after the end of the implementation period in 2021. The commission gave us the option to publish interim reports. We published a briefing paper on EEA migration in the summer¹ which provided some basic information on EEA workers in the labour market.
2. This Interim Update provides an overview of the stakeholder engagement and written submissions that we received. We are very grateful to all those who have helped us with our work. There were 417 responses to our Call for Evidence (a record for a MAC commission). We are publishing them on our website and this update attempts to summarise the key themes that emerged. Although we received a great deal of information we are conscious that we are more likely to hear from groups who are better-organised and that have the capacity and desire to respond. We should not assume the views we hear are representative and, as an evidence-based body, we need to investigate claims we are told. This update provides a summary of the views expressed to us with some data and economic analysis of our own.
3. We discuss two broad groups of responses: from employers in Chapter 1 and from regions in Chapter 2. This seemed to us to be the most natural way of organising the responses. We are not endorsing a sectoral or regional approach to migration policy.

Cross-Cutting Themes from Employer Responses

4. One of the questions this update seeks to answer is “why business employs EEA migrants?”.
5. The vast majority of employers do not deliberately seek to fill vacancies with migrant workers. They seek the best available candidate. When an EEA migrant worker gets a job, it is because the employer thinks they are the best, sometimes the only, qualified applicant. It is important to realise that the difference in skills within the population of both migrants and the UK-born is far larger than any difference between the groups so that it can be misleading to think of migrants and the UK-born as distinct but homogenous groups. Nonetheless, there are differences on average which account for why EEA migrants are more likely to be employed in some sectors than others.

¹https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/636286/2017_08_08_MAC_Briefing_paper.pdf

6. Among the reasons given by employers for why an EEA migrant might be the best candidate for a job, were:
- the necessary skills are scarce among the UK-born workforce;
 - migrants often have a higher motivation to work so are more productive and reliable;
 - migrants are prepared to do jobs in difficult conditions that the UK-born workforce are not interested in; and/or
 - low unemployment means a low supply of UK-born workers.

Skill Shortages

7. Employers often reported skill shortages as one reason for employing EEA migrants. Many of these reported shortages are in high-skilled jobs and there are many EEA migrants in such jobs, especially from countries in the EEA before 2004. There were also reported shortages in some jobs which would be classified as medium- or low-skilled using national skills frameworks: many EEA migrants from the New Member States (those joining the EU in and after 2004) are in these jobs. Many employers disputed labelling jobs in their sector as low-skilled or unskilled. Some expressed concern workers in these jobs would not be eligible for work permits if the current non-EEA Tier 2 system was extended to EEA migrants and they were not classified as sufficiently skilled.
8. Many EEA workers are in jobs requiring a high level of skill that take years to acquire. But, some of the claims about necessary skill levels seemed exaggerated. Jobs at lower levels in qualifications' frameworks (e.g. RQF in England, SCQF in Scotland) require less training time than jobs at higher levels. Skills shortages can be alleviated more quickly with shorter training times though this may require government as well as employer action.
9. We shall be looking at the impact of EEA migration on the training of UK-born workers in the final report.

Work Motivation and Flexibility

10. Many employers expressed the view that EEA migrants are more motivated and flexible than UK-born workers - this included a greater willingness to work longer and unsociable hours, to welcome overtime, and a consistently strong work ethic. In addition, EEA migrants are often better-qualified than the UK-born for the jobs they do.
11. The MAC view is that it is hard to assess objectively many of these claims. One aspect of reliability are absenteeism rates and our analysis suggests that, on average, EEA migrant workers report lower absenteeism rates than UK-born workers, even when accounting for differences in age, industry and occupation. The differentials are particularly large for migrants from New Member States, and greatest for medium and lower-skill levels. Some, but not all, of this differential is probably due to the fact that EEA migrants have fewer reported health problems, perhaps not surprising given that migration is likely to be more appealing if one is healthy. It seemed plausible to us that EEA migrants are sometimes a high quality, eager workforce compared to UK-born

workers in similar occupations. If wages are equal (we shall consider wages in due course) then they are a higher quality for the same cost.

12. EEA migrants are slightly more likely to work evenings or nights, work that might be thought less appealing. Most of these differences can be accounted for by differences in the characteristics of the workers or the jobs that they do.
13. We also present evidence that, within occupations, EEA migrants are better educated than their UK-born counterparts.
14. Some employers, mostly in lower-skilled sectors, felt they had an image problem among the UK-born with jobs in their sector being viewed as an unattractive career. Employers denied that low wages were part of the image problem but when, for example, 95% of jobs in hospitality pay below average hourly earnings, we were not always convinced by this argument.

Low Unemployment

15. The UK unemployment rate is currently low, and the ratio of vacancies to unemployment high. It is unsurprising that, with such a tight labour market, many employers reported increasing difficulties in recruiting workers and this is one reason why they employ EEA migrants.
16. Low unemployment does make it harder for businesses to recruit and retain workers because workers have more options. Low unemployment makes life easier and better for workers and this is important; it is a good thing.
17. When demand conditions are favourable, it is natural for firms to want to be able to expand output and employment while keeping costs down. It is not so clear this is in the interests of the wider society – it might be better for favourable demand to translate into higher productivity or wages but a smaller increase in employment.
18. A well-functioning labour market has employers competing for workers with workers having a wide range of options and choosing the best job for them. The firms that can offer the best terms and conditions are likely to be those with the highest productivity. Firms with lower productivity who can only afford lower wages will struggle to recruit and retain workers: this, understandably, is not a prospect viewed favourably by these employers but it is a sign of a healthy economy.

Wages

19. When discussing the reasons EEA migrants rather than UK-born workers are sometimes hired, it was noticeable that employers did not often mention wages as a factor. Employers do not think of themselves as employing EEA migrants because they are cheaper (they generally insisted they paid the same wages to workers doing the same job, regardless of nationality), but because EEA workers are higher quality or are prepared to do work that British workers are not.

20. The MAC view is that, from the economic perspective this does amount to saying that it is sometimes possible to hire a given quality of worker for lower wages if they are an EEA migrant than if they are UK-born.
21. We analyse wage differentials between UK-born workers and different types of migrants. Among EEA migrants there is a very big difference between EEA migrants from the older member states (those who were EEA members before 2004) who earn 12% more than the UK-born and migrants from the new member states (NMS) who earn 27% less than UK-born workers. These headline pay differentials can mostly be explained by differences in age, region, industry and occupation between migrants and the UK-born.
22. When comparing, as best we can, the pay of similar workers (i.e. same age, region, industry and occupation) pay gaps are much smaller. Workers from the old member states seem to be paid much the same as an equivalent UK-born worker but NMS workers are paid less, 4 per cent less in low-skilled jobs. We found no evidence that EEA migrants are more likely than the UK-born to be paid less than the minimum wage though there is some evidence this is the case for non-EEA migrants.
23. These pay gaps do not imply that EEA migration has reduced the wages of the UK-born. The UK has experienced a period of declining real wages in recent years, the worst decade according to some estimates for over 200 years.² The timing of this seems more closely linked to the financial crisis than the expansion of the EU in 2004, and has affected UK-born workers of all skill levels, not just those in lower-skilled jobs where the increases in EEA migration have been concentrated. For our final report, we are updating and extending previous analyses of the impact of migration on wages but previous MAC reports³ have concluded that migrants had little or no impact on average wages, but increased wages at the top of the UK wage distribution and slightly lowered wages at the bottom of the distribution.
24. To the extent that EEA migrants are paid lower wages than the UK-born this may result in lower prices, benefitting UK consumers. Our final report will also consider these possible impacts.
25. A central puzzle in the UK labour market at the moment is why wage growth is so weak when unemployment is low. Some employers do not feel they could improve the supply of UK-born workers by offering higher wages, that wages are irrelevant to the ability to recruit and retain. The MAC does not think this is credible. Individual employers would almost always be able to recruit resident workers if they paid wages sufficiently above the going rate. This applies even if there are skills shortages at the national level – an individual employer should always be able to fill the job if a sufficiently high wage is offered.

² <http://www.resolutionfoundation.org/media/press-releases/public-and-family-finances-squeezes-extended-well-into-the-2020s-by-grim-budget-forecasts/>

³ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/257235/analysis-of-the-impacts.pdf

26. More credible is the claim that small margins and rising other cost pressures mean that higher wages are unaffordable. Individual employers understandably see wages as a cost, with increases making running the business harder.

Attitudes to Possible Restrictions on the Flow of EEA Migrants

27. Employers were concerned about the prospect of restrictions on the ability to recruit EEA migrants. The MAC view is that it is unsurprising that business does not welcome restrictions on their ability to hire, seeing such restrictions as likely to make a hard job even harder. The views of business are important but they should not be the only analysis to be considered. Historically, many employers were hostile on grounds of cost and burden to the Equal Pay Act and the National Minimum Wage, legislation now widely thought a 'good thing' including by business.
28. Employers were fearful about what the future migration system might be. Those higher-skilled sectors which currently use the Tier 2 system to recruit non-EEA migrant workers expressed mostly negative views of that system. Many felt that it was time consuming, costly and overly complex. They were concerned about both the rules and the caps in that system being applied to EEA migrants. Fears about the future migration system were particularly great in lower-skilled sectors where many workers would not be eligible under the existing Tier 2 system and where there have been large increases in the share of EEA migrants since 2004, mostly from the New Member States.

Employer Views on Impacts of Restrictions on Hiring EEA Migrants

29. If it was harder to employ EEA migrants, employers might use a variety of strategies to deal with this. Many submissions indicated that, in their view, there were no alternatives to EEA migrant labour in which case businesses might grow more slowly, contract or even disappear. Others discussed possible strategies to mitigate the impact of any restrictions. In the absence of clarity about what those restrictions might be and the time-scale over which they would bite, it is hard to assess how effective these will be as some strategies are much more feasible in the long-run.
30. Training UK-born workers to fill skills shortages may be a strategy in the longer term but employers stated that in the short-term they needed EEA migrants to fill the gap. This was especially the case in occupations where training takes many years but some employers in lower-skilled sectors also made this argument. Employers were generally at pains to emphasise that the availability of EEA migrants had not reduced the training opportunities to the UK-born. Whether the evidence supports this view is something we will consider in our final report. It is important to note that many of the reported skills shortages and problems with basic skills and vocational education have persisted for decades and even those that are more recent have occurred without any change to the rules surrounding EEA migration. It is unlikely that solving skill shortages can be left to individual employers – support from government is needed.

31. In our discussions with employers we explored the extent to which it was possible that investment and innovation could reduce reliance on EEA migrant workers. Many employers expressed the view that, while there were future possibilities, there were few such options available now. This needs to be set in the wider context of long-standing poor UK productivity performance compared to similar countries and the evidence that, within sectors, there is a great deal of heterogeneity in productivity. There is scope to raise productivity by more widespread adoption of current best practice though achieving this is challenging. We are currently conducting research on the impact, if any, of migration on productivity: this will be discussed in our final report in September.
32. Many responses argued that a more restrictive migration policy would lead to large numbers of unfilled vacancies. The MAC view is that this is unlikely in anything other than the short-term. The available evidence shows that the growth in employment is largely driven in the long-run by growth in the labour force.
33. Many employers argued that restricted access to EEA migrant labour would have negative consequences for their businesses and the wider UK economy, either by restricting companies' ability to grow, or forcing firms to relocate to Europe in order to access EU labour without restrictions, or forcing some employers out of business.
34. The MAC view is that it is important to be clear about what the consequences of restricting migration would be. Lower migration would very likely lead to lower growth in total employment, and lower output growth. It would not necessarily mean lower growth in output per head which is more closely connected to living standards. There is little evidence that, over long periods of time, countries that have had higher rates of labour force growth have had higher rates of growth of output per head. However, there is no doubt that some types of migration can raise productivity and output growth may be desirable if the extra output improves the government finances: our final report will discuss the fiscal impacts of EEA migration.

Contingency planning

35. Many employers in lower-skill sectors have built a business model in which the ready availability of EEA migrant labour plays an important role. This business model has had a tail-wind behind it since accession of the New Member States in 2004 but now faces a number of problems even in the absence of changes to immigration policy. The fall in the value of the pound following the referendum result and the perception that the UK is a less attractive place to be for a migrant has made it harder to recruit EEA migrants in a number of sectors. A reviving Eurozone and rising incomes in Eastern Europe mean that other options are becoming more attractive.
36. Many businesses do not seem well-prepared for a changing and tighter labour market in which they may be competing with each other for labour more intensively than in the past; still fewer seemed to be making provisions for change. A large part of this is understandable – it is very hard to plan when there is considerable uncertainty about the future (including, but not confined to, the future migration system). This sense of pervasive uncertainty came across strongly in many submissions and during our stakeholder engagement.

Regional Themes

37. We received several responses to our Call for Evidence from the Devolved Administrations of the UK and public bodies which have a regional emphasis. These submissions often mentioned specific sectors which are mostly common across the UK and covered in Chapter 1. Some of the issues raised have a distinctive regional aspect.
38. One issue raised was the contribution of EEA migrants to population growth and how this varies across the UK. ONS projections suggest that if EU net migration was zero, the population in Scotland, Wales and Northern Ireland would stop growing and even fall in the next 20 years. Though the population of England would continue to grow, some Northern regions of England have similar projections to Scotland, Wales and Northern Ireland. Demography does not respect administrative and political borders.
39. The contribution of EU migrants to slowing the ageing of the population was also mentioned. All areas of the UK are ageing though some more than others. ONS projections suggest that the dependency ratio would worsen if net EU migration fell to zero. What is striking about those projections is the small effect of migration on dependency ratios. The ONS principal projection is that the UK dependency ratio (people over 65 per 1000 aged 16-64) will rise from 293 in 2018 to 416 in 2039. Under the extreme assumption of no EU migration this only rises to 432 in 2039. While a working-age migrant reduces the share of the old in the population today, they will eventually become old themselves and contribute to the size of the old age population later on. Rises in the pension age have a much larger impact on dependency ratios though face the challenge of increasing employment rates among older workers.
40. The Scottish Government argued that there is a particular problem with sustaining population in its remote areas. These areas have high outflows of population which the Scottish Government argues should be off-set with higher immigration. The alternative would be to address the factors that make people leave these areas. We note the issue but express no views on these policy choices.
41. Northern Ireland is the only part of the UK with a land border. If, as we assume, the Common Travel Area continues, citizens of both the UK and Ireland will continue to have the right to work on either side of the border. Other EU citizens arriving after the end of the transitional period might have the rights to work in Ireland but not Northern Ireland. Such a situation exists now for some non-EEA citizens though not large numbers. This change would not require border infrastructure as rights to work are checked in the workplace not at the border. It is the flow of goods and services, not people, that makes the border issue challenging.

Sectoral Analyses

42. Chapter 1 provides a discussion of general themes but risks obscuring important differences across sectors. The Annexes cover twenty sectors the MAC has identified for analysis. Some of these were heavily represented in the responses and stakeholder engagement, some less so but, for completeness, are included. We

provide an overview of data on employment, use of EEA migrants, productivity and wages as well as a summary of the evidence presented to us.

Conclusions

43. Employers have increased their employment of EEA migrant labour with accession of New Member States in 2004 being a marked change. Before 2004, EEA migration was primarily high-skilled: this has continued but migration from New Member States has been heavily concentrated in lower-skilled jobs. In many lower-skilled sectors, 2004 marked a point at which high-quality workers became available at a reasonable wage and employers in some sectors took advantage of the opportunities this offered.
44. Why does business employ EEA migrants? The simple answer is because they are the best available candidates. Understandably, employers are unenthusiastic about the prospect of restrictions on the pool of possible workers.
45. What is best for an individual employer is not necessarily best for the welfare of the resident population, which is the criterion the MAC uses when evaluating migration policy. To assess that requires a detailed study of the impacts of EEA migration of different skill levels: our final report will consider these.

Introduction

1. On 27 July 2017, the Home Secretary wrote to the Chair of the Migration Advisory Committee (MAC) attaching a commission to the MAC from the government. The commission together with the accompanying letter from the Home Secretary is set out in Annex A to this update.
2. In summary, the commission asked that we set out current patterns of European Economic Area (EEA) migration into the UK and the impact of that immigration on the UK's economy and society. We were also asked to consider how the immigration system aligned with a modern industrial strategy. The intention was that this report should provide an evidence-base for the design of the post-Brexit immigration system being introduced after the end of the implementation period.
3. The Home Secretary asked that the MAC report by September 2018 but said that it would be helpful if the MAC felt able to provide interim reports throughout the period spent working on this commission. The MAC see both advantages and disadvantages in an interim report. Migration is a topic that attracts a lot of discussion, not all of it well-informed from our perspective. For the MAC to be absent from this discussion for the 15 months from commission to final report might not be helpful. However, we are wary of producing an analysis which is incomplete, that may lead readers to erroneously deduce what our final conclusions might be.
4. On balance, we decided the advantages of producing this interim update outweighed the disadvantages. It is not an interim update on all aspects of the commission we were given. It is based around summarising the evidence that we have received from stakeholders and some analysis that offers useful perspectives on those views. Nothing in this update will necessarily determine the shape or findings of our final report. Our work on the impacts of EEA migration is not complete, and we wish to consider the results of our own analysis and the outcomes of the external research we have commissioned before reaching any conclusions. We know that many people want answers and want them quickly. But we think it better to reach the right conclusion rather than a rushed conclusion and it is important to bear in mind that this commission is to provide evidence for the design of a post-Brexit immigration system that comes into force after the end of the implementation period.

What we have done so far

The Call for Evidence

5. Following our receipt of the commission from the Government, we issued a Call for Evidence on 4 August 2017 along with a briefing paper. The Call for Evidence identified the sort of information that we would find most helpful to receive in our consideration of the government's commission. We asked for responses to be sent to us by 27 October 2017.

6. The questions we asked in the Call for Evidence can be found at Annex B. They reflected the questions asked of us in our commission.

Briefing Paper

7. The briefing paper⁴ provided some preliminary analysis of EEA migrants in the UK labour market. We outlined that, in making recommendations about migration policy, the objective is to maximise the total welfare of the resident population, whilst considering that impacts may differ across regions, occupations or sectors. This overall objective focuses on how migration affects the lives of individuals, a perspective we think important. Some discussion of immigration mentions the impacts of immigration on business, the economy or specific sectors. We consider that this risks confusing ends and means in that a thriving economy is important for the consequences it has for peoples' lives rather than being an end in itself.
8. We noted that different types of immigrants have different impacts on the welfare of residents. It follows from this that there may be good reasons for residents of a country to want to control the number and/or type of immigrants who enter. Freedom of movement under EU rules means that the decision to migrate rests solely with the migrant and residents have no say in who comes and in what numbers. Further, the prospect of not being subject to free-movement does not make the UK unusual. Countries outside the EEA set their own immigration policy, and none of them unilaterally give freedom of movement to the citizens of other countries.
9. The paper presented some background data on EEA workers in the UK labour market and changes since 2004. We are not reproducing that material here but it is useful for understanding the issues so the briefing paper should be read in conjunction with this update. We return to some of these issues in this update and will return to others, especially on the impacts, in our final report.

Stakeholder engagement

10. We sent copies of our Call for Evidence and briefing paper to contacts on our stakeholder database and published both on our website. Through our contacts with bodies such as CBI and the British Chambers of Commerce, as well as other stakeholders, we arranged a series of regional meetings and published details of these on our website. We visited Scotland, Wales and Northern Ireland as well as each of the English regions (North East, Yorkshire and Humberside, North West, East Midlands, West Midlands, East of England, South East, South West and London). We met a wide range of bodies and organisations, from planters and growers to engineering firms to scientific researchers and a symphony orchestra. A representative list of organisations and bodies we met with is at Annex C to this update. We cannot supply a comprehensive list as we met many organisations as part of larger meetings and it was not possible to capture the names of all present.

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https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/636286/2017_08_08_MAC_Briefing_paper.pdf

11. We are very appreciative of the time and effort all stakeholders took to engage with us and of the thoughtful and constructive nature of their contributions.

Responses to the Call for Evidence

12. We received written responses from 417 organisations, businesses and individuals. The responses spanned the public and private sectors, from small firms to multinational organisations, as well as the length and breadth of the UK. This was a record number of responses to a MAC commission reflecting both the level of interest in the subject and the fact that this commission spans the whole economy.
13. A full list of organisations and individuals that submitted evidence to us is contained in Annex D. We are publishing on our website all the responses to the Call for Evidence⁵. Many have previously been published by the respondents themselves, a practice we support and encourage. We think that publishing the evidence we receive is an important part of being an evidence-based body. A small number of responses are not being published or are being published in redacted form as we consider that they contain material that would cause harm to those respondents if made publicly available.
14. Although we received a large number of responses, we are aware that we should not assume they are representative of opinion in general. We suspect that those who care more about the issue are more likely to respond but also that those who have greater access to resources may be more likely to respond.

What we do in this update

15. This update is not an update on our work to answer every question asked in the commission. We thought that would be unhelpful and confusing where we have not finalised our conclusions. So, it is important to be aware of both what we do and do not do in this update.
16. This update summarises the evidence that we received both in our stakeholder engagement and in the responses to the Call for Evidence. Given the volume of evidence submitted and the wide range of issues addressed, we have, of necessity, been selective in the evidence we chose to summarise. We have focussed on the information that was most pertinent to our commission and the questions we asked in the Call for Evidence. Interested readers are referred to the evidence from stakeholders that we have published online.
17. Any such summary risks over-simplification and excessive generalisation. But it is important to try to see the big picture and we settled on two key aspects of the responses, based on the two largest groups that responded, employers (and their organisations) and countries and regions.

⁵ <https://www.gov.uk/government/organisations/migration-advisory-committee>

18. Chapter 1 presents a summary of the responses from employers, describing the cross-cutting themes that emerged. These reflect the reasons why employers employ migrants in general and EEA migrants in particular, what employers believe the impact of EEA migration has been, how they view the prospect of a more restrictive policy towards EEA migrants and what might happen if there was such a policy. We try to summarise the views expressed to us and we also offer some commentary on those views, setting them in a wider context.
19. To understand the role of EEA migrants in the UK labour market it is often helpful to compare them to other migrants and the UK-born. We use the following categorisation. We define migrants as those who were born outside the UK, and not on nationality as some other studies do. Our reason for this is outlined in the methodology section of Annex E. We include those born in Ireland with the UK-born on the assumption that the Common Travel Area will continue so any future restrictions on EEA migration will not apply to the Irish. Sometimes we refer to the group of UK and Irish as simply the UK-born to make the report more readable. EEA migrants are themselves heterogeneous and one of the important points made by this update is that the nature of that migration changed with the accession of mostly Eastern European countries in 2004. We often distinguish between a group we call EU13+ which are the 13 pre-2004 EU members (excluding UK and Ireland) plus the members of the EEA (Norway, Iceland and Liechtenstein) plus Switzerland (which is not technically a member of the EEA). We call New Member States (NMS) migrants those who were born in countries that joined the EU in or after 2004⁶.
20. This chapter focuses on cross-cutting themes but it is important to remember the important heterogeneity across sectors. Annex F contains summaries of the evidence received for 20 selected sectors, also providing some key statistics on the use of migrants, employment, productivity and wages. The 20 sectors (based on the standard industrial classification system) are listed in Table 1 below.
21. Table 1 also lists the number of responses by sector though it is not always a perfect match between a particular response to the Call for Evidence and the SIC code into which it has been placed. The number of sectors chosen was a balance between the need to convey an impression of the heterogeneity and the need to avoid too much detail.
22. We emphasise that our grouping by sectors is because this is the easiest way to summarise the evidence presented to us. It should not be taken as the view that the future migration system should be sector-based rather than the current occupation-based non-EEA system.

⁶ New members states include: Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, Slovenia.

Table 1: Sector group headings used in sector summaries			
Standard Industrial Classification (2 digit)		Number of responses	EEA migrant share of employment
01-03	Agriculture, Forestry and Fishing	39	9.0%
05-09	Mining Activities	3	4.0%
10-11	Manufacture of Foods and Beverages	15	24.3%
12-33	Other Manufacturing	14	9.0%
35-39	Utilities	16	5.1%
41-43	Construction	12	8.1%
45-47	Wholesale and Retail Trade	10	6.4%
49-51, 53	Transport	10	6.8%
52	Warehousing	1	18.5%
55-56	Accommodation and Hospitality	16	13.2%
58-61	Media and Communications	6	5.7%
62-63	IT	15	7.6%
64-66	Financial and Real Estate	13	5.6%
68-75, 94, 99	Professional Services	64	5.6%
77-82, 95, 96, 97, 98	Non-Professional Administrative and Support Service Activities	30	8.8%
84	Public Administration	4	2.5%
85	Education	45	4.0%
86	Health	26	4.1%
87-88	Residential and Social Care	11	5.1%
90-93	Creative Arts and Entertainment	35	4.3%
	Other Stakeholders	32	
Total		417	

Source: Migration Advisory Committee, 2018

23. Chapter 2 presents a summary of the regional issues highlighted to us, with some analysis of these issues. It discusses the role of EEA migration in population growth,

in mitigating the impact of an ageing population and also discusses heterogeneity across and within the countries and regions of the UK. It also discusses two issues that affect only parts of the UK: remote areas in Scotland and the land border between Northern Ireland and Ireland.

24. One other sizeable group of responses to the Call for Evidence were analyses of the impacts of migration on the UK. We do think these responses important and valuable but we do not attempt to summarise them in this Interim Update because we think it more natural to discuss them alongside our own assessment of impacts and this will be in our final report.

What we do not do

25. The commission asked us for an assessment of the impact of EEA migration. We have started this work but are not in a position to report conclusions now, this will be in the final report. We are looking at the impact of EEA migration on the wages and employment opportunities of the resident workforce, on prices, on training, on productivity, on the public finances, on public services (health, education, and social housing), and on wider issues of cohesion, integration and well-being. We will review existing evidence in these areas and, where helpful, update and extend it, using both external and internal research. Understanding the impacts are crucial for the MAC to do its work of making recommendations about migration policy based on the welfare of the resident population. Where important, we will consider how impacts vary.
26. The commission also asked us to consider the following four areas that will all be addressed in the final report:
- aligning the UK immigration system with a modern industrial strategy;
 - whether the shortage occupation list needs to be amended to incorporate lower-skilled workers than NQF 6 as it is at present;
 - what lessons can be learned from the experience of other countries; and
 - possible future trends in EEA migration absent new controls.

Chapter 1: Cross – Cutting Themes from Employer Responses

Introduction

- 1.1. This chapter discusses some general themes that emerged from employer responses to the Call for Evidence. Any such summary inevitably involves simplification and generalisation about issues that were sometimes specific to particular sectors. However, we found that some issues were mentioned by many respondents and these are discussed here.
- 1.2. More detailed information on 20 sectors can be found in the Annex F. Even then, there is a great deal of heterogeneity between employers within sectors.
- 1.3. This chapter starts by setting out the main reasons given by employers on why they employ EEA migrants. We then present what employers think are the key impacts of migration on the resident population, employer attitudes towards possible future restrictions on EEA migration, and what employers think are the likely impacts of those restrictions. The aim of this section is not just to report what employers have told us, but also to critically assess their opinions and to provide commentary based on our own analysis. In many cases, however, this analysis is not yet complete. A full assessment will be produced in our final report in September 2018.

Why do employers employ EEA migrants?

- 1.4. When considering migrants and the UK-born there is the danger of considering them as distinct but homogeneous groups when, in reality, the differences in skills within these groups are much larger than any differences between them. However, these groups do not have the same distribution of skills and these differences lead to migrants (and migrants from different countries) being employed more in some sectors and jobs than others.
- 1.5. The vast majority of employers do not deliberately seek to fill vacancies with migrant workers. They seek the best or, sometimes, the only available candidate. There were a variety of reasons given by employers for why they hire EEA migrants rather than UK-born workers (though often the reasons apply to migrants in general and not just those from the EEA). Among the most common reasons we were told:
 - EEA migrants have the necessary skills that are scarce in the UK-born workforce;
 - EEA migrants are more reliable and flexible than UK-born workers;
 - EEA migrants are prepared to do work the UK-born workforce find unappealing;
 - Unemployment is very low so there is no supply of UK-born workers.

- 1.6. This is in line with previous research and with a recent Chartered Institute of Personnel and Development (CIPD) report on why employers hire EEA migrants⁷.
- 1.7. It was interesting to note that employers did not often mention pay as a reason for employing EEA workers. This is also in line with the recent CIPD report where only 6 per cent of employers gave 'lower expectations of pay and conditions' as a reason though this was 14 per cent for low-wage employers.

Lack of skills in the UK-born labour force

- 1.8. Many employers expressed the view that, without employing migrants, they would not be able to address the skill shortages they are currently facing, at least in the short-run. This concern was widespread not just from sectors traditionally thought of as 'high-skilled'.

“Evidence from focus groups revealed high levels of concern among firms in sectors who rely on low-skilled EEA labour, such as agriculture, transport and hospitality. They believed that any future restrictions would lead to increased skills shortages and unfilled vacancies, which in turn would have devastating impacts on their ability to operate and sustain the businesses. Many Accredited Chambers have highlighted immediate and acute skills shortages in their local economy, set against a forecast of growth in jobs over the next decade. Firms are concerned about their area’s ability to meet the demand for skills if access to EEA workers were to be restricted.”

British Chambers of Commerce response to MAC Call for Evidence

- 1.9. Among high-skilled occupations, employers in many sectors expressed concerns about skills shortages in STEM areas, suggesting that UK schools and universities were not training sufficient workers in these areas or were not providing students with sufficient business relevant skills.

“The UK suffers from a chronic digital skills shortage which is hampering the growth of the tech sector - last year, high-skilled vacancies in tech companies made up the largest proportion of the professional vacancy market. Access to the EU talent pool has allowed tech companies in the UK to mitigate the paucity of domestic digital skills, and is why European talent remains so important to continued growth.”

TechUK response to MAC Call for Evidence

⁷ <https://www.cipd.co.uk/knowledge/work/trends/labour-market-outlook#>

- 1.10. A number of sectors employing high skilled workers argued that they recruit second or third job EEA migrants from the EU and also EU graduates from EU universities, as they have more industry experience as part of their degrees, rather than the UK graduates. Merck, a pharmaceutical company, for example, stated that UK students typically spend time studying theory rather than developing practical laboratory skills during their degree.
- 1.11. Respondents within the information technology sector told us that, in their view, the key to addressing the UK digital skills gap was focusing on developing UK digital skills and improving STEM⁸ skills through the education system. For their part, the education sector said that there were significant numbers of migrant academics employed in teaching STEM subjects. Educational institutions reported specific difficulties in recruiting to STEM subject areas including research roles in Physics, Chemistry, Engineering, Mathematics, Molecular and Clinical Cancer, Genomics, Psychology and Bio-Mechanics.

“EEA staff are particularly concentrated in STEM subjects. In 2015–16, 59 per cent of EEA staff worked in departments defined by the Higher Education Statistics Agency (HESA) as science, engineering or technology (their equivalent of STEM).”

Universities UK response to MAC Call for Evidence

- 1.12. The Royal College of General Practitioners said there was currently a shortage of GPs working in the UK. A survey of their membership in 2017 found that 71 per cent of GPs who had been involved in recruiting GPs in the past year had found it difficult, and two fifths of surveyed GPs said there had been at least one GP vacancy at their surgery for more than three months.
- 1.13. The Society of Motor Manufacturers and Traders said that UK automotive manufacturing had a significant skills gap with a particularly acute demand for engineering skills. A 2015 Automotive Council report had identified that the sector had up to 5,000 current vacancies and that, to meet shared government and industry 2020 growth ambitions, an estimated 60,000 new people would be required in the supply-chain alone.
- 1.14. Concerns about skills shortages were also expressed about jobs that would not meet the skill requirements to be eligible to sponsor a Tier 2 non-EEA migrant⁹. Employers within some sectors objected to the use of the term low-skilled or unskilled to describe some jobs. In our meetings with stakeholders, a wide range of jobs were described to us as being skilled, from strawberry pickers to lorry drivers.

⁸ STEM: Science, Technology, Engineering and Mathematics.

⁹ Tier 2 General is the main work route for non-EEA migrants. Tier 2 General is only open to skilled occupations at NQF level 6 or above i.e. requiring a degree or equivalent.

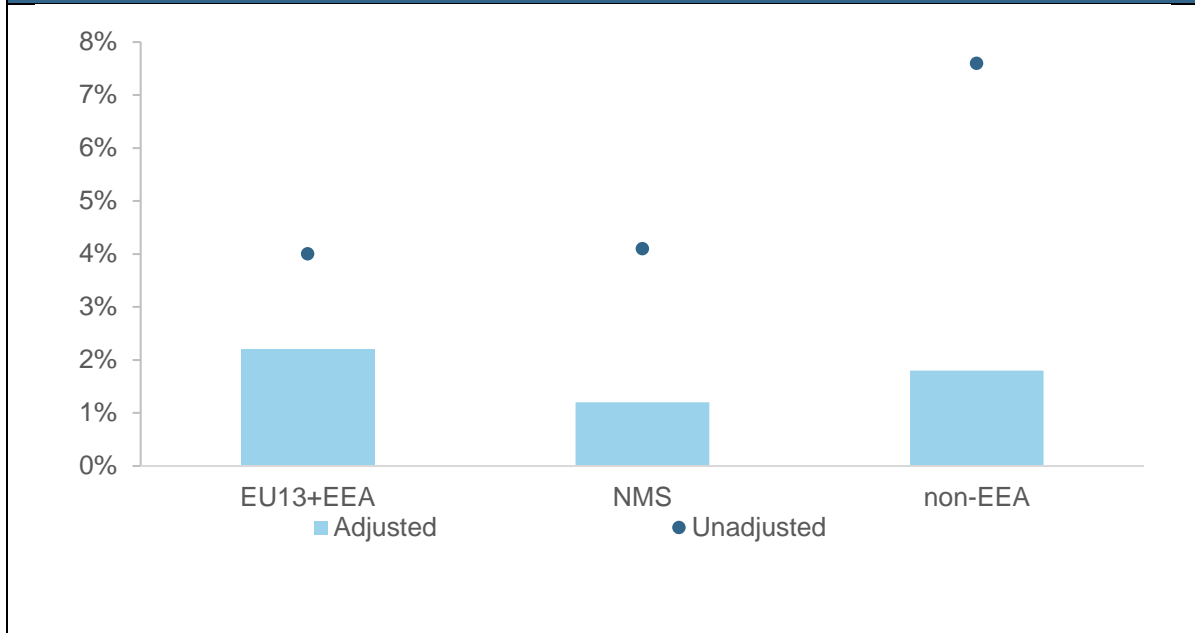
- 1.15. For instance, BUPA said that care assistants working in the social care sector were, under current Tier 2 rules, classed as low-skilled for the purposes of the shortage occupation list. But their preference was to describe such roles as being soft skilled, as they said that care assistants did a difficult job that required substantial amounts of training. BUPA also said that some roles such as catering managers were classed as low-skilled despite them often requiring substantial amounts of training.
- 1.16. Employers within the arts and creative industries (e.g. the film and music sub sectors) said that experience, reputation and industry knowledge were considerably more important to them than qualifications.
- 1.17. The UK Fashion & Textile Association told us that migrant workers were often more highly skilled than their UK counterparts, partly due to the fact that manufacturing skills such as sewing are still taught in schools in Eastern Europe. The Zip Yard, who deal in garment alterations, expressed a similar view.
- 1.18. The British Meat Processing Association said that about 40 per cent of workers need some level of knife skills and are concerned that these are not considered high-level skills. They would like to see the definition of skilled “to mean an ability that has to be learnt through study and/or practice, something that someone could not walk in off the street and more or less immediately do to the necessary level”.
- 1.19. Employers in lower-skilled sectors also expressed some dissatisfaction with the education system. The British Hospitality Association told us that there was an antipathy toward jobs in the hospitality sector from parents, careers advisers and teachers and that reform in vocational education was needed. Stakeholders at a meeting hosted by Coventry and Warwickshire Chambers of Commerce stressed the importance of education in readying young people for work.
- 1.20. The MAC view is that clearly some of the reported skills shortages are in high-skill occupations where the length of the necessary training means that migration may be the only way to alleviate those shortages quickly.
- 1.21. It is important to note that there is a huge variation in skill among jobs that are currently not eligible for Tier 2 – that is why the MAC groups jobs into low, medium and high skills. The MAC view is that some employer claims on skill levels in some jobs were exaggerated. Objections to categorising jobs as low-skilled often seemed based on the fear that this classification would mean these jobs will find it harder to employ migrants in the future or the view that labeling a job low-skilled was to devalue the importance of the work being done. The MAC does not think low-skilled work is unimportant but such jobs do require a shorter period of training – for example, obtaining an HGV license takes 8-10 weeks. The MAC uses national skill classifications which take account of the amount of training required.

EEA workers are more reliable and flexible than UK-born workers

- 1.22. Many employers expressed the view that EEA migrants are more reliable and more willing to work long and anti-social hours than UK-born workers and this is one reason they employed them.

- 1.23. A fish processing company in Grimsby told us that the advantages of employing non-UK workers included a willingness to work longer hours and actively seek overtime, flexibility on shift patterns, a consistently strong work ethic and working efficiently to instructions.
- 1.24. Employers told us they preferred workers to be as flexible as possible to fit business needs. We were also told that the primary aim of migrant workers employed in lower-skilled jobs was often to earn as much money as possible and that they were willing to work long and unsociable hours to achieve this. Several employers in the hospitality sector said they had considered alternative sources of labour, including part-time workers and those with disabilities. However, they said that the unsocial hours and work conditions in the sector made employing these groups hard.
- 1.25. This view was not confined to lower-skilled jobs: the automotive sector told us that apprentices training to be technicians often favoured working with cars and vans as opposed to commercial vehicles. They felt that this was because of the unsociable hours involved when operating as a HGV Technician, due to the logistics industry operating on a 24-hour basis. Toyota Manufacturing Ltd said that they believed that EU migrant workers were more willing to work on flexible contracts.
- 1.26. In addition many employers told us that the EU workers they employed were often overqualified for the jobs they were doing. One reason for this was differences in living standards between countries (especially Eastern European countries) so that a lower-skilled job in the UK might be better paid than a higher-skilled job in the home country. Another was the high level of unemployment at some times in some countries (e.g. Southern European countries after the financial crisis).
- 1.27. Many aspects of these views are hard to assess and measure objectively, but some data analysis can shed light on them.
- 1.28. Figure 1.1. shows that migrants are slightly more likely than the UK-born to work anti-social hours measured as usually working evening or nights. Around 30 per cent of UK-born workers report working evenings or nights, while this is 34 per cent for EU13+ and NMS migrants, and 38 per cent for non-EEA migrants.
- 1.29. Most, but not all, of these differences can be accounted for by differences in the characteristics of the workers or the jobs that they do. Figure 1.1. shows that the difference between EU13+EEA and NMS and UK-born workers working evening or nights is reduced to just over 2 per cent and 1 per cent respectively when adjusted for differences in characteristics.

Figure 1.1. Difference in percentage working evening or nights for migrants as compared to UK-born workers



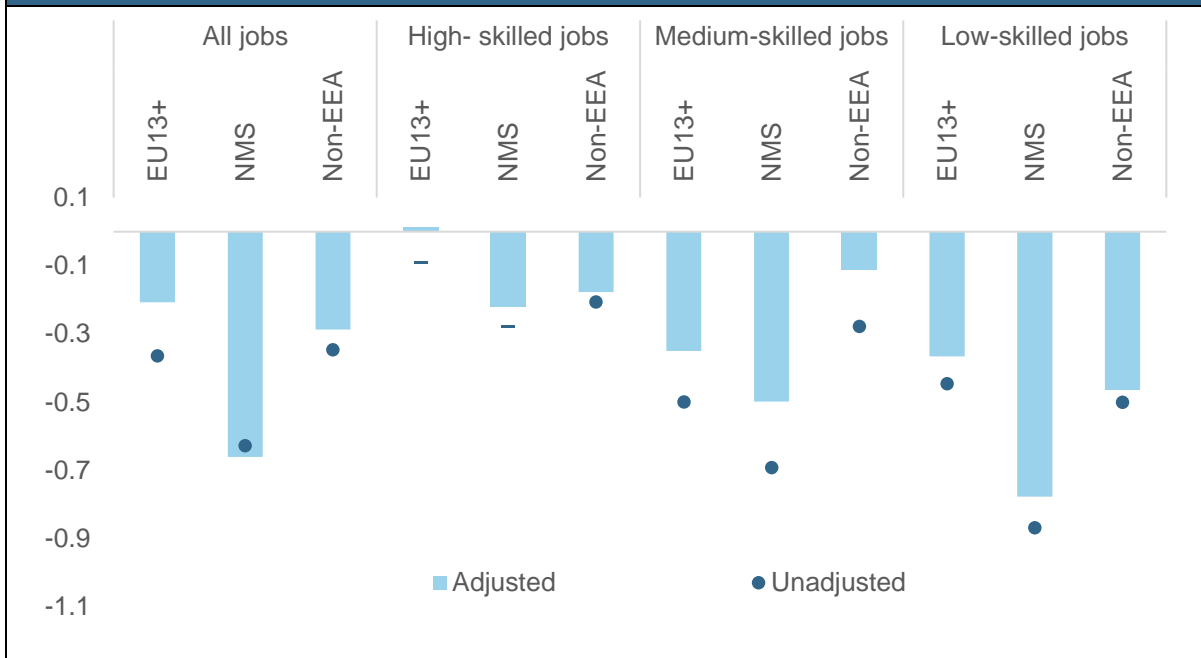
Source: LFS (Labour Force Survey), 2011-16 inclusive. Adjusted controls for occupation, industry, region, age, gender, job tenure and year of arrival.

- 1.30. We also investigated differences in self-reported absenteeism rates, one aspect of worker reliability¹⁰. For UK-born workers the average reported absenteeism rate is 1.5 per cent per day though this is lower in high-skill occupations (1.3 per cent) than in low-skill occupations (1.8 per cent). The three column in Figure 1.2. shows that all migrant groups have substantially lower absenteeism rates with the gap particularly marked for NMS migrants. On average, NMS workers report a daily absenteeism rate 0.6 percentage points lower than UK-born workers.
- 1.31. There are many possible reasons for these differences – migrants may be of different ages and working in different types of jobs. Even after adjusting for these factors, absenteeism rates of EEA migrants continue to be significantly lower than the UK-born workers. On average, NMS workers report an absenteeism rates of approximately 0.7 percentage points less than UK-born workers¹¹.

¹⁰See a recent ONS report on absenteeism <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/labourproductivity/articles/sicknessabsenceinthelabourmarket/2016>

¹¹ An earlier study <http://www.bath.ac.uk/research/news/2017/05/25/new-research-proves-the-migrant-work-ethic-exists-in-the-short-term/> argued these differences disappear a few years after arrival – we do not find evidence to support that view.

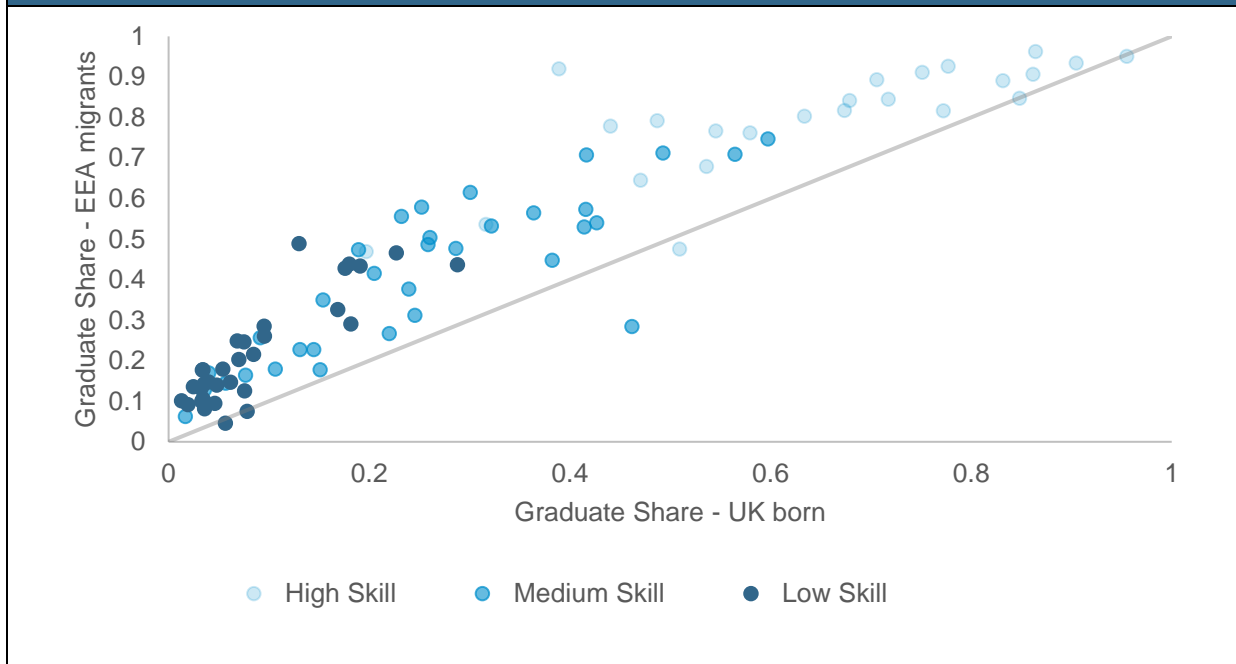
Figure 1.2. Differences in self-reported daily absenteeism rates for migrants as compared to UK workers: overall and by skill level of the occupation



Source: LFS, 2011-16 inclusive. Adjusted controls for occupation, industry, region, age, gender, job tenure and year.

- 1.32. Figure 1.2. also considers whether these differentials vary across skill levels. The differentials are largest for medium and lower-skills levels and for NMS migrants: a NMS migrant in a low-skilled job reports an absenteeism rate 40 per cent lower than that of a UK-born worker with similar characteristics.
- 1.33. Health issues are a very important factor in absenteeism rates and migrants report fewer health issues than the UK-born perhaps because healthier people are more likely to migrate. When we control for health issues the differences are smaller but still significant.
- 1.34. Evidence also suggests that migrants tend to be better qualified than the UK-born for the jobs they do. Figure 1.3. shows all occupations labelled by whether they are low-, medium- or high-skilled. The 45 degree line represents the points where the share of workers that are graduates in that occupation is the same between migrants and UK-born.
- 1.35. Almost all occupations are above the 45-degree line suggesting that migrants are better-educated within the same occupation than their UK counterparts. This is in spite of the fact that the Labour Force Survey (LFS) probably under-estimates the educational qualifications of migrants.

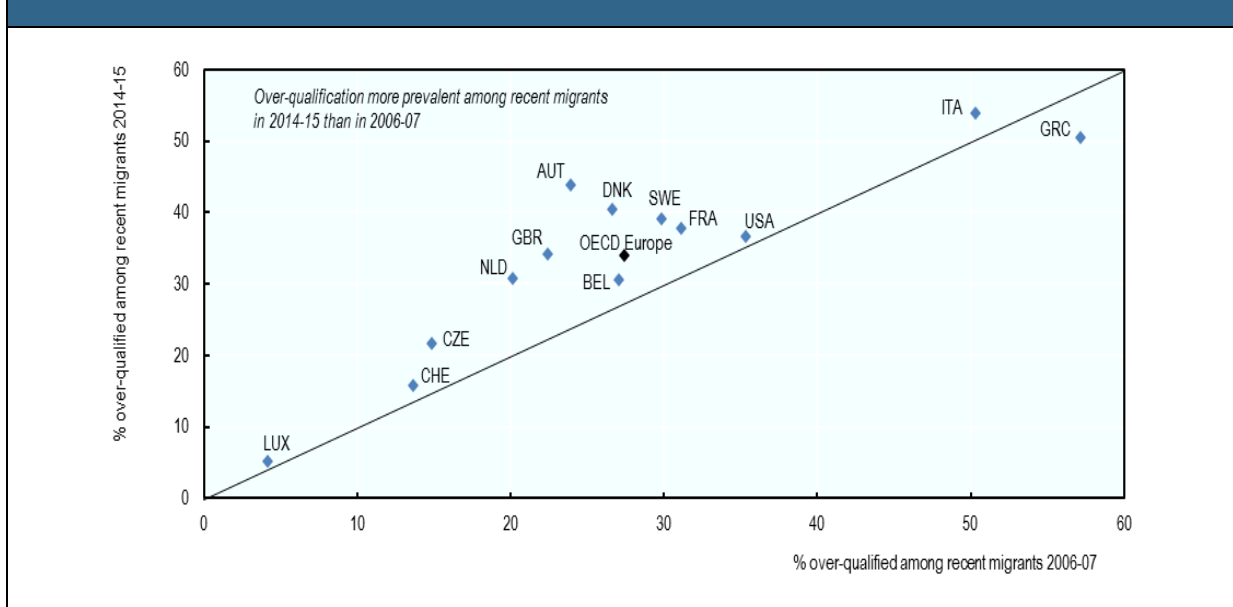
Figure 1.3. Comparison of graduate share of EEA migrant workers and UK-born workers by occupation



Source: LFS, 2011-2016 inclusive, 3-digit occupation.

1.36. This is consistent with an OECD report¹² that found recent migrants are over-qualified in most countries and have become more so over recent time periods.

Figure 1.4. Over-qualification rates among recent migrants, 2006/07 and 2014/15



Source: OECD, http://dx.doi.org/10.1787/migr_outlook-2017-graph34-en

¹² International Migration Outlook 2017
 Labour market outcomes of migrants and integration policies in OECD countries
http://dx.doi.org/10.1787/migr_outlook-2017-5-en

Migrants Are Prepared to Do Work that is Unappealing to UK-born workers

- 1.37. Some employers report that some jobs in their sector offered difficult working conditions and that this limited the appeal of these jobs to UK workers.

“People simply would sooner work in a coffee shop than work in an agricultural field.”

Fresca Group Ltd response to MAC Call for Evidence

- 1.38. Several sectors argued that they have an image problem that makes it hard to recruit UK workers as these workers do not want to do what are seen as undesirable jobs. A range of employers including, but not limited to, horticulture, dairy, fishing, food and drinks manufacturers, fashion and textile manufacturing indicated that UK workers did not want to work in what were described as difficult or unpleasant environments, such as on farms or in factories.

“The work does not have high social cachet – for reasons of food safety the sites are kept cold, workers wear a significant amount of food and personal safety equipment, the work is physical and it is shift work. So, when there is availability in the local workforce we tend to lose out to other industries.”

British Meat Association response to MAC Call for Evidence

- 1.39. Respondents from the hospitality sector told us that a career in hospitality was viewed differently in many European countries compared to the UK and was seen as a profession and a career of choice. The salary, hours of work or job responsibilities were not seen as deterring factors and the sector said that there were high-quality apprenticeship schemes in Germany, Austria, France and Switzerland.
- 1.40. Some employers expressed the view that schools and parents were perceived to be steering children to have different aspirations. Challs International Ltd, a manufacturing company in Suffolk, said that they had struggled to engage with local education establishments and said that, in their view, there was a lack of support. They felt that manufacturing was not presented as a valid career choice in schools and colleges, serving to undermine the sector.
- 1.41. The UK Fashion & Textile Association said that their sector had an image problem making it difficult to recruit motivated young UK nationals into the sector. They said this was due to a variety of reasons ranging from limited career opportunities to the failure to teach in schools the skills required by the sector.

- 1.42. The MAC view is that many employers who expressed these concerns are in low-wage sectors, where the image of career opportunities may be reasonably accurate. For example, according to the 2017 Annual Survey of Hours and Earnings, 95 per cent of jobs in hospitality have hourly earnings below the national average so it is perhaps unsurprising that the UK-born do not see this as an attractive career.
- 1.43. It is also not surprising to us that, faced with the choice of working in a café or picking vegetables, both paying similar wages, workers with a choice may opt for the former.
- 1.44. The question that arises from this is why higher pay is not being used more as a strategy to attract workers. We return to this below but we do note that there are sectors, e.g. on the North Sea rigs, where challenging and anti-social working conditions are compensated by higher pay.

Low Unemployment

- 1.45. We had many responses across a range of sectors that told us that migrant workers were employed and needed to fill vacancies in the UK because of low levels of unemployment both at national and local levels.

“Against a backdrop of low unemployment and an ageing workforce, more than a third (35 per cent) of businesses view access to labour supply as a threat to the UK’s labour market competitiveness.”

CBI response to MAC Call for Evidence

- 1.46. A lot of the reported difficulties in recruiting staff for low-skilled jobs came from the agriculture and food production sectors. Several horticultural employers indicated that unemployment was as low as one or two per cent in their area.

“Unemployment locally is very low, 3.7 per cent compared to 4.7 per cent nationally, only 419 people in an area that covers 290 square miles are actively looking for work.”

Manor Fresh response to MAC Call for Evidence

- 1.47. The British Meat Processing Association told us that many of their members’ meat processing plants operated in areas of low unemployment where there was not the workforce available to fill requirements.
- 1.48. Other sectors made a similar argument. Polypipe Ltd said that, considering the current unemployment rate, it was evident to them that the number of individuals available to work, and who evidenced either the willingness or the appropriate work ethic and

capabilities, was greatly limited and that therefore available EU workers were crucial to fill a UK labour gap.

“A reduction in EEA migration would have a significant impact in our region. The unemployment rate in south Suffolk is very low, so it is very difficult to source local employees.”

Challs International Limited response to MAC Call for Evidence

- 1.49. The MAC view is that low unemployment does make it harder for employers to recruit and retain workers because workers have more options. Low unemployment does force employers into competition with each other for workers. This would be expected to drive up wages with labour working for those employers who can afford higher wages which are likely to be the higher-productivity employers. However, the expected relationship between wages and unemployment seems to have weakened in recent years – this is discussed in Box 1.
- 1.50. It is also important to note that low unemployment should be welcomed as this makes life easier and better for workers. Low unemployment is a good thing.

Box 1: The relationship between wage growth and unemployment.

When unemployment is low, it becomes harder to recruit and retain workers and this might be expected to put upward pressure on wages. For many years, economists felt there was a robust empirical relationship between wage growth and unemployment - known as the Phillips curve.

There are signs that the UK labour market is tightening. The unemployment rate is at historic lows and the ratio of vacancies to the unemployed is the highest since this series began in 2001. Yet wage growth has been lacklustre: the Phillips curve seems to have flattened, implying a weaker relationship between wage growth and unemployment. There are some forecasts of a revival in wage growth this year: the Bank of England agents' survey¹³ suggests a likely increase in nominal wage growth to 3 per cent. But similar forecasts in the past have proved inaccurate and others, e.g. the CIPD, expect weak wage growth to continue.

In the evidence submitted, employers from a range of sectors said that they had started to offer higher wages to recruit more staff as a result of finding it more difficult to recruit migrant labour, in particular as a result of the referendum. The latest ONS

¹³ <https://www.bankofengland.co.uk/-/media/boe/files/agents-summary/2017/2017-q4.pdf?la=en&hash=A0641F6FEB34205F5B89BCDFAE7DA91FF9B497BF>

figures¹⁴ show there may be starting to be upward pressure on wages, though it is too early to tell whether it will be sustained.

Has immigration played any role in this flattening of the Phillips curve? We will report on this in our final report but the phenomenon is not unique to the UK and a recent speech on the issue by a Deputy Governor of the Bank of England¹⁵ emphasised other factors, though without offering a definitive answer to what remains a puzzle.

Wages

- 1.51. It was noticeable that employers rarely mentioned wages as a reason why employers might hire EEA workers and struggle to recruit UK-born workers. CIPD in their response to the MAC note that only 1 in 7 low-wage employers report hiring EU workers because these workers had lower expectations in relation to pay and employment. Employers do not think of themselves as employing EEA migrants because they are better value for money, but because EEA workers are higher quality and/or are prepared to do work that British workers are not.
- 1.52. Many employers submissions stated that all their employees are paid the same wages regardless of nationality. Several employers stated that pay differentials were not possible in their area due to national agreements and public sector pay restraints. For instance, the Russell Group said that universities were often unable to vary the salary offered for particular roles because of nationally agreed pay scales and government pay constraints for publicly funded roles.

“Pay rates for staff below professorial level are determined by the New Joint Negotiating Committee for Higher Education Staff (New JNCHES) which results in nationally negotiated pay scales. Posts are evaluated using the Higher Education Role Analysis (HERA) job evaluation system which ensures equal pay for work of equal value in the higher education sector. Under the pay scales determined by new JNCHES, there can be no different rates paid for particular groups of staff, including between those of different nationalities.”

Universities UK response to MAC Call for Evidence

- 1.53. The MAC view is that saying that EEA migrants are, on average, higher quality for the same wage is equivalent, from an economic perspective, to saying that employers can

¹⁴<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/march2018>

¹⁵ <https://www.bankofengland.co.uk/speech/2017/jon-cunliffe-speech-at-oxford-economics-society>

hire the same quality workers for lower wages. The economic theory behind this is explained in Box 2.

Box 2: The relationship between wage and quality

Wages are influenced by many factors but, other things equal, recruiting a higher-quality worker requires paying a higher wage as higher-quality workers will have better options.

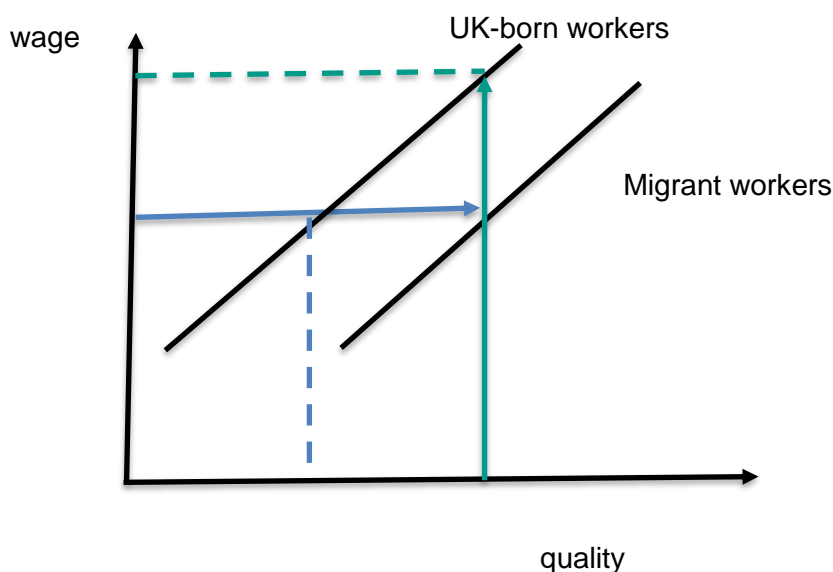
Suppose the relationship between wages and quality for the UK-born is as represented in Figure 1.5. This labour supply curve is upward sloping showing that the higher the quality of a worker the higher is the wage. This is drawn holding other things equal including the non-monetary aspects of the jobs.

When employers report that EEA migrant workers are higher quality for the wage paid to UK-born workers, then they are reporting that the labour supply curve for EEA migrants lies to the right of the curve for UK workers.

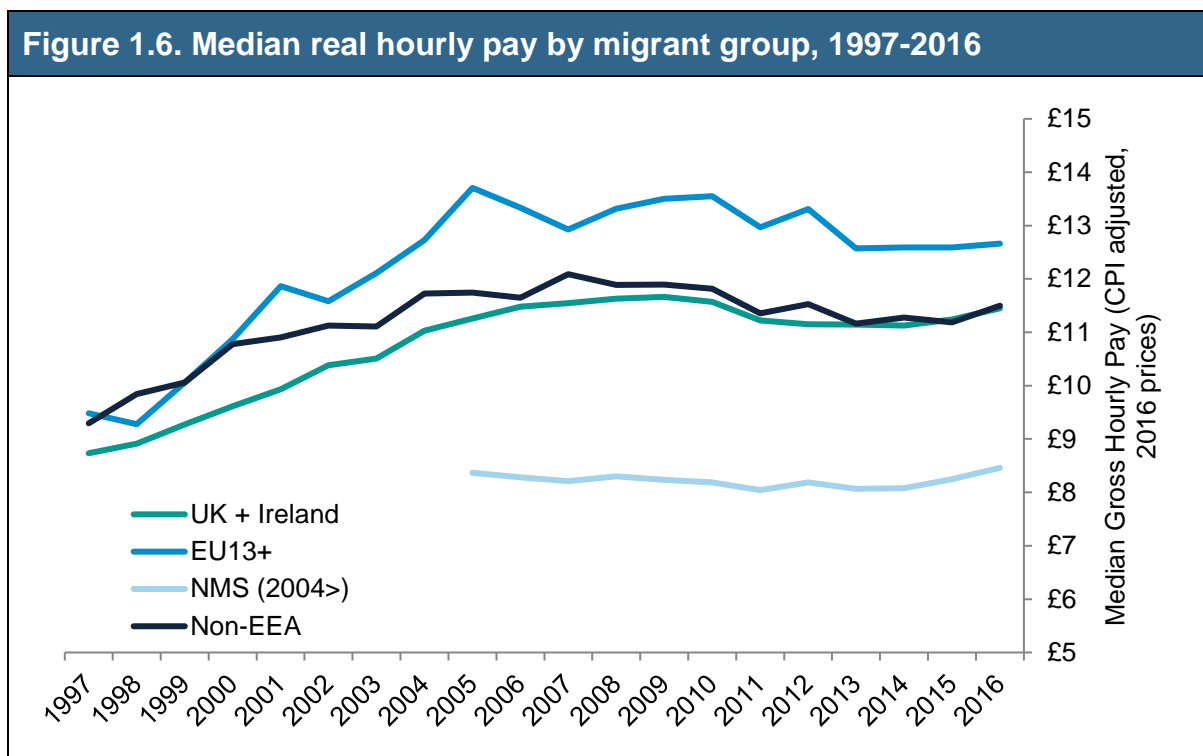
This can be read in two ways. First, for a given wage (fixing the wage by selecting a point on the vertical axis) a higher quality migrant can be hired for that wage (the blue line). Second, for a given quality of worker (fixing the quality by selecting a point on the horizontal axis) a lower wage can be paid for a migrant of that quality compared to a UK-born worker (the green line).

Therefore, the statements “for given wages, employers can hire EEA migrant workers with higher quality than UK-born workers” and “for a given quality EEA migrants are cheaper than UK-born workers” are equivalent. One way to summarise it is that the quality-adjusted cost is lower for migrants than the UK-born.

Figure 1.5. Wage-Quality relationships of UK-born workers and Migrant workers



- 1.54. It is important to realize that there are some large differences in average pay between some groups of migrants and the UK-born. Figure 1.6. presents real median gross hourly pay by country of birth since 1997¹⁶.
- 1.55. EEA migrants from the EU13+ have always been, and remain, better paid than the UK-born. But what is striking is how low are the earnings of NMS workers compared to the UK-born and other groups of migrants. Figure 1.6. also shows that there has been almost no change in the real earnings of NMS migrants since 2005 (from £8.37 per hour in 2005 to £8.46 per hour in 2016) a period in which the real earnings of the UK-born rose by 3.8 per cent.
- 1.56. These pay differentials can be misleading because, for example, the age structure of migrants and the UK-born workers are very different, as are the jobs that they do and the regions in which they live.



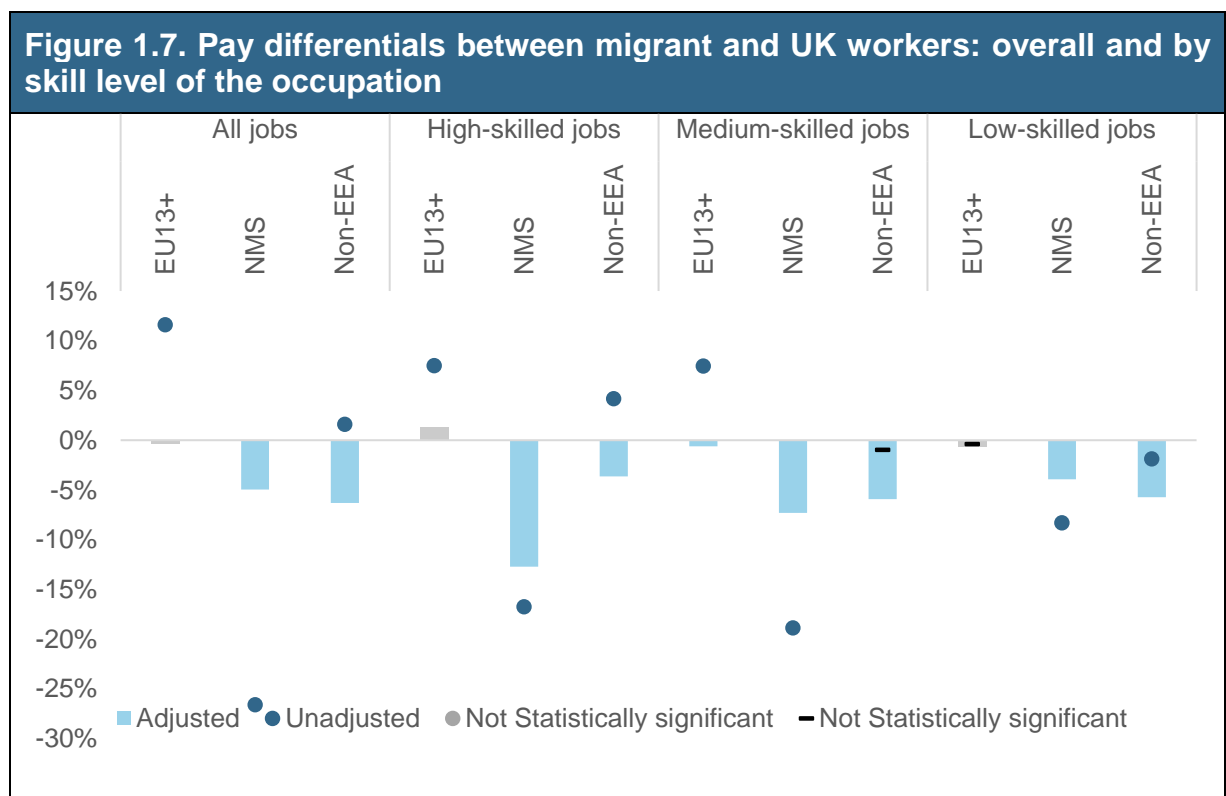
Source: Annual Population Survey (APS) and LFS, NMS only start in 2005 the first full year after accession.

- 1.57. Figure 1.7. shows our estimates of pay differentials over the period 2011-16 when, as far as possible, we compare workers who are identical apart from their migrant status.
- 1.58. The unadjusted data shows that EU13+ migrants are paid on average 12 per cent more than the UK-born while NMS on average are paid 27 per cent less. The pay of

¹⁶ NMS migrants are only shown since accession in 2004.

non-EEA migrants and the UK-born is similar. Much of these differentials can be explained by differences in age between groups, in the jobs they do, the sectors they work in and where they live. It is useful to adjust the differentials for these characteristics to obtain an estimate of the pay gap between a type of migrant and a UK-born worker of the same age, in the same job, industry, region and with the same job tenure. These are the adjusted estimates shown in Figure 1.7.

- 1.59. The adjusted estimates suggest there is no significant difference in pay between EU13+ migrants and the UK-born. The gap between NMS migrants and the UK-born is reduced considerably to 5 per cent, though is still significantly different from zero. Non-EEA migrants are now estimated to earn 6 per cent less than the UK-born, a significant difference.
- 1.60. We also investigated whether these differentials vary with the skill level of the occupation. Figure 1.7. shows that adjusted pay gaps are never very large for EU13+ workers but remain significant for NMS and non-EEA migrants. For NMS migrants, the wage gaps are largest in high-skilled jobs (this may be because experience is more important in those jobs and this cannot be measured accurately) and smallest in lower-skilled jobs. The findings show that NMS migrants in lower-skilled jobs are paid 4 per cent less than similar UK-born workers.

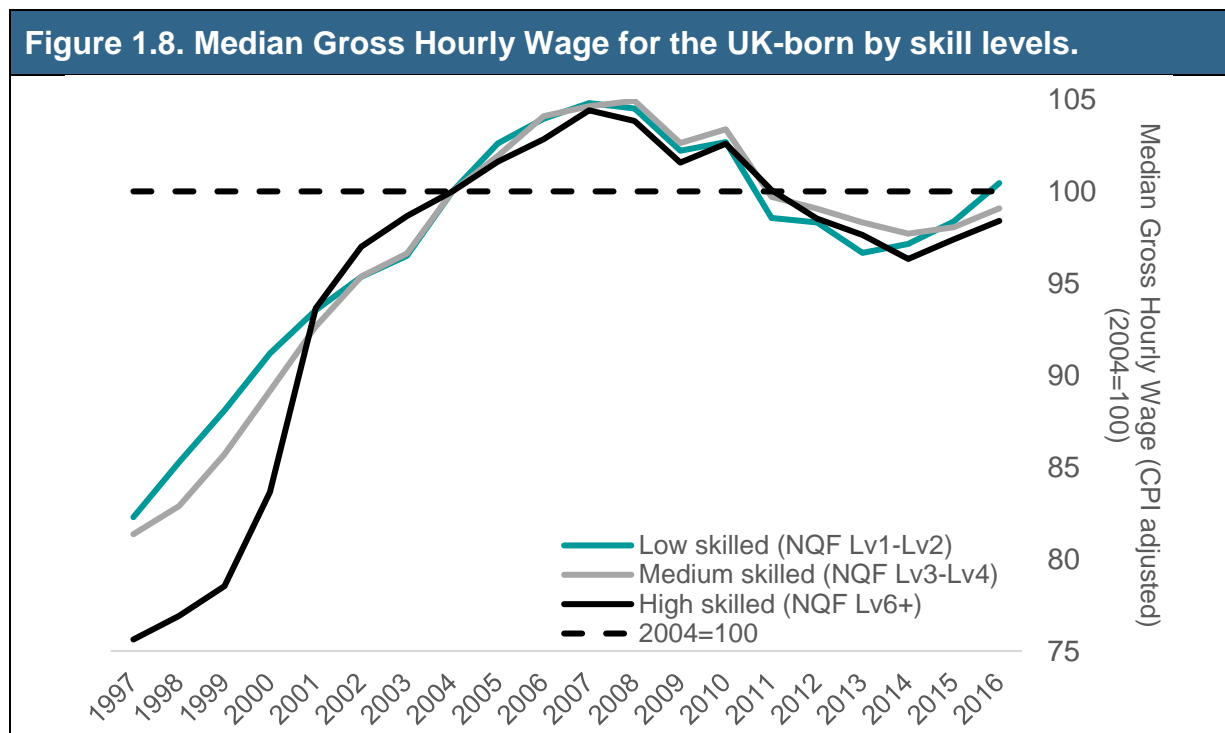


Source: LFS, 2011/16. Adjusted controls for occupation, industry, region, age, gender, job tenure and year of arrival.

- 1.61. The data available to us has some limitations so this evidence should not be taken to mean that there are many places where a migrant and a UK-born worker are working side-by-side doing the same job but receiving different pay. It may be that migrants

are concentrated in firms that pay lower wages to all their workers or that our occupational or industrial classification is too coarse.

- 1.62. And the evidence on pay differentials should definitely not be taken to imply that immigration has reduced the real wages of the UK-born. The literature reviewed in previous MAC report¹⁷ suggests that migration has raised wages for UK-born at the top of the income distribution and reduced them at the bottom end of the distribution though all of the estimated effects are very small. We are trying to update and extend this research and will report on our findings in our final report.
- 1.63. A wider consideration of the trends in real wages for the UK-born shows why the impact of EEA migration is unlikely to be large. Figure 1.8. presents real wages for the UK-born in low-, medium- and high-skilled occupations for the period 1997-2016 indexed to 2004. Real wages are not very different today from 2004 levels and fell after 2007¹⁸. Some predict real wages will be no higher in 2022 than they were in 2007¹⁹.
- 1.64. The timing of the fall suggests that it is more likely to be connected to the financial crisis than the change in EEA migration after 2004. In addition, all skill groups have similar trends in real wages: the fall has not been confined to the low-skilled where the increase in EEA migration has been most marked. In fact, the low-skilled have fared slightly better than other skill groups. This may be the result of a rising minimum wage.



Source: LFS and APS

¹⁷ <https://www.gov.uk/government/publications/migrants-in-low-skilled-work>

¹⁸ <http://www.resolutionfoundation.org/media/press-releases/public-and-family-finances-squeezes-extended-well-into-the-2020s-by-grim-budget-forecasts/>

¹⁹ https://www.ifs.org.uk/uploads/budgets/budget2017/budget2017_pj2.pdf#page=5

1.65. A number of responses, including the TUC and the Welsh government expressed concern that weak enforcement of labour laws might be one reason why NMS migrants are low-paid. One aspect of this is enforcement of the minimum wage.

“The TUC is concerned that government agencies tasked with ensuring employment rules are followed...do not have the resources to enforce employment rules adequately. New resources for minimum wage enforcement...have been welcome, but more will be needed, as the number of workers covered by the minimum wage is growing rapidly. The Employment Agency Standards Inspectorate (EASI) is under-resourced, having seen its budget cut in half to £500,000 over the last five years. EASI currently has just eleven inspectors to cover the entire country.”

TUC response to MAC Call for Evidence

1.66. A recent LPC report²⁰ on non-compliance with the minimum wage discusses the merits of different measures of non-compliance. The preferred data set for examining non-compliance is ASHE but this does not contain information on migrant status. The LPC also report numbers from the LFS cautioning against inferring levels of non-compliance from this source but arguing it can be used to evaluate trends over time. Similarly, one could compare estimated rates of non-compliance across migrants groups. Our own analysis of the LFS suggests that EEA migrants (both EU13+ and NMS) have slightly lower rates of non-compliance than the UK-born but there is a higher rate of non-compliance among non-EEA migrants (see Annex E for more details). But any such conclusion must be tentative given the data issues.

1.67. Some employers do not feel they could improve the supply of resident labour by offering higher wages, that wages are irrelevant to the ability to recruit. The MAC does not think this is credible. Individual employers would almost always be able to recruit resident workers if they paid wages sufficiently above the going rate. This applies even if there are skills shortages at national level – an individual employer should always be able to fill the job if a sufficiently high wage is offered.

1.68. More credible is the claim that higher wages are simply unaffordable. Many employers said that it was not possible to pay higher wages because margins are low and there are other cost pressures. For instance, on a visit to an engineering firm in the Midlands, we were told that UK applicants for more senior roles at that firm had unrealistic expectations of wages in the sector. The firm said that they were competing with one of the biggest employer in the area and argued that they could not compete on salary and they said they would not be able to recruit sufficient workers without eastern European workers.

²⁰ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/645462/Non-compliance_and_enforcement_with_the_National_Minimum_Wage.pdf

- 1.69. Employers in the care sector said that local authorities determined the price to be paid for care services and they could not affect this.

“In the care sector around 40 per cent of care provision in residential settings, and over 55 per cent of care provision in peoples own homes is funded by Local Authorities in England. The Local Authority tells providers what the price is, and providers must work at this level or go bust.”

Care Association Alliance response to MAC Call for Evidence

- 1.70. The MAC view is that many individual employers will genuinely feel that it is impossible to raise wages because they feel they have no ability to pass on costs into prices and their margins are low so cannot be reduced further. That said, if all employers in a sector were to increase wages, the forces to raise prices will be stronger – there is good evidence that, in the long-run, generalised increases in costs pass-through into prices²¹. Consideration of the impact of EEA migration on prices, and hence the welfare of consumers, will be considered in the final report.

Employer Views of Impacts on Residents

- 1.71. The MAC has always based its recommendations on migration policy on what it thinks is in the interests of the resident population. So a critical issue is what has been the impact of EEA migration and our commission asks us to consider that.
- 1.72. In our final report we will provide detailed discussion of the impacts on a wide range of issues (e.g. impacts of EEA migrants on labour market opportunities, prices, training, productivity, public services, the public finances and social cohesion), updating and extending the evidence base where possible.
- 1.73. Employers expressed the view that migrants have no impact on UK workers’ wages. The evidence presented above that migrants from the NMS are paid less than similar resident workers is not necessarily in conflict with these views. We will report on this in more detail in our final report but the evidence presented above makes us think it unlikely that any impact of migration on wages has been large.
- 1.74. Many submissions focused on the impacts on training with employers reporting that training opportunities were available to all employees, again regardless of nationality, and, as such, UK workers’ training opportunities, and investment in training overall, had not been affected by employing migrant workers.

²¹ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/320912/Cost_Pass-Through_Report.pdf

1.75. In relation to training, the Institute of Directors said that those firms that rely most on migrant workers were those who invest disproportionately in UK workers. The CIPD told us that, in their view, employers who employ EU workers were more likely to invest in training, and the CBI said that employers do not see migration as a substitute for training but recognised that they needed to both employ migrants and train existing staff.

“Businesses do not regard migration as a substitute to training. They recognise that they need both to be successful...The UK’s skills needs will only be met if we have the widest pool of talent to draw upon, including from abroad, so it is false to present a binary choice between investing in training or hiring migrants, business need to do both.”

CBI response to MAC Call for Evidence

1.76. The UK Screen Alliance, which represents animation and special effects employers, told us that they were working with employers to develop ideas on how to increase their skills and talent pipeline within the UK. In addition, a number of employers indicated that they had either just begun or had increased their focus on training programmes such as apprenticeships. Rolls Royce told us that for many years they had invested in the education, development and attraction of individuals into engineering through what they described as a comprehensive and broad-ranging outreach programme but that skilled and available talent remained in very short supply in the UK.

1.77. The technology sector indicated that access to high-skilled, migrant technology specialists allowed UK workers to be trained on the job.

“A UK video games studio might seek to recruit someone with online/multi-player programming skills from outside of the EU because such skills are in short supply in the domestic labour market. With this key individual, the studio could then build a team around him/her. His/her role would be to plan the online component and execute this plan via his/her team, investing time in the quality of their work and transferring his/her technical knowledge to them to enhance their skills.”

TIGA response to MAC Call for Evidence

1.78. We are currently doing research on the impact of EEA migration on the training of the resident population: the results will be in the final report.

Prices

1.79. Several employers, especially in agriculture and horticultural sectors, said that rising wages would be passed on to the consumer resulting in price increases and inflation.

For example, Roughway Farm stated, “Failure to quickly address the issue will see less fresh produce consumption with implications on health, more imports, higher prices and more supply uncertainty.”

- 1.80. The National Pig Association told us, “A recent Brexit scenario analysis conducted by the Agricultural and Horticultural Development Board demonstrated that unless specific policy measures are implemented to address the shortfall in migrant labour, its short supply will add a major cost to farms. It should be stated that if the availability of labour is curtailed, employers will be competing more for staff, thus leading to higher wages, and an increase to the cost of production. This would lead to a rise in the cost of pork, making British pork uncompetitive compared to foreign imports, leading to the inevitable loss of businesses and the requirement to import more pork from the EU.”
- 1.81. G’s, a large salad and vegetable company said, "Prices for salad and vegetables had lower rate of inflation than other goods in recent years. Disruption to supply or skill level of seasonal labour will have immediate consequences for the average consumer's shopping basket."
- 1.82. The MAC will assess the impact of migrants on prices and other outcomes in the final report. We are not yet in the position to provide a full assessment on the claims made by the respondents to our Call for Evidence .

Attitudes to Possible Restrictions on the Flow of EEA Migrants

- 1.83. Employers were not enthusiastic about the prospect of restrictions on the ability to recruit EEA migrants.
- 1.84. Employers in high-skill sectors were concerned that in the future EEA migrants might be subject to a regime similar to the current Tier 2, a scheme widely viewed as costly, time-consuming and excessively bureaucratic. They were concerned about both the rules and the caps in that system being applied to EEA migrants.
- 1.85. The prospect of the current non-EEA regime being applied to EEA workers was of great concern to small and medium-sized enterprises (SMEs) as, for many of them, the number of migrant workers they might want to hire could not possibly justify the cost of obtaining a sponsor licence.
- 1.86. Some employers whose jobs would not currently be eligible for Tier 2, feel the current system is biased in favour of workers whose skills were more easily calibrated in terms of education and wages and that this was unfair.
- 1.87. A number of employers requested that specific jobs be added to the shortage occupation list. For example, BUPA urged the government to look at extending the scope of the shortage occupation list to include roles such as care assistants and dental nurses in which significant numbers of EEA migrants currently work and which they said cannot currently be filled from within the UK labour force.

- 1.88. Findings from the CIPD Labour Market Outlook²² provide a more mixed picture on the attitude towards more restrictive EEA migration. Whereas a substantial majority of employers in Scotland and London favour free movement of labour, opinion is more divided among other regions, especially in the West Midlands, the north-west of England and the south-east of England. A similar mix of views was found across sectors. Employers in healthcare and private sector services report that they would prefer to retain free movement of labour than see migration restrictions introduced. In contrast, manufacturing employers are marginally more likely to favour migration restrictions over free movement, despite being asked to think about their organisation when responding.
- 1.89. Other surveys support this mixed picture whereby employers with significant numbers of EEA migrants working in their sector being much more concerned than those industries where they have low levels of EEA migrants. The Construction Industry Training Board research survey found that those directly employing non-UK staff were much more concerned over access to EEA migrant labour than those who did not employ EEA migrant labour.
- 1.90. From the responses, there was a general consensus that employers wanted an immigration system that was simple, transparent and low cost. A range of sectors felt the current Tier 2 system did not take account of their requirements and wanted a system that paid regard to training, experience and social value of work more than formal qualifications and salary.

“The UK needs a migration system that reflects its ambition to both maintain extensive trade with Europe and expand relationships with the rest of the world. Accelerating the UK’s export performance is a key component needed to strengthen the UK economy and to raise living standards for all...Any new migration system must facilitate access to overseas workers and easy cross border travel to avoid imposing unintentional non-tariff barriers to trade.”

CBI response to MAC Call for Evidence

- 1.91. A range of current/recent policies were suggested as being possible to adapt to business requirements. Many employers in agriculture urgently want a seasonal workers scheme similar to the Seasonal Agricultural Workers Scheme (SAWS) that ended in 2013 but allowing the employment of workers from outside the EEA. Others suggested a return to sector-based schemes or that the youth mobility scheme should be extended in terms of duration and age.
- 1.92. A large number of sectors commented on the potential to expand the Shortage Occupation List (SOL) to cover low-skilled and medium-skilled workers or expanded to cover particular high-skilled occupations they felt were currently in shortage or would be without access to EU migrant workers. There were a number of requests to

²² <https://www.cipd.co.uk/knowledge/work/trends/labour-market-outlook>

ensure the SOL was updated regularly to meet changing business requirements and to better fit business needs.

- 1.93. A number of respondents also mentioned that if significant policy changes were to be made, some type of taper should be used to give sectors time to adjust.
- 1.94. The MAC view is that it is unsurprising that employers do not welcome restrictions on their ability to hire migrant workers. Running most businesses is very hard and any additional costs or administrative burdens unwelcome. But, while the views of employers are important they should not be the only analysis or opinion to be considered. Historically, employers were hostile on grounds of cost and burden to the Equal Pay Act and the National Minimum Wage, both institutions now widely thought a 'good thing' including by business.
- 1.95. The MAC has always sought a migration system that improves the quality of life of UK residents. The labour market should have employers competing for workers with workers having a wide range of options and choosing the best job for them. The firms that can offer the best terms and conditions are likely to be those with the highest productivity.

Employer Views on Likely Impacts of Restrictions on Hiring EEA Migrants

- 1.96. If it was harder to employ EEA migrants, employers might use a variety of strategies to deal with this. Many submissions indicated that, in their view, there were no alternatives to migrant labour in which case employers would contract or even disappear, with some perhaps re-locating overseas and exporting to the UK. But others discussed possible strategies to mitigate any restrictions. In the absence of clarity about future migration policy, it is hard to assess how effective these strategies will be as some are much more feasible in the long-run.

Training Resident Workers to fill Skills Shortages

- 1.97. Employers stated that, in the long term, they could train more UK workers as a source of labour but that, in the short-term, they needed migrants to fill the gap. For instance, the Food Standards Agency told us that 95 per cent of official veterinarians working in meat processing factories were EEA migrant workers. It would take eight years to train UK residents as veterinarians and EEA migrants would continue to be needed during this time. The Royal College of Radiologists said that it takes nine years' postgraduate training to become a consultant oncologist.
- 1.98. Sectors with a number of jobs that required a shorter training time also made the point that migrant workers would continue to be required in the short term. For instance, Johnson & Johnson told us that they have what they described as a well-developed strategy to train UK workers to fill the skills gaps they face. This would take four years to be fully realised and they said they would need to recruit EEA nationals in the meanwhile.

“The UK needs new, well trained and highly skilled managers – 1.9 million more by 2024. Based on current trends, these shortages will not be filled in a timely way, resulting in negative economic impacts. In order to mitigate these impacts, the CMI recognises the need to accelerate skills training, institute formal training for managers, and welcome continued EEA migration.”

Chartered Management Institute response to MAC Call for Evidence

- 1.99. Some employers argued that skill shortages go beyond the short term. For example, BP said that they had skills shortages for staff with between 10 and 15 years' experience in the field of petrochemical engineering or procurement specialists for the oil and gas industry. BP Shipping told us that it takes an average of ten years to obtain Master Mariner or Chief Engineer status. BP graduate schemes were three year programmes before a graduate could move into an entry-level role. BP said they had invested in several initiatives aimed at encouraging and supporting the education and development of young talent in the UK in STEM subjects.
- 1.100. City & Guilds told us that, in order to ensure the UK workforce had the skills needed to fill roles in high demand, a co-ordinated effort was needed, not just across government departments, but with the help of employers, further and higher education institutions, training providers and local representative bodies to ensure what they described as a holistic and reflective skills landscape in each area. The view that help from government was needed was common.
- 1.101. The most recent source of published data, the 2015 Employer Skills Survey, showed that investment per employee had hardly changed since 2011 and spend per person trained had decreased considerably²³. This survey is however rather out of date. A 2017 Employer Skills Survey is yet to have the results published but we hope to be able to draw on it for the final report.
- 1.102. The MAC is currently reviewing the impact of EEA migrants on training. We will provide a full assessment in the final report.

Investment and Innovation

- 1.103. In our discussions with employers, we explored the extent to which it was possible that innovation and investment could reduce a reliance on migrant workers.
- 1.104. A number of stakeholders recognised the importance of innovation and new technology to their business. For instance, Polypipe Ltd said they were of the view that investment in automation and robotics is of paramount importance and a number of projects were already underway, with what they described as considerable investment

²³https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/525444/UKCESS_2015_Report_for_web__May_.pdf

earmarked for these initiatives. Morrisons said they were working to reduce the number of roles required to run sites through accelerated automation and productivity improvements.

- 1.105. Other responses said that there was less scope for innovation. Several respondents told us that automation was not possible or was too expensive. We were told that small enterprises may struggle to afford the expensive machinery that larger firms could afford. CIPD Labour Market Outlook reports that only 5 per cent of low-wage employers plan to make the production process less labor-intensive.
- 1.106. Some argued that labour was more versatile and cheaper than machinery. For instance, on our visits to abattoirs two meat processing firms indicated that they had removed meat cutting machinery because their EEA workers were more accurate with their knife skills. The Care Association Alliance said that there were no robots, machines or technological advancements that would mean that social care employers needed fewer staff.
- 1.107. Other stakeholders pointed out that increased use of new technology required skilled staff to be able to develop, install and maintain that technology and that such staff with science, technology, engineering and maths (STEM) skills could have to be accessed from outside the UK.

“In the longer-term we would respond to a material increase in labour costs (or a shortfall in labour availability) by further increasing the level of automation in our operations. However, our ability to deliver this is constrained by a shortage of suitably qualified and experienced engineers of any nationality.”

Food and Drinks Federation response to MAC Call for Evidence

- 1.108. We were told that in the sandwich making industry, due to the complex combinations of ingredients and shift changes, it was not yet efficient to use automated processes: one producer had removed some automated lines for this reason. The British Hospitality Association said in their evidence that automation was not considered a viable solution given the realities of service delivery in the industry.
- 1.109. However, we also saw evidence of innovation that stopped short of complex technology. For instance, table-top growing is an innovation that has increased efficiencies within the agriculture sector. We visited one grower in Hereford and Worcestershire who had an onsite laboratory that analysed soil and plant samples and could provide quick advice on changes to nutrients that had led to an increased yield.
- 1.110. In the care sector, we heard of changes to rota systems that had led to a more efficient deployment of staff.
- 1.111. The MAC view is that the UK has a well-known and long-standing productivity problem, lagging behind similar countries and a great deal of heterogeneity in productivity within sectors. Productivity can often be improved by the use of existing best practice and

does not have to wait for some exciting, yet future, innovation²⁴. But investments are hard to make when the future is so uncertain: pervasive uncertainty and the problems this causes emerged strongly from the evidence we received. While new processes and technologies can replace the need for labour, innovation is often complementary to labour market growth.

Falls in Economic Activity

- 1.112. Many employers argued that restricted access to migrant labour would have negative consequences for the UK economy. The immediate impact might be unfilled vacancies, the longer-term response a fall in employment and output. Many employers, particularly those that had vacancies in low-skilled jobs, pointed out that low levels of national or local unemployment made it difficult to recruit sufficient UK workers. They said that migrants were needed to fill these vacancies and that there would be many unfilled vacancies in the event of restrictions on migrants coming to the UK to do low-skilled work.

“Overseas workers bring fresh ideas, added diversity, and unique skills sets which cannot be replicated and are critical for success of the industrial strategy. Migrants often bring unique cultural understanding or specialist knowledge which British workers cannot provide, even if trained to the highest degree. British firms are operating in a global environment and if they are not able to access the world’s top talent, from academia to engineering to life sciences, then they will be at a distinct competitive disadvantage.”

CBI response for MAC Call for Evidence

- 1.113. The General Medical Council reported that 60.8 per cent of migrants that responded to their 2017 survey were considering leaving the UK. Other respondents worried about a reduction in the number of migrants applying for vacancies in the UK. The British Dental Association told us that reports from dental recruitment agencies are that applications from EEA dentists have decreased by 90 to 95 per cent. In the care sector, Christies Care said that they had seen a decrease since the UK referendum in the numbers of migrants applying for posts. Horticulture and food and drinks manufacturing reported a turnover of 20 per cent blaming the fall in exchange rate for sterling and potential feelings that the UK is not welcoming to migrants since the referendum.
- 1.114. The MAC view is that the claims that lower migration would lead to large numbers of unfilled jobs is a version of what economists call the lump of labour fallacy (see Box 3).

²⁴ <http://www.oecd.org/sdd/productivity-stats/oecd-compendium-of-productivity-indicators-22252126.htm>

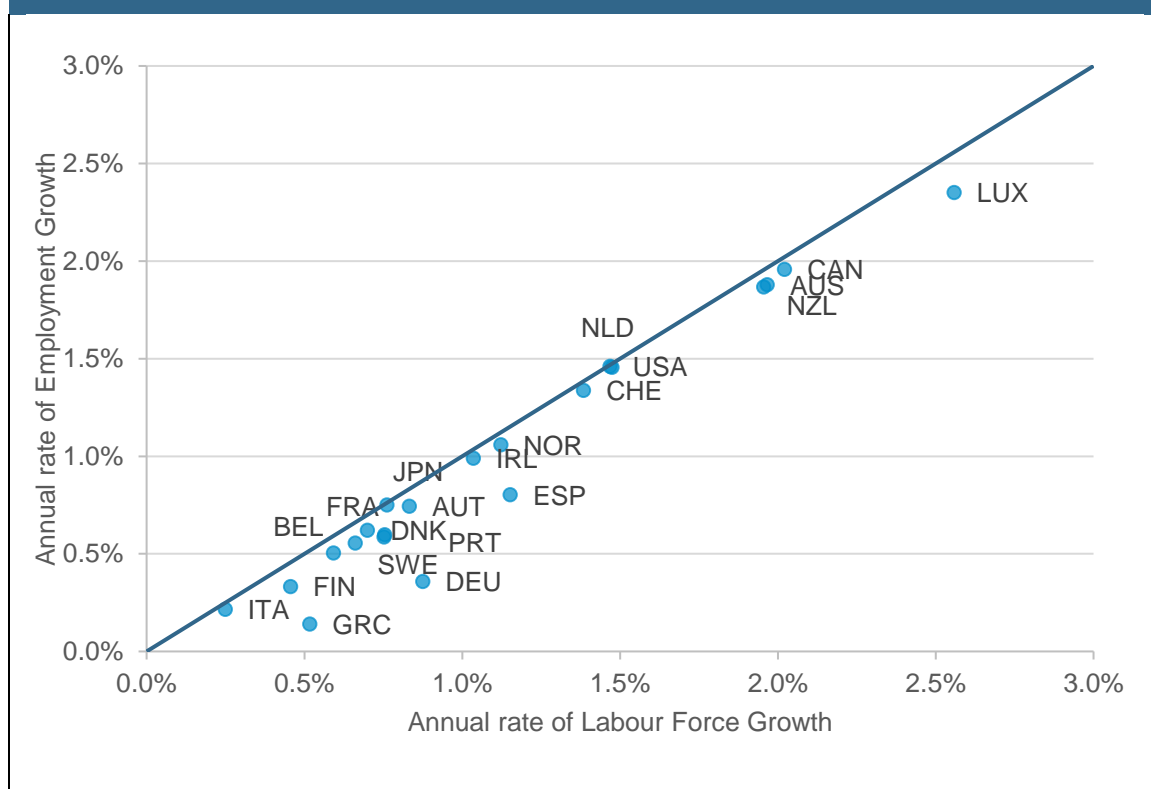
Box 3: The Lump of Labour Fallacy

The lump of labour fallacy is the view that the number and type of jobs are fixed by the demand side and that variations in supply (e.g. from migration) lead either to unemployment or vacancies depending on the tightness of the labour market. The more common version of the fallacy is that one extra migrant in work means one less job for an existing resident and hence higher unemployment. The other version, put forward here, is that one fewer migrant means one more unfilled job i.e. a higher level of vacancies.

Both economic theory and the evidence does not support this view over anything other than the short-term. In the medium/long-run, it is labour supply rather than the demand that influences the level of employment.

Figure 1.9. presents the growth in employment across countries over long periods of time against the growth in labour force together with the 45-degree line. Labour force growth is not just driven by migration – fertility and increased labour force participation are also important – but countries with high rates of labour force growth e.g. Canada, Australia, New Zealand have often had high levels of migration over long periods.

Figure 1.9. Comparison between employment and labour force growth by countries.



Source: OECD data, MAC analysis

The Figure shows that employment growth and labour force growth are very tightly linked. The implication is that lower migration that leads to lower labour force growth will likely lead to lower employment growth but is unlikely to affect the employment rate.

- 1.115. We were told that reduced migration would restrict companies' ability to grow or even force some employers out of business, or to relocate to Europe in order to access EU labour without restrictions.
- 1.116. Often, it was those sectors which said they had a heavy reliance on migrant workers carrying out low-skilled roles, for example agriculture and manufacturing of food and drinks, which said the continuation of their businesses would not be viable without access to those migrants.

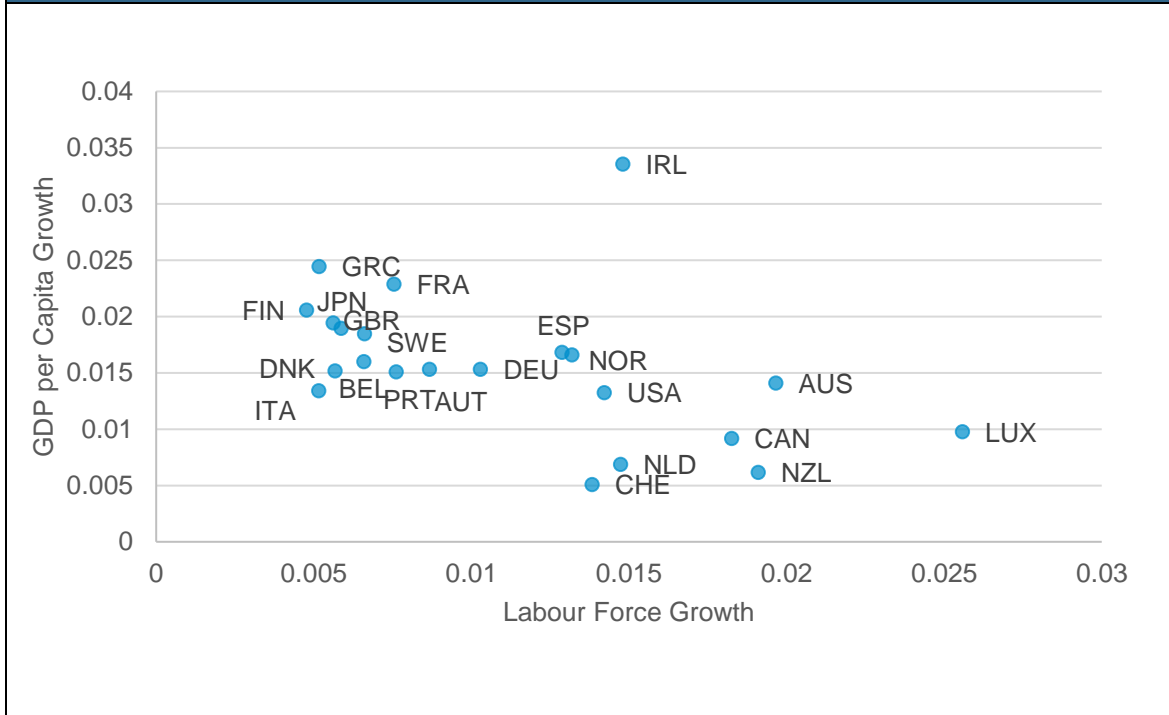
“Farming itself is a highly diverse sector, with different production systems having various sources of income and levels of market return. This is reflected in the variation seen in the requirement of labour for different enterprises...One prevalent observation is that EU nationals are vital to filling this great diversity of roles and in some cases make up the vast majority of a particular workforce.”

National Farmers Union response to MAC Call for Evidence

- 1.117. The information technology sector said that a reduction in the supply of EEA workers into their sector would have a significant negative impact on the growth of what they described as an increasingly important part of the UK economy. Energy UK told us that restricted access to an EEA workforce could have negative impacts on the delivery of big infrastructure projects, through increased delivery costs, reduced access to suitable skills and knowledge, and greater labour shortages.
- 1.118. The MAC view is that it is important to be clear about what the consequences of restricting migration would be. Lower migration leading to lower labour force growth would very likely lead to lower growth in total employment (as shown in Figure 1.9.) and lower output growth. It is, however, important not simply to assume that all growth, either at the individual level of the firm or for the aggregate economy, is desirable. It would not necessarily mean lower growth in output per head which is closely connected to living standards. There is little evidence that, over long periods of time, countries that have had higher rates of labour force growth have had higher rates of growth of output per head. Figure 1.10. shows the relationship between growth in output per worker and labour force growth over long periods. There is no obvious clear relationship²⁵.

²⁵ Growth is influenced by many factors not included in the figure but most research comes to a similar conclusion.

Figure 1.10. Growth in output per worker compared to the growth in the labour force by countries.



Source: OECD data, MAC analysis

1.119. However, output growth may be desirable if the extra output improves the public finances: our final report will discuss the fiscal impacts of EEA migration. And there is no doubt migration policy can be productivity enhancing: it is the mix of migrants rather than the total number that is probably more important for productivity. This is the reason why most countries have some preference for higher-skilled workers in their migration policies. In our final report, we will consider the impact of migration on productivity in more detail.

Contingency planning

1.120. Many employers do not seem well-prepared for a changing labour market in which they will be competing more intensively with each other for labour. And still fewer seem to be making provisions for change. This is understandable – it is very hard to plan when one does not know what to plan for and there is considerable uncertainty about the future (including but not confined to the future migration system). This sense of pervasive uncertainty came across strongly in many submissions and during our stakeholder engagement.

“In absence of clarity as to what the future will look like (either in policy terms or in respect of the comparative attractiveness of the UK in relation to other locations) it is difficult for businesses to make more substantive contingency plans at the moment. Instituting new training programmes, offering better terms and conditions to attract more local staff, increasing automation to reduce workforce number and other possible approaches all involve cost and lead times. No business is able to commit to this kind of expenditure without a robust financial case based on rates of return and future revenue streams.”

The Provision Trade Federation response to MAC Call for Evidence

1.121. The MAC view is that many employers in lower-skill sectors have built a business model in which the ready availability of EEA migrant labour played an important, sometimes vital role. This business model has had a tail-wind behind it since accession in 2004 but now faces a number of risks even in the absence of changes to immigration policy. In some sectors these risks are now being realised. The fall in the value of the pound following the referendum result and the perception that the UK is a less attractive place to be for a migrant appear to have made it harder to recruit EEA migrants in many areas.

Conclusions

1.122. The vast majority of employers do not deliberately seek to fill vacancies with migrant workers. They employ EEA migrants when they are the best or, sometimes, the only available candidate. EEA migrants from countries that were part of the EEA before 2004 have been, and remain, relatively high-skilled. But, the expansion of the EU in 2004 marked a qualitative and quantitative change in EEA migration. Employers in many sectors, especially the lower-skilled, found they now had, through free movement extended to the New Member States, access to a new well-qualified and highly motivated labour force. These sectors then had a ‘tail-wind’ which formed the basis for expansion in employment.

1.123. Employers are concerned about the prospects of future restrictions on EEA migration. These concerns affect all sectors of the economy but are especially pronounced in low-skilled sectors where the impact of restrictions could be greatest. Any proposals for such restrictions are likely to be opposed by many employers as making a hard job even harder. Some may regard these analyses and views as sufficient for any restrictions to be misguided.

1.124. A thriving business sector is important but it is part of the means to the end of providing a high quality of life for UK residents, an objective that the MAC has always used in evaluating migration policy.

1.125. How the lives of UK residents are affected by EEA migration requires an assessment of the impacts of that migration. Our final report will consider a wide range of impacts: on wages, unemployment, prices, productivity, training, the provision of public services, public finances, community cohesion and well-being. Nothing in this update should be used to pre-judge our conclusions on these questions.

Chapter 2: Regional Analysis of Responses

Call for Evidence responses

- 2.1. We received a number of responses to our Call for Evidence from devolved administrations, central government, local authorities, and regional representative bodies, with many of them emphasising the regional aspects of immigration and immigration policy. The aim of this chapter is to bring out the key regional themes raised by these respondents and to illustrate the issues they have highlighted to us.
- 2.2. Respondents focusing on regional dimensions generally wanted to make us aware that their locality was, in some way, more reliant on EEA migration than other areas of the UK. Any tightening of the rules governing EEA migration therefore had the capacity to affect their region more than others.
- 2.3. The ways in which countries and regions claimed they were more reliant on EEA migration form the basis of the regional themes identified and briefly summarised below.
- a. Differing shares of EEA migrants – some countries/regions of the UK have a higher share of EEA migrants and/or may have concentrations of industries that are more reliant on EEA labour.
 - b. Contribution of EEA migrants to population growth – in some countries/regions births minus deaths (natural change) makes little contribution to population growth. These areas are therefore more reliant on migration, and consequently EEA migration, to maintain a growing population.
 - c. Contribution of EEA migrants to slowing ageing of the population – some countries/regions of the UK view migration as a way of slowing perceived negative demographic changes.
 - d. Reliance of remote areas on migration – it is argued that remote and rural areas are particularly reliant on migration flows to maintain their populations and as a way of accessing scarce labour.
 - e. The Irish border – Northern Ireland is the only part of the UK with a land border. This generates some concern about the nature of migration flows across the Irish border after the UK has left the EU.
- 2.4. Below we give a high level summary of the response we received from the devolved administrations. We also give a summary of the Greater London Authorities response, given London's size and the high share of migrants in the capital. We do not intend to comment on the relative merits of regional migration policy in this interim update.

Short summaries of selected regionally focused responses

The Scottish Government

- 2.5. The Scottish Government highlighted to us their view that EEA migration has been positive for both the Scottish economy and Scottish society more broadly, saying “Inward migration, including from across the European Union, has made an overwhelmingly positive contribution to Scotland’s economy and society.”
- 2.6. The Scottish Government expressed concern about the impact of any potential fall in net EEA migration on population growth. They emphasised how Scotland, more than the other countries of the UK, is reliant on net inward migration to maintain a growing population.
- 2.7. Concern was expressed for rural and remote communities, which are more prevalent in Scotland than elsewhere in the UK. Many of these areas are expected to experience population decline in the coming decades. The Scottish Government view the potential for lower levels of EEA migration as adding to the challenge of sustaining rural and island economies and societies.
- 2.8. Some of the other key benefits of EEA migration emphasised in the Scottish Government response are not specific to Scotland. They highlight the contribution of EEA migration in certain sectors such as hospitality and health and social care. The sectors mentioned broadly mirror the picture presented to us by other areas of the UK and are discussed in the sector focused chapters of this report. The Scottish Government also make some reference to estimates of the fiscal and broader economic contributions of EEA migrants to the Scottish economy. These impacts will be the focus of our final report and so we do not discuss them here in detail.
- 2.9. The evidence from the Scottish Government to us did not contain specific policy proposals but it has expressed its views elsewhere²⁶.

The Welsh Government

- 2.10. The Welsh Government notes that levels of immigration in Wales are relatively low compared to other parts of the UK. Nonetheless, they also acknowledge that immigration was a concern for a “significant number” of those who voted ‘leave’ in the EU referendum.
- 2.11. The Welsh Government response places a strong focus on the issue of enforcing employment rights and tackling exploitation, expressing concern that this is more difficult for migrants who may have limited English language skills or familiarity with the UK legal framework.
- 2.12. The Welsh Government report also provides some detail on policy priorities. It expresses a preference for continued priority to be given to EEA and Swiss nationals

²⁶ <https://news.gov.scot/news/a-tailored-migration-system-for-scotland>

but to have an immigration system more closely linked to work and suggest that there may be enough scope under current free movement provisions to achieve this.

- 2.13. They also express a wish to discuss with the UK Government how to reform the non-EEA UK migration system after the UK has left the EU and posit the possibility of a quantitative allocation of Tier 2 visas for Wales.

The Executive Office of Northern Ireland

- 2.14. As there is currently no devolved government in Northern Ireland (NI), we did not receive a response directly from NI Executive. Instead, the head of the NI Civil Service, David Sterling, provided a factual description of the position in Northern Ireland.
- 2.15. Retaining access to labour at all skill levels was a priority expressed by the then First Minister and Deputy First Minister in their letter to the Prime Minister in August 2016. This was seen primarily in the context of competitiveness, particularly in comparison to Ireland. If one side of the Irish border had freer access to labour and skills then it is feared that Northern Ireland might be put at a competitive disadvantage.
- 2.16. It was highlighted to us that access to labour and skills was a key factor attracting Foreign Direct Investment (FDI) into NI, which already currently suffers a competitive disadvantage from higher corporation tax compared to Ireland. We were told that forthcoming research would show that US companies' number one motive for undertaking FDI in NI was the availability of a skilled workforce, ahead of market access, government support or regulatory or business climates.
- 2.17. In terms of sectors, it was noted that the NI manufacturing sector has a greater reliance on migrant workers than in other parts of the UK, with 19 per cent of employment accounted for by migrants compared to 11 per cent in England, 9 per cent in Scotland and 7 per cent in Wales. Overall, it is estimated that in NI there were 79,000 EU-27 workers in employment in 2016 Q4, of whom 21,000 were from Ireland.
- 2.18. Dissatisfaction with the current non-EEA system by NI businesses was also mentioned and a desire was expressed to have those elements of immigration policy linked to income thresholds be adjusted to reflect regional wage differentials.
- 2.19. Finally, a view was expressed that if EEA migrants living in Ireland become less free to move between the south and north then this could act to emphasise the existence of the UK's only land border. Given the historic and political sensitivities surrounding the border, this possibility was viewed with some concern.

Greater London Authority

- 2.20. The GLA provided a detailed description of the characteristics of EEA migrants and the role they play in London's labour market emphasizing that London has a much higher share of its population and workforce born in the EEA (as well as higher shares of non-EEA migrants) – see Table 2.1 below. For example, a third of workers in construction and hospitality in London are EEA-born. The GLA also noted that EEA migrants hold a large number of jobs in high value-added sectors, such as Financial Services, and in important public service sectors like health and education.

2.21. The Mayor of London has outlined his view on immigration policy elsewhere²⁷. The GLA also highlighted the value Londoners and London businesses place on being in a culturally diverse city.

Regional Variation in the Share of EEA Migrants

2.22. A number of regional respondents to the MAC Call for Evidence highlighted that their area had a particularly high share of EEA migrants in their regional population and workforce. In this section we present the distribution of migrant populations across the nations and regions of the UK to establish the context behind these claims.

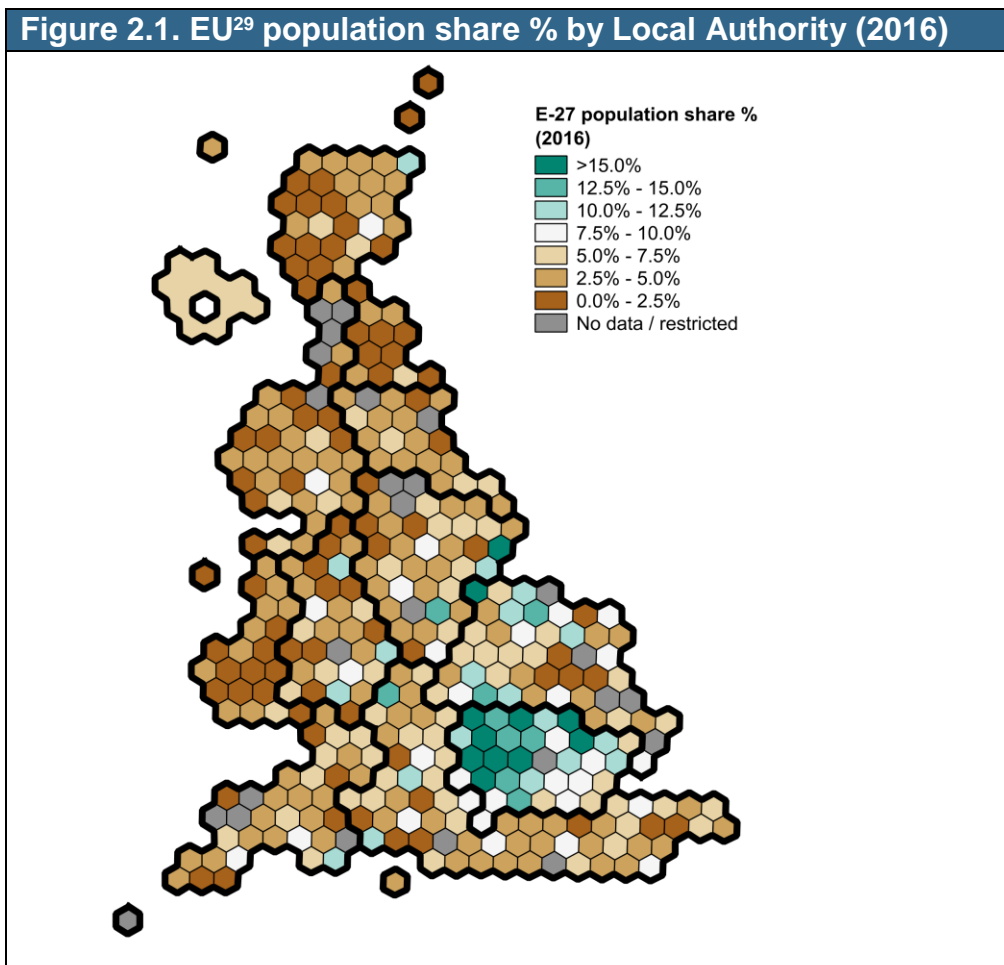
2.23. Table 2.1. below shows the share of foreign born individuals, split by EEA (excluding Ireland) and non-EEA, in regional populations in 2016 as reported by the Annual Population Survey.

Table 2.1. Population shares (excluding some residents in communal establishments) by country of birth 2016 (ranked by migrant share)²⁸					
Region	All foreign born[†]	EEA	EU-13+	NMS	Non-EEA
London	36.6%	10.9%	5.2%	5.7%	25.7%
West Midlands	12.5%	4.0%	1.2%	2.8%	8.5%
South East	12.5%	4.7%	2.1%	2.6%	7.8%
East of England	12.2%	5.5%	1.9%	3.6%	6.8%
East Midlands	11.0%	4.8%	1.4%	3.5%	6.2%
Yorkshire and The Humber	9.3%	3.6%	0.9%	2.6%	5.7%
North West	9.0%	3.1%	1.1%	2.1%	5.8%
South West	8.7%	4.1%	1.9%	2.2%	4.6%
Scotland	8.1%	3.7%	1.2%	2.4%	4.5%
Northern Ireland	6.0%	4.0%	0.9%	3.1%	2.0%
North East	5.7%	1.9%	0.7%	1.2%	3.8%
Wales	5.6%	2.5%	0.9%	1.6%	3.1%

²⁷ https://www.london.gov.uk/sites/default/files/migration_a_future_approach.pdf

²⁸ These estimates are based on the Annual Population Survey (APS), whose sample mainly relates to the residents of private households, NHS accommodation and student halls of residence. Those living in other kinds of communal establishment are likely to be missing from analysis conducted using the APS. To the extent that migrants may be more likely to live in such establishments compared to non-migrants, estimates presented using the APS may underestimate the true share of migrants in the UK population.

- 2.24. London stands out as having much the largest share of EEA migrants, at 10.9 per cent. London also has by far the largest non-EEA population share at 25.7 per cent, 17.2 percentage points more than the next highest region, the West Midlands.
- 2.25. But, there are also big variations in migrant population shares within countries and regions, often bigger than the differences between regions. For example, local authorities in the East Midlands range from Boston with a 26.9 per cent EEA share to Ashfield with a 0.8 per cent share. Figure 2.1 below illustrates this, presenting the EU-27 population share for each local authority in 2016 (for which data are available).



Map outlines provided by the Office for National Statistics

- 2.26. In addition to highlighting the share of EEA migrants within their locality, many regional responses also mentioned the sectors in their area most reliant on EEA labour. As Table 2.2 below shows, the top sectors by EEA employment share don't vary dramatically across the UK nations and English regions³⁰.

²⁹ Based on published ONS tables, EU-27 country of birth grouping does not include EEA countries and Switzerland, nor exclude those born in Ireland, and is therefore different to the EEA grouping used elsewhere in this document.

³⁰ These are APS estimates which, as noted on in footnote 25, may underestimate migrant share due to the sample covered. Seasonal workers are also not likely to be captured by the APS and therefore likely understates the share of migrants working in agriculture particularly.

Table 2.2. Top 5 sectors (MAC taxonomy) by region for EEA born share of the workforce (3 Year APS 2014-2016)³¹

	NE [†]	NW	York & Humb.	E Mid	W Mid	East	Lond.	SE	SW	Wales	Scot.	N.I. [†]
Manufacture of Food and Beverages		1 18.6%	1 26.2%	1 35.5%	1 26.1%	1 34.9%			1 33.9%	1 25.6%	1 19.9%	1 38.6%
Construction							2 26.8%					
Warehousing		2 14.3%	2 16.1%	2 26.2%	2 24.2%	2 16.6%	4 13.9%	2 11.5%				
Accom. and Hospitality	1 4.2%	3 8.6%	5 4.2%		3 9.6%	3 9.5%	1 32.7%	1 14.9%	2 10.6%	2 5.4%	2 11.5%	
Wholesale and Retail Trade	3 2.5%										4 5.0%	3 7.5%
Non-professional Admin & Support Service Activities			4 5.3%	4 8.1%		4 9.3%	3 19.0%	3 7.7%		3 3.9%	3 7.4%	
Transport		4 5.3%		3 9.1%	5 6.8%				3 7.0%			
Other Manufacturing	2 3.2%	5 5.1%	3 6.5%	5 8.1%	4 7.6%	5 8.3%	5 12.5%	5 6.6%	4 6.8%	4 3.4%	5 4.8%	2 11.4%
Residential and Social Care								4 7.5%	5 6.6%			
Health										5 3.1%		

[†]Only 3 sectors provided due to disclosure control, these are therefore not necessarily the top 3 sectors by EEA migrant share.

2.27. The table highlights that in nine out of the 12 nations/regions, the number one sector by EEA workforce share is the 'Manufacture of Food & Beverages' sector. In the remaining three regions, it is 'Accommodation & Hospitality'. One notable regional difference is that construction in London has the second highest EEA workforce share of any sector in the capital (using the MAC taxonomy) but is not in any other regions' top five sectors. Overall, just ten sectors (out of 20 – again using the MAC taxonomy) are needed to cover the top five sectors within all 12 nations and regions.

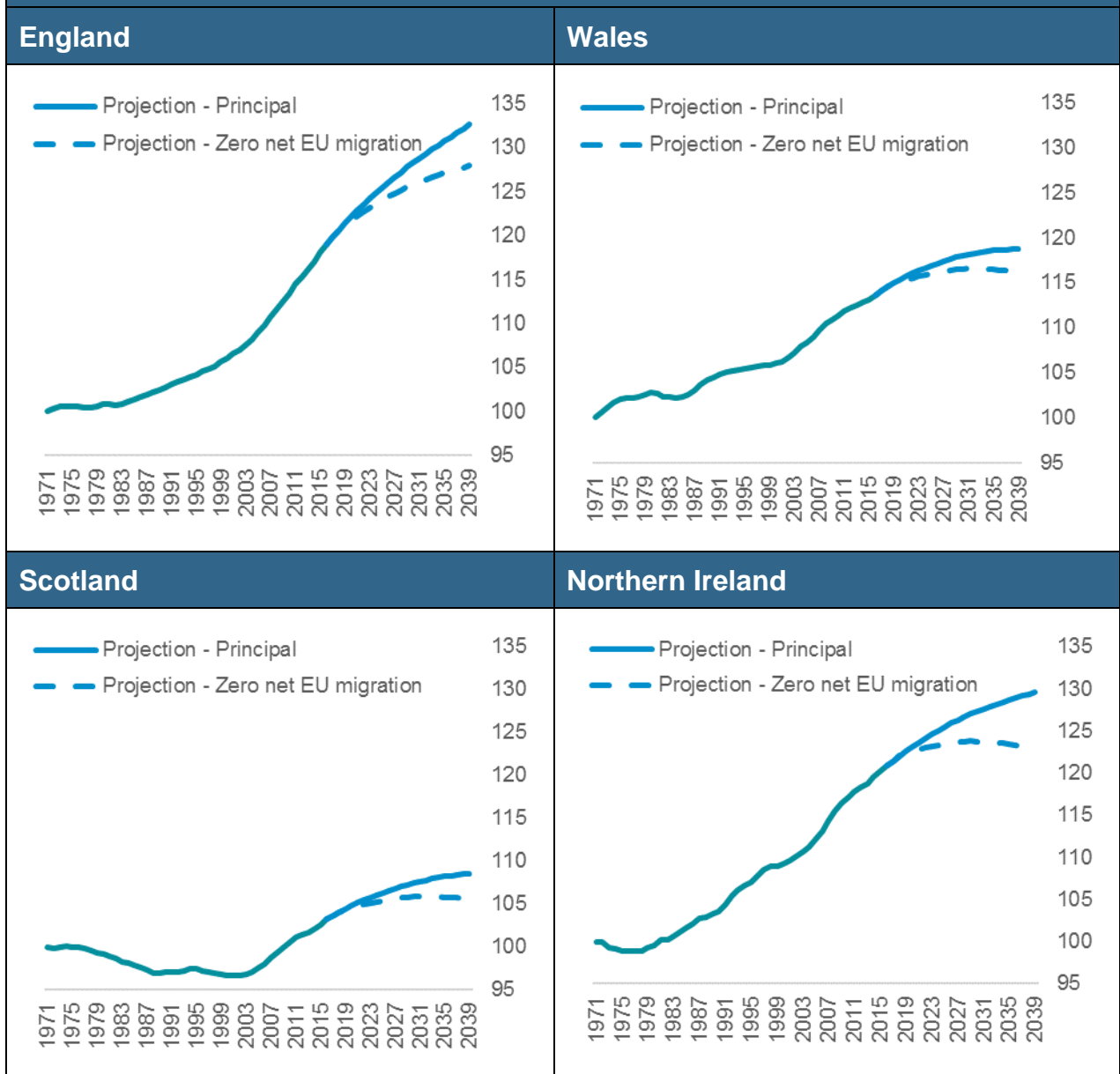
2.28. In summary, the importance of EEA migrants in the labour force varies across the country but, importantly, also varies significantly within the regions and nations of the UK. In addition the sectors most dependent on EEA workers do not vary that much between regions.

³¹ All shares based on at least 30 un-weighted EEA migrant observations in the numerator. Estimates presented are point estimates which are subject to significant uncertainty.

Prospect for Population Decline

- 2.29. Some respondents, particularly the devolved administrations, highlighted the contribution immigration can make to population growth. Changes in population within the nations and regions of the UK is a combination of natural change (births minus deaths), internal migration between UK nations/regions and international migration into nations/regions from outside the UK. Migration flows can also indirectly impact the natural change component of population change.
- 2.30. Figure 2.2. overleaf presents the path of population change for the four UK nations between 1971-2016 and the projected change between 2017-2039 using the principle ONS population projection and using the ONS zero EU net migration scenario projection . The zero EU net migration scenario assumes no net movement of non UK EU citizens to and from the UK, diverging from the principal projection from mid-2019 onwards. It assumes net migration to the UK of 69,000 from 2022/23 onwards, compared to 165,000 under the principal projection. These assumptions should not be interpreted as a judgement about possible future policy but instead purely an exercise to illustrate the sensitivity of the principle projection to alternative assumptions about migration flows.
- 2.31. From the charts below we can see that all four nations have experienced population growth in recent years and are expected to continue to see their populations grow into the future. England and Northern Ireland have had stronger historic growth than either Wales or Scotland, with population decline in Scotland for many decades prior to the early 2000s. England and Northern Ireland are also expected to see stronger future growth.
- 2.32. The ONS projection under a zero net EU migration scenario generates lower overall population growth in each of the four nations compared to the principal projection. In Wales, Scotland and Northern Ireland it results in population stagnation and eventual modest declines in population from 2030 onwards.

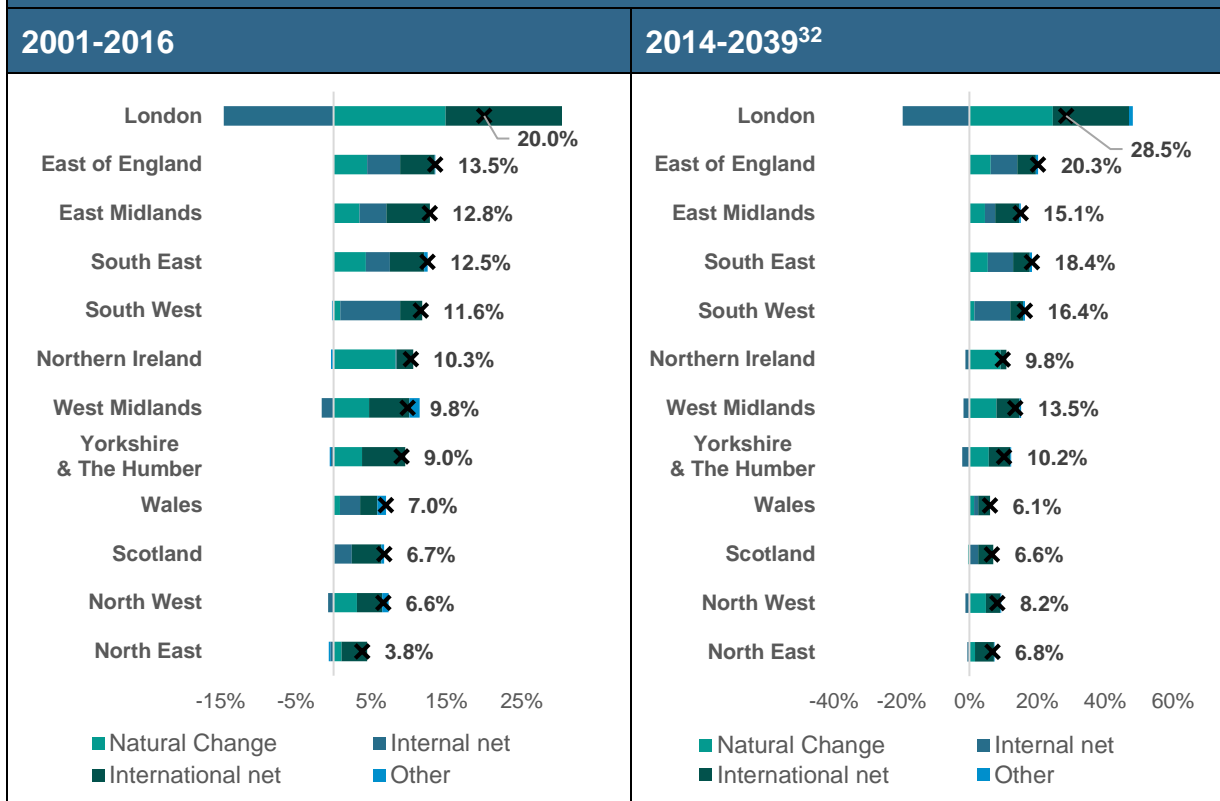
Figure 2.2. Population index (1971=100) (1971-2016 ONS mid-year estimates, 2016-2039 ONS 2016 projections)



2.33. Figure 2.3. below breaks down the contributions to population change, both historic and expected, for Wales, Scotland, Northern Ireland and the English regions. It illustrates well one of the key concerns expressed by the Scottish government, notably Scotland's greater reliance on international migration for future population growth.

2.34. It shows that between 2001 and 2016, the years for which a full breakdown is published, all of Scotland's 6.3 per cent population growth came from components other than natural change. This is projected to continue: natural change is expected to make a small negative contribution to Scottish population growth over the period 2014-2039. However, while Scotland may have the smallest contribution from natural change, other parts of the UK – notably Wales, the North East and South West – are not very different when it comes to expecting small contributions from natural change.

Figure 2.3. Breakdown of total population growth (%) by contribution by region/nation of the UK



2.35. In absolute terms, the contribution of international migration to population growth in Scotland has been, and is expected to continue to be, broadly similar to the other nations and regions of the UK. International migration contributed to an additional 4 percentage points to population growth on average when excluding London (2001-2016), in line with the additional 3.9 percentage points contribution experienced in Scotland. Similarly, looking forward, the average contribution from international migration in the rest of the UK, again excluding London, is expected to be an extra 4.9 per cent (2014-2039), very similar to the extra 4.5 per cent expectation for Scotland. What defines Scotland’s population position is a lack of a meaningfully positive contribution coming from natural change.

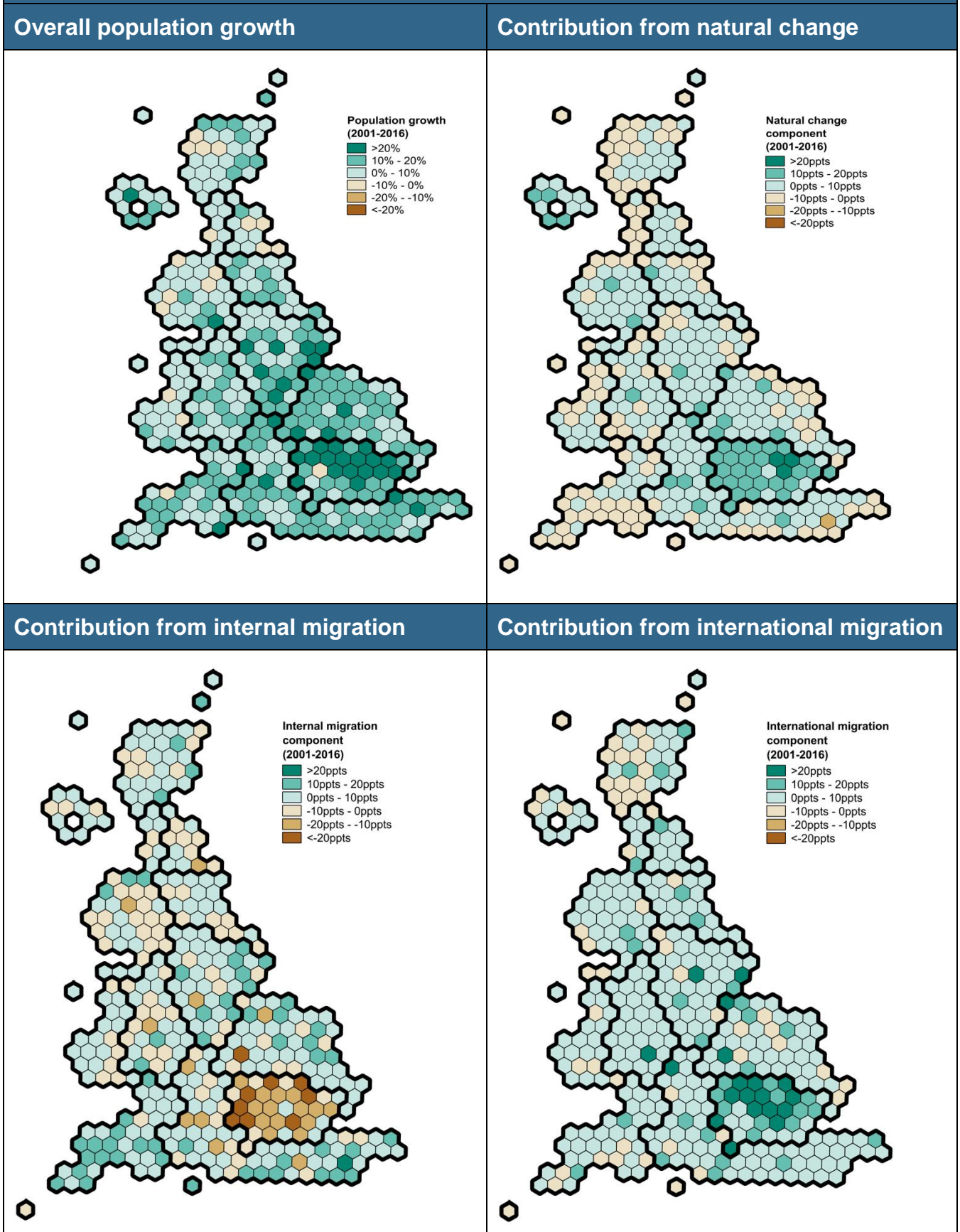
2.36. As highlighted earlier in reference to EEA population shares, demography rarely changes sharply at administrative or political borders. This is equally true when it comes to migration and population change. Figures 2.4 and 2.5 overleaf show historic and projected contributions to population change at the local authority (LA) level, highlighting the within region heterogeneity. For example, low or negative natural change is not exclusive to Scottish LA’s, with coastal and more rural localities across the UK facing similar pressures.

³² 2014 based sub-national population projections for English regions from the ONS. 2014 national projections also used for Scotland, Wales and Northern Ireland for comparability.

2.37. Behind the concerns over population change is the implicit view that maintaining a growing population is an appropriate goal of (migration) policy. One motivation behind this view was expressed in the Scottish Government's response which noted that population growth was set to be the single biggest driver of economic growth in Scotland. A growing population should be associated with greater total economic output. However, without making an assessment of the impact of migration on productivity - a topic we will touch on in our final report - the impact on output per head is less clear. Growing total output may have advantages even in the absence of per capita growth, for example by improving public finances. We will discuss this in our final report.

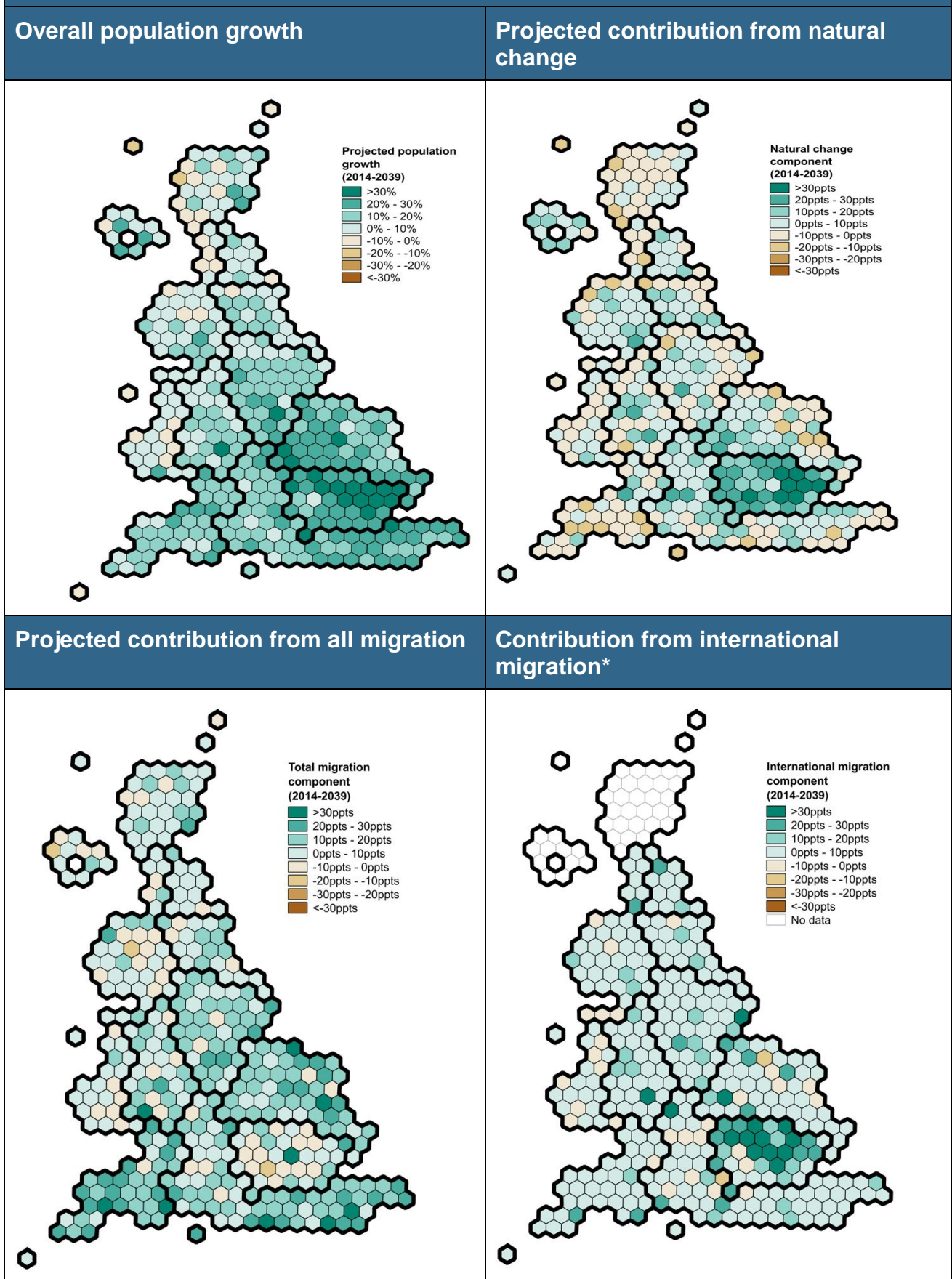
2.38. Scotland, with little or no contribution to population growth from natural change is particularly reliant on migration flows to avoid a return to a declining population. However, other regions and nations of the UK are not too dissimilar. Both the North East of England and Wales have, and are expected to continue to see, relatively low levels of natural change and small positive or negative net flows to the rest of the UK. As such, they are also reliant on international migration. Furthermore, comparisons across regions miss the within-region differences, which are often larger than the differences between regions.

Figure 2.4. Map of population change (2001-2016) and main components of change by local authority



Map outlines provided by the Office for National Statistics

Figure 2.5. Map of projected population change (2014-20139) and main components of change (natural change and migration) by local authority



*projected contribution from international migration only available for England & Wales, contribution from internal migration not presented separately. Map outlines provided by the Office for National Statistics.

An ageing population

- 2.39. Some stakeholders also expressed concern about the prospect of an ageing population within their area, and the importance that immigration has in slowing this demographic trend. For example, both the Government of Scotland and the Convention of Scottish Local Authorities mentioned that people aged 75 and over in Scotland are projected to increase by 79 per cent by 2041, the fastest growing age group in Scotland.
- 2.40. It is important to note that the populations of all four nations of the UK are ageing. Under the ONS principal projection, the share of people aged 65 and over is projected to rise from 20.4 per cent to 26.7 per cent in Wales between 2016 and 2039; Scotland's share is expected to increase from 18.5 per cent to 25.3 per cent, England's from 17.9 per cent to 24.1 per cent and finally Northern Ireland, with the lowest share of the four nations, is projected to see its 65+ share increase from 16.0 per cent to 24.2 per cent.
- 2.41. Figure 2.6. below shows the dependency ratio, the number of individuals aged 65+ per 1,000 individuals aged 16-64 for the four nations of the UK, under both the principal and the zero EU net migration population projections³³. Predictably, we can see the dependency ratio is set to rise in all four nations. As of 2016, Wales had the highest old age dependency ratio (330) and Northern Ireland had the lowest (253). This figure is 284 and 286 for England and Scotland respectively. By 2039, under the principal projection, Wales is projected to have the highest old age dependency ratio (473) and England is projected to have the lowest (412) (422 and 430 for Northern Ireland and Scotland, respectively).
- 2.42. The Scottish government highlighted to us the contribution EEA migration can make to slowing the increase in the old age dependency ratio stating, "inward migration can play an important role in helping tackle our ageing population...and any reduction in EEA migration could have serious effect on Scotland's population growth and its demographic composition". Looking again at the Figure 2.6 below, we can see that this is true. The old age dependency ratio under a zero EU net migration scenario is projected to be slightly lower across all the nations of the UK compared to the principal projection.
- 2.43. However, the difference between the principal projection and the extreme assumption of zero EU net migration is small. The largest difference across the four nations by 2039 is found in Northern Ireland where the dependency ratio is just 24 extra people aged 65+ per 1,000 aged 16-64 (16 extra for England, 15 for Scotland and 12 for Wales).

³³ The percentage of people aged 0-15 (children) is also projected to continue to steadily fall over the period 2015-2039 in the principal projection. Scotland from 16.9 per cent to 15.9 per cent, Northern Ireland from 20.8 per cent to 18.3 per cent, England from 19.1 per cent to 17.5 per cent and Wales from 17.9 per cent to 17.0 per cent.

Figure 2.6. Number of 65+ per 1,000 16-64 year olds under ONS principal and zero EU migration projections / Number of state pension aged per 1,000 working age under principal projection (1991-2039)



2.44. The relatively minor difference between the two projections is because the difference in migration flows between the two projection variants is 96,000, just 0.2% of the 16-64 population. Additionally, while a working-age migrant reduces the share of the older age group in the population today, they will eventually become older themselves and contribute to the size of the old age population later on.

2.45. Migration as a solution to ageing needs to be compared with other policy options. As also shown in Figure 2.6. changes to the UK state pension age (SPA)³⁴ are expected

³⁴ Women's State Pension age will increase to 65 between April 2016 and November 2018. From December 2018 the SPA for both men and women will increase to reach 66 by October 2020 (Pensions Act 2011). Between 2026 and 2027 SPA will increase to 67 years for both sexes (Pensions

to have a much larger impact on the dependency ratio in all countries. This suggests that raising the pension age might be a more effective policy than increased immigration to reduce the dependency ratio. However, this should be taken with caution as the effectiveness of the impact of a change in the state pension age on the old age dependency ratio has the potential to be overstated as a policy as it assumes the state pension age does not increase early retirement, which may not be the case.

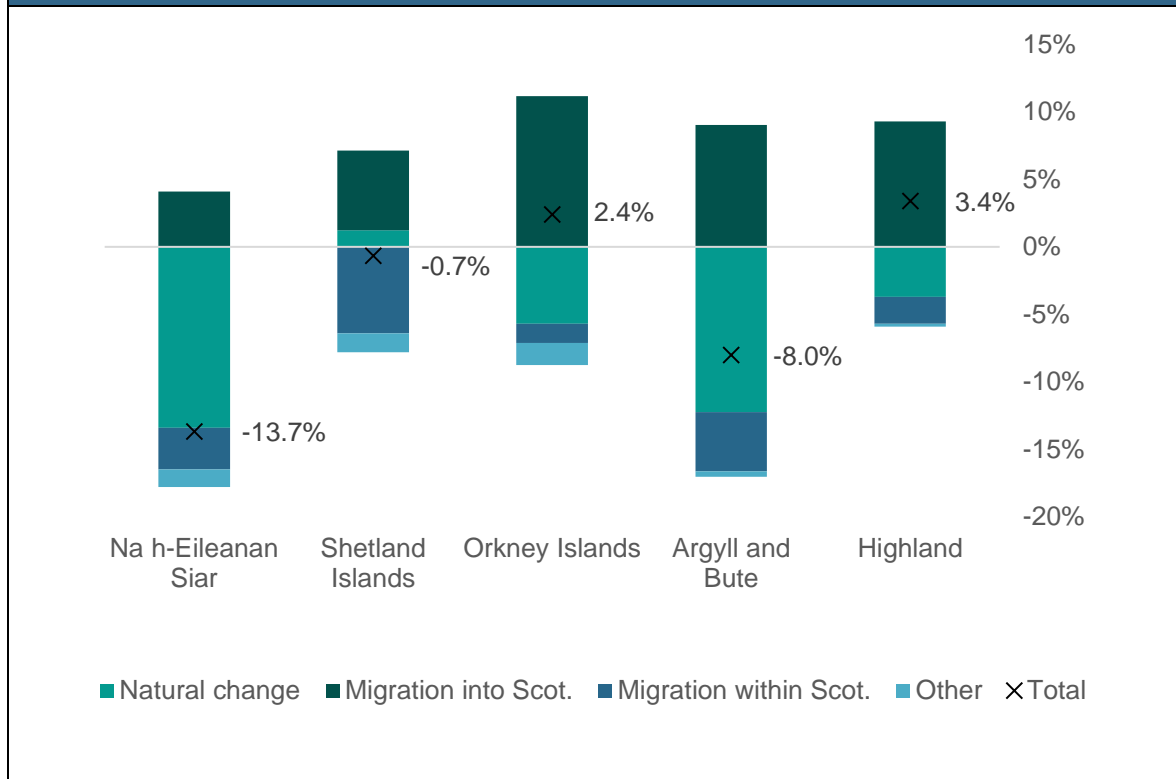
Prospects for remote areas

- 2.46. The Call for Evidence response from the Scottish Government highlighted the issues faced by more remote and rural communities. They told us that Scotland was significantly more rural, and less urbanised, than the rest of the UK – with over 70 per cent of Scotland’s land mass classified as “remote rural”³⁵.
- 2.47. The Scottish Government claimed that many Scottish rural and island communities face a particular problem of population decline. Figure 2.7 overleaf shows the projected (2014-2039) change in population for the five Scottish council regions with the greatest percentage of their population living in areas classified as “remote rural”.
- 2.48. A population fall of 13.7 per cent is predicted for Na h-Eileanan Siar. The Scottish Government said that these depopulation trends in remote and rural areas meant that the value of migrants to these areas was more than just the skills they bring. The presence of migrants was described as being critical for the demographic and economic sustainability of certain rural areas.
- 2.49. There is a fair amount of heterogeneity between the areas, but they have weak natural population growth, an expected strong positive contribution from migration into Scotland and a projected negative contribution from migration within Scotland.
- 2.50. These combinations of contributions to population change suggest a dynamic in remote Scottish areas of currently resident people moving away and being replaced by individuals from outside of Scotland (either from the rest of the UK or internationally). If the policy aim is to maintain population in these areas, one could seek to increase the flows of people to these areas or to address the reasons why people leave.

Act 2014). SPA will increase to 68 years for both men and women between 2044 and 2046 (Pensions Act 2007).

³⁵ Areas with a population of fewer than 3,000 people, and with a drive time of over 30 minutes to a settlement of 10,000 or more

Figure 2.7. Projected population growth (2014-2039) for top 5 remote Scottish council areas



The Irish Land Border

- 2.51. Stakeholders in Northern Ireland stressed the unique position of Northern Ireland, being the only part of the UK that shares a land border with the EU. The Head of the Northern Ireland Civil Service stated that access to skilled labour from the south and further afield, as well as the ability to trade with their Irish counterparts, was crucial in terms of Northern Ireland’s ability to compete successfully in the international markets. A desire for immigration policy to recognise and take account of the different needs of Northern Ireland was expressed³⁶.
- 2.52. According to the 2011 Censuses for Northern Ireland and Ireland there were around 14,800 people regularly commuting across the border from their place of residence to their place of work or study. Of these, 6,500 were commuting from Ireland to Northern Ireland with 8,300 traveling the other way.
- 2.53. The Censuses also show that the wholesale and retail industry was the most important industry for cross-border commuters in terms of employment, accounting for 16 per cent and 14 per cent of people travelling from Ireland to NI and NI to Ireland,

³⁶ As laid out by the Northern Ireland Executive in its Racial Equality Strategy 2015-2025 <https://www.executiveoffice-ni.gov.uk/sites/default/files/publications/ofmdfm/racial-equality-strategy-2015-2025.pdf>

respectively. Cross-border commuters were also more likely to be working in managerial and professional roles (together, managers, directors and professionals were said to account for 44 per cent of workers commuting from NI to Ireland and 38 per cent of workers commuting from Ireland to NI).

- 2.54. The UK government has committed to retaining the Common Travel Area, in which case there would be no future restrictions on Irish citizens working in Northern Ireland or UK citizens working in Ireland. However, such rights may not necessarily extend to citizens of the other EEA countries – it is possible that some might have the right to reside and work in Ireland but not in Northern Ireland.
- 2.55. There are already likely to be some (though probably not many) non-EEA citizens with the right to work in one but not both of Ireland and the UK because Ireland and the UK have different policies towards non-EEA nationals. Similar situations occur at other land borders within the EU that have no border controls.
- 2.56. Enforcement of rights to work do not require checks for people crossing the Irish border as these rights are not verified at the border, but in the workplace via employment checks. If in the future all non-Irish EEA migrants fell into this category, the enforcement problem may well increase but a new category of problem will not be created.
- 2.57. If visa-free travel for EEA citizens coming to the UK remains, there is no danger of NI being used as a “back-door” for EEA migrants to enter the UK and to work illegally. There are already large number of citizens of non-EEA countries who come to the UK without need for a visa but do not have the right to work.
- 2.58. While restrictions on rights to work do not necessitate a border infrastructure, differences in customs arrangements or regulatory standards between Ireland and Northern Ireland pose a much more serious problem that would need to be solved in order to maintain a frictionless border.