



THE GOVERNMENT REPLY TO THE FIRST REPORT FROM THE
HOUSE OF LORDS COMMITTEE ON ECONOMIC AFFAIRS
SESSION 2007-08 HL PAPER 82

The Economic Impact of Immigration

**Presented to Parliament
by the Secretary of State for the Home Department
by Command of Her Majesty**

June 2008

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INTRODUCTION

1.1. The Government is clear that carefully controlled economic migration benefits both our economy and our exchequer. What is key is selecting and attracting the right mix of skills to help keep wealth creation, employment and productivity high and rising. To deliver this we are introducing a points system to ensure that only those with the skills that Britain needs will be able to come to work and study, and further reforms to ensure that newcomers earn the right to stay. Our policy will yield significant macroeconomic benefits to the UK. But, in addition, our ambition is that, alongside these very evident macroeconomic benefits, migration should have a positive influence, in wider terms, upon every community in Britain.

1.2. The House of Lords Economic Affairs Committee report is a welcome contribution to this debate on current and future policy for economic migration. This Command Paper sets out the Government's response to the Committee's recommendations. It includes:

- An analysis of where the Government believes that the conclusions of the Committee on the economic case for migration are mistaken or simply a mis-representation of the Government's position.
- Confirmation of where Government has anticipated the Committee's recommendations and has reforms already in hand.
- A point by point response to each of the formal recommendations of the Committee.

1.3. Britain's immigration system is, of course, not exclusively designed for economic migration. Indeed, its objectives are threefold: -

- To offer humanitarian protection to people requiring sanctuary and fleeing persecution.
- To welcome the loved ones of UK citizens and those with permission to be in the UK who want to be re-united with their families.

- To attract those with the skills who can make a positive contribution to the UK, through work and study.

1.4. These objectives reflect underlying values of which Britain can be proud. They also underpin the biggest shake up of Britain's border security and immigration system for 45 years.

1.5. The Government does recognise that, for some communities, there are transitional impacts. This is the subject of the separate 'Managing the Impacts of Migration' plan published by the Department of Communities and Local Government today. There are clear interrelations: when setting policy in the points system, we will examine both the needs of business and the wider impact of migration on Britain. We have established the structures necessary to provide the best independent advice on the role of migration in the labour market and evidence of the impacts of migration including in local and sectoral terms. An independent Migration Advisory Committee will make recommendations to Ministers on where migration can sensibly meet the needs of the labour market. A Migration Impact Forum will highlight to Government emerging evidence of wider impacts of migration.

1.6. The Government has made significant investment in ensuring that all communities have properly resourced public services to deal with the changes they face – including where appropriate and necessary, mitigating the transitional impacts of migration:

- An increase in the overall grant support for Local Government by an average annual 1.5%, in real terms, over the next three years.
- An increase in the Government grant for the police of approximately 60% or over £3.7 billion between 1997/98 and 2008/09.
- The provision of £50m over the next three years committed to promote community cohesion and support local authorities in preventing and managing community tensions.

- The provision of increased funding for schools experiencing growth in pupil numbers as a result of Migration - the ring fenced Ethnic Minority Achievement Grant (EMAG) has risen from £162m in 2004/05, to £179m in 2007-08 and will continue to rise to £207 million by 2010/11.
- A new fund to manage the transitional impacts of migration – paid for by the migrants themselves.

1.7. Details of how the Government is managing the local impacts of migration and supporting public services in England and Wales are set out in the cross-government migration impacts plan - entitled "Managing the Impacts of Migration" - published today by the Secretary of State of for Communities and Local Government.

THE CASE FOR MIGRATION

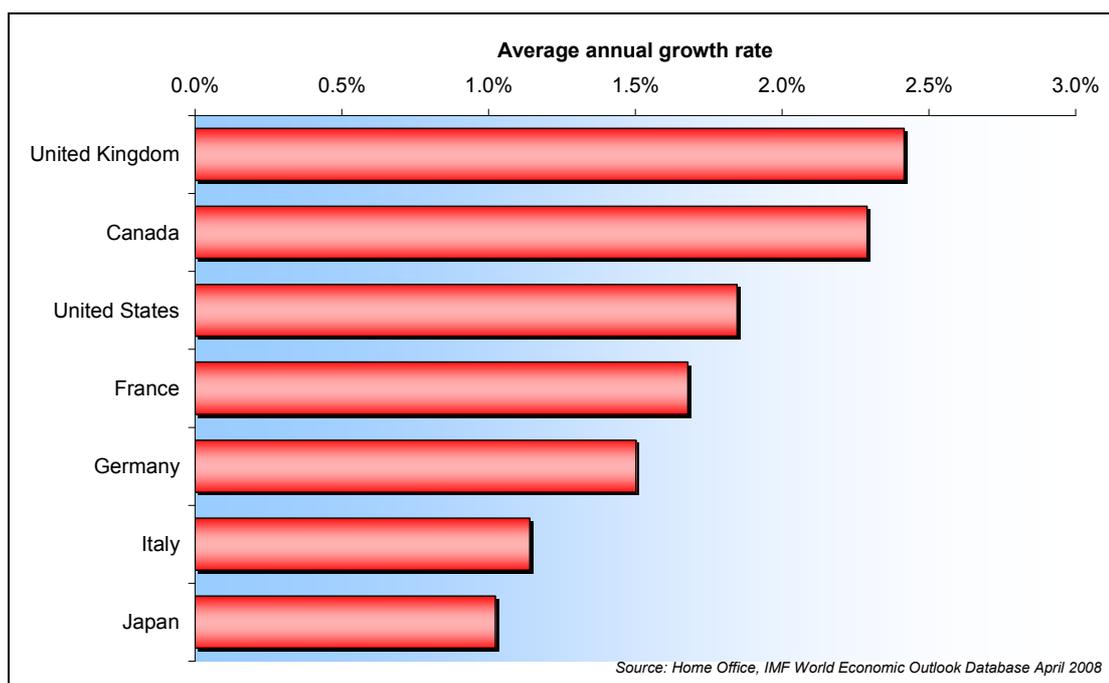
2.1. The Committee asserts that the Government's economic case for immigration is largely based on three arguments – that migrants bring benefits to the economy through their impact on growth; that they are needed to fill labour and skill shortages; and that migration generates fiscal benefits for the Government. We examine this assertion in relation to each of these arguments in turn.

2.2. **First:** The Government has been crystal clear that **GDP per capita** growth must be the principal determinant of success. Indeed, the Minister of State for Borders and Immigration said to the Committee: *“I personally do think that GDP per capita is the key thing to focus on”*.¹

¹ Oral evidence to the House of Lords Select Committee by Liam Byrne MP (Q513)

2.3. It is, therefore, important to understand the per capita growth in GDP relative to our competitors: since 1997, the UK has recorded the highest average annual growth rate in GDP per head amongst the G7 economies (see figure 1, below).

Fig 1: Growth in real GDP per head, 1997-2007 ²



2.4. The evidence we have suggests that migration has made a positive contribution to this strong recorded growth in GDP per head in the UK.

2.5. A significant measure of success for our policy of the last ten years comes from the study conducted for the Low Pay Commission in 2007,³ which was designed, amongst other things, to examine the impact of migrant workers on the British labour market. On the basis of its findings we

² Data sourced from the IMF World Economic Outlook Database April 2008. The GDP deflator for the IMF data is listed as being derived by dividing current price GDP by constant price GDP and is considered to be an alternate measure of inflation (See Gross Domestic Product, deflator (index) : www.imf.org.uk).

³ Dustmann, C., Frattini, T. and Preston, I. (2007) **A study of migrant workers and the national minimum wage and enforcement issues that arise**, report commissioned by the Low Pay Commission, available at <http://www.econ.ucl.ac.uk/cream/pages/LPC.pdf>

estimate that recent immigration has raised the GDP per head of the non-migrant population by about 0.15 per cent per annum in real terms (over the ten years to the end of 2006).

2.6. All these are estimates based on the impact of migration on the earnings of the resident population.

2.7. Even on highly conservative assumptions about returns to capital, GDP per capita growth for non-migrants is positive. For prudence, we used the lowest estimate from this study of the impact of migration on wages in our original calculation. However, under an even more cautious assumption that migration has no impact on the returns to capital, and assuming that labour's share of GDP is 60 per cent, then the impact of immigration on the GDP per head of non-migrants would be only slightly less than 0.10 per cent per annum, and therefore remain positive.

2.8. The Committee observed that GDP per capita effects are small. In part, this is a statement of the obvious, given the modest proportional effect that migration has on the working age population in any one year. In contrast to the view of the Committee, we hold that 0.15 per cent is not an insignificant amount in economic terms, given that:

- real GDP per capita increased by an average of 2.4 per cent per annum between 1997 and 2006; and
- up-skilling the labour force contributed 0.37 percentage points to real annual GDP growth per capita between 1995 and 2000.

2.9. Migration supports growth in GDP per head by allowing employers greater choice in a wider labour market, ensuring an improved match between vacancies and available labour, and enhancing the labour market's ability to respond quickly to capacity constraints. The Committee notes – and we agree – that migration can keep down inflationary pressure in the labour market. Migration also brings innovations as UK workers and businesses learn from the exchange of ideas and experiences with immigrant workers – a point the Committee itself observes. This leads to new ways of working and new products and services. The precise impact of innovation

is difficult to measure, but it is one of the key drivers of productivity and likely to have contributed to the UK's impressive productivity performance over the last ten years.

- 2.10. So, in summary, we strongly disagree with any suggestion that the only people to benefit from migration are the migrants themselves.
- 2.11. **Second:** The Government does not agree with the House of Lords that **GDP itself** is an irrelevant or misleading statistic when assessing the economic impact of immigration on the UK economy. We believe it is important to know the scale of the economic contribution of new migrants. The Treasury had previously estimated that migration added a half a percentage point per annum to trend output growth between mid-2001 and mid-2006, equivalent to around £6bn in 2006 – roughly equivalent to the value of output from the UK agriculture and fishing industry.⁴
- 2.12. **Third:** The Government is confident in the evidence to support its claim that 'migration has not had a significant negative impact on unemployment.'
- 2.13. Government and independent research continues to find no significant evidence of negative employment effects from immigration. The Government's views here are in line with the clear consensus among most UK labour market economists that *"the recent empirical research on the labour market effects of immigration to the UK finds little evidence of overall adverse effects of immigration on wages and employment for people born in the UK"*.⁵ In addition, a recent study by the Work Foundation,⁶ reviewing data and evidence on the impact of A8 migration, found that migrants have contributed to UK economic growth and have not displaced British workers. It concludes that, in the absence of migration, the UK would have experienced slower growth, higher inflation and higher interest rates. Also, a new review of econometric analyses of

⁴ Gross Value added of Agriculture and Fishing was £5.9 bn in 2005. Defra, Food Statistics Pocketbook, 2007, <http://statistics.defra.gov.uk/esg/publications/pocketstats/foodpocketstats/fsiyp.pdf>

⁵ Wadsworth, J. (2007) **Immigration to the UK: Evidence from Economic Research**, Centre for Economic Performance, available at <http://cep.lse.ac.uk/pubs/download/pa010.pdf>

⁶ Coats, D (2008) **Migration Myths: Employment, Wages and Labour Market Performance**, The Work Foundation, available at: <http://www.theworkfoundation.com/Assets/PDFs/migration2.pdf>

the impact of migration in developed countries found no UK study that had identified any significant negative impact.⁷

2.14. The Committee has drawn attention to the possibility that immigration will damage labour market prospects for the most vulnerable workers. The Government today publishes updated findings from the only comprehensive econometric study to look at the impact of A8 immigration on the UK labour market.⁸ Building on earlier similar research, but covering a longer time period, the new study uses a variety of approaches to address potential criticisms of its predecessor study. The authors of the new study find no negative impact of A8 immigration on claimant unemployment, either overall or for those groups most likely to be competing with A8 migrants, such as young people and the low skilled. The Committee in its report noted that it was possible, but not proven, that A8 immigration might have an adverse impact on job prospects for young workers. The authors of the new study find, for this group over this time period, no statistically significant impact on wages from A8 migration, either on average or at any point in the income distribution, although the results are less conclusive in this respect.

2.15. In relation to effects on wages, we believe that the way to avoid the future risk of downward pressures on low wages is the National Minimum Wage. In fact, the empirical evidence on the size of changes in earnings at the bottom of the distribution which arise from migration suggests they are much smaller than the gains to lower earners from the National Minimum Wage (NMW) and other protective mechanisms. Research undertaken for the Low Pay Commission in 2007¹⁰ found that immigration had a positive impact on the wages of native workers overall, although

⁷ Meta-Analysis of Empirical Evidence on the Labour Market Impacts of Immigration, Institute for the Study of Labour, March 2008

⁸ S. Lemos and J. Portes, New Labour? **The Impact of Migration from the New European Union Member States on the UK Labour Market**, June 2008, available from www.dwp.gov.uk

¹⁰ Dustmann, C., Frattini, T. and Preston, I. (2007) **A study of migrant workers and the national minimum wage and enforcement issues that arise**, report commissioned by the Low Pay Commission, available at <http://www.econ.ucl.ac.uk/cream/pages/LPC.pdf>

gains at the top and middle of the earnings distribution should be set against a slight dampening of wage growth at the bottom. This finding is supported by an LSE study on the effects of immigration in London and the South East which, although finding no evidence that immigration has impacted on unemployment across London and the South East, did find some evidence of wage dampening for the lowest paid workers. The existence of the NMW is, therefore, a key part of our policy design as it has meant that the lowest paid workers have seen real wage growth well in excess of the UK average. But we have also decided to suspend low skilled migration from outside Europe through the points based system which will provide additional protection for low paid workers. This is an example of the flexible, targeted approach that the points-based system allows.

2.16. **Fourth:** Contrary to what the Committee's report implied, it is not the Government's position that migration should be encouraged if migrants make a stronger **fiscal contribution** than non-migrants. It is, however, important to assess the fiscal contribution migrants make alongside their other economic impacts so that the effect they have on the economy can be considered in the round. The IPPR found that, in 2003-04, they contributed 10.0% to exchequer revenues and drew down only 9.1% of exchequer expenditure, making a stronger net fiscal contribution than their non-migrant counterparts.¹¹ This is despite Britain's migrant count including those to whom we have given sanctuary and those joining loved ones.

2.17. These calculations represent a quantification of the common-sense position that since migrants are more likely to be of working age than natives, generally arrive in the UK after compulsory education, and have, on average, higher earnings than natives, they are likely to make a stronger net fiscal contribution overall. This general truth will be reinforced

¹¹ Sriskandarajah, D., Cooley, L. and Reed, H. (2005) **Paying their way: the fiscal contribution of immigrants in the UK**, IPPR, available at <http://www.ippr.org/publicationsandreports/publication.asp?id=280>

by the Government's current reform proposals, in particular the new points-based system.

- 2.18. In undertaking those calculations we assume that a child of two migrant parents born in this country is a migrant until 16, but a non-migrant when he or she reaches working age. This is necessary because we cannot separately identify migrant offspring in the Labour Force Survey post 16.
- 2.19. The result, as was carefully and accurately noted in our original publication,¹² is a bias against migrants. A UK-born child of migrant parents will be classed as a migrant before 16 and will represent a cost to the economy since all children inevitably incur costs because they are in receipt of education and health care and because they do not work. The same child, who will be identified as a non-migrant post 16, is likely to be a benefit to the economy in adulthood because they will be working and paying tax.
- 2.20. We see no reason to further bias the calculation by classing half of the children of one migrant and one non-migrant parent as migrants.
- 2.21. **Fifth:** The Government believes that a healthy labour market will always be associated with job **vacancies**, as workers are continually matched to job opportunities. The benefits of migration arise from improved matching between the skills demanded by firms and the skills supplied by workers. We believe this was the context in which the former Prime Minister stated in 2006 that "our strong and growing economy needs migration to fill vacancies".
- 2.22. Despite the robust theoretical arguments for, and the clear empirical evidence of, the economic benefits from migration, the Government is committed to continually examining available labour market statistics to assess the extent to which immigration is having a deleterious impact on job opportunities for domestic labour.

¹² Gott, C. and Johnston, K. (2002) **The migrant population in the UK: fiscal effects**, Home Office RDS Occasional Paper No 77, Home Office, available at <http://www.homeoffice.gov.uk/rds/pdfs/occ77migrant.pdf>

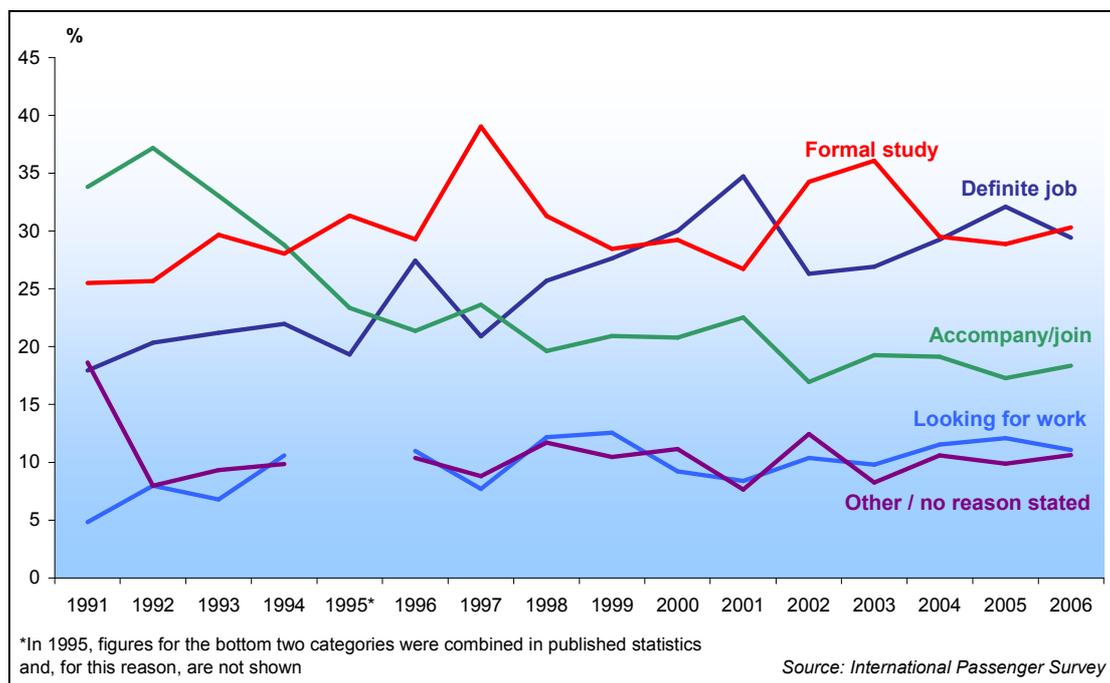
- 2.23. In fact, the number of vacancies has risen over the last year and is now at a record high. There are currently 680,000 vacancies in the economy,¹³ demonstrating that there are jobs available for British workers.
- 2.24. The latest LFS data show that the employment rate for the UK-born has risen from 73.1 per cent in the first quarter of 1997 to 75.5 per cent in the first quarter of 2008. They also show that 57 per cent of the increase in employment between the first quarter of 1997 and the first quarter of 2008, is accounted for by UK citizens.
- 2.25. More broadly, the labour market has been performing strongly, and we firmly believe that immigration has contributed to this by meeting labour and skills shortages in the public and private sectors. Indeed, the Work Foundation recently emphasised the importance of migrants for the effective supply of many public services.¹⁴
- 2.26. A much higher proportion of migrants in the UK are now here to work or study than was the case in 1991. The proportion of non-British migrants coming to the UK either with a definite job to go to, to look for work or to study has risen from 48 per cent in 1991 to 71 per cent in 2006 (see figure 2, below).

¹³ ONS Vacancy Survey – 14/5/2008 -

<http://www.dwp.gov.uk/mediacentre/pressreleases/2008/may/emp080-140508.asp>

¹⁴ Coats, D (2008) **Migration Myths: Employment, Wages and Labour Market Performance**, The Work Foundation, available at: <http://www.theworkfoundation.com/Assets/PDFs/migration2.pdf>

Fig 2: Non-British migrant inflow by reason for coming to the UK, 1991-2006



2.27. But the Government accepts that immigration is far from the whole story when it comes to ensuring Britain has the skilled workers it needs. With employment at record levels and vacancies high, our challenge is to do everything we can to help people take advantage of the opportunities that are out there and move into work. In an increasingly competitive global economy we need to upskill our native workforce. To do this, the Government's policies will provide a clear ladder of progression upwards in skills; improved information, advice and guidance; and new national entitlements with extra financial support at low skills levels. We are also focusing welfare much more strongly on the need to enhance the employability of the long term unemployed and inactive, including through enhancing their skills. This approach was most recently outlined in "Opportunity, Employment and Progression: making skills work" (November 2007)¹⁵ and "Ready for work: full employment in our generation" (December 2007).¹⁶

¹⁵ <http://www.official-documents.gov.uk/document/cm72/7288/7288.pdf>

2.28. The government will soon publish 'Progress for all: helping you to get the skills you need'. This paper sets out how we are going to help people take control of their skills needs, both for today and in the future, and how we will support employers to get the skilled workforce they need.

2.29. The Leitch review showed that our skill profile was weakest for low- and intermediate-skilled workers. While there is sufficient labour available in the EU, Tier 3 of the PBS will remain suspended¹⁷. Alongside the PBS, the Migration Advisory Committee (MAC) will advise the Government on where in the economy migration can be used sensibly to fill skilled shortage occupations as part of Tier 2 of the PBS. We note the Committee's suggestion that the MAC should consider carefully the alternatives for vacancy filling before deciding that a shortage exists. We are confident that their proposed methodology will mean they take full account of such alternatives before suggesting migration as a sensible route for filling such vacancies. Initially, the MAC will focus on the need to bring in skilled workers from outside the European Economic Area.

2.30. **Sixth:** We agree with the Committee that immigration alone cannot solve the long term challenges around pensions provision. Also, we agree with the Committee that raising the state pension age is an important way of addressing this. Nonetheless, the Government's position is that migration may be able to play a part in helping to address the challenges of an ageing population. Indeed, without migration the situation would be considerably worse. According to the latest projections from the Government Actuary's Department, the old age dependency ratio (the number of people of state pension age as a proportion of those of working age) is projected to increase from 30.5% in 2007 to 38.3% in 2076. With zero net migration the ratio would grow to 47.9%. Clearly, this depends on assumptions about the relative proportions of migrants who will remain in

¹⁶ <http://www.dwp.gov.uk/welfarereform/readyforwork/readyforwork.pdf>

¹⁷ Tier 3 of the PBS would allow us to bring in low skilled migrants from outside the European Economic Area

the UK temporarily and permanently, but recent evidence reminds us that many will, in fact, be temporary.

2.31. **Seventh:** We also note that migration may help to enhance **trade** and **investment** flows, by strengthening international social and business networks. This lowers the costs of trading and investing, and improves the quality of information flowing across borders. A recent working paper for the Australian Productivity Commission¹⁸ found that countries develop stronger trade and investment links with immigrants' countries of origin. In the case of trade, this link seems to be stronger where issues such as distance and language might otherwise discourage trade. However, the study found that countries with more migrants do not necessarily trade more overall, suggesting that migration has a greater impact on the pattern of trade than on total volumes. By contrast, the study found that migrants lead to greater investment between their country of residence and their country of origin, without any offsetting reductions in investment elsewhere.

2.32. **Eight:** Household projections produced by central government take into account migration alongside other demographic factors and form part of the evidence base about future housing need and demand taken into account by planning authorities in drawing up their plans. The latest (2004-based) household projections indicate that household formation in England is expected on average to be 223,000 a year to 2026, with net international migration accounting for around a third of that household growth. Two thirds of household growth would occur without any net migration, driven by population ageing and the trend towards smaller households

2.33. The potential impact of migration on the provision of Social Housing is discussed within the Government's document 'Managing the Impacts of Migration', published today. Through our proposals for Earned Citizenship we are committed to putting into practice our belief that the rights new

¹⁸ Dolman, B (2008) **Migration, Trade and Investment**, The Productivity Commission Staff Working Paper, available at http://www.pc.gov.au/data/assets/pdf_file/0008/76265/migraton.pdf

migrants enjoy should reflect the contribution that they make. Under these proposals, migrants from outside the EEA arriving on the family or economic migration routes will not be eligible for local authority housing until they become British Citizens.

2.34. **Ninth:** We believe that a Points based system is a more rigorous, flexible and effective way of controlling migration than a cap or quota. It enables us to ensure that only those migrants with the skills and talents to promote growth in our economy, and only those migrants, will be admitted while giving our economy, our labour market and British business the flexibility it needs. We estimate that close to 6 in 10 non-British migrants currently coming to the UK will be within the control of the PBS. It is worth noting that a cap aimed at economic migrants from outside the EU and excluding dependents, as some have suggested, would only cover 2 in 10.

2.35. Through the points system we will be able to look at the different occupations and the different skills that are needed by Britain at any given time. Where we then decide that we do not need a particular group of skills, we will not allow people to migrate to Britain. So we are achieving the same objective as the Committee suggests but by more flexible and effective means.

2.36. We believe that an arbitrary cap on numbers picked out of thin air simply risks denying Britain access to skills and ideas as and when they are needed – thereby damaging the ability of the economy, the labour market and business to function in a flexible way. A quota or cap would limit the complementary skills and talents that skilled migrants can bring and can make the native population achieve greater levels of productivity. In addition, a cap only affects economic migrants and students i.e. those who make the largest contribution to the UK Economy. For example, recent estimates indicate that overseas students contribute over £8.6 billion to the economy through tuition fees and living expenses.

3. WHERE THE COMMITTEE REAFFIRMS THE GOVERNMENT'S APPROACH.

3.1. There is much in the Committee's report with which the Government agrees or has anticipated.

3.2. **First:** The Government absolutely agrees with the Committee that migration policy must be informed by an understanding of economic and social impacts and managed to deliver the best outcome for the UK and its communities. This position is central to the rationale which underpins the Government's immigration policy reform programme which includes:

3.2.1. The introduction of the new points system, already in its implementation phase, designed to be flexible so that by adjusting the points, Government will be able both to keep out migrants who will not benefit the UK and actively favour those who will. The points based system is founded on clear objectives and has undergone some of the most robust consultation and clearance processes of any previous immigration reform. We have published policies prior to their implementation for the highly skilled, skilled, temporary workers and youth mobility tiers and for a new system of sponsorship – all with assessments of their impact. We are committed to fully evaluating the new system, including the production of future reports of the numbers of people entering the UK under the points based system.

3.2.2. A national Public Service Agreement on migration will ensure that the benefits of migration to the UK economy are maximised.

3.2.3. The creation of those structures necessary to have the best independent advice and evidence of the impacts of migration at its disposal. An independent Migration Advisory Committee will provide Ministers with its recommendations on where migration is sensible to meet the needs of the labour market. A Migration Impact Forum will ensure access to the best available evidence of the wider impacts of migration.

- 3.3. **Second:** The Government has argued for some time that migration statistics require improvement. For this reason, the Government is bringing in an electronic border information system - E-Borders. Procurement of a comprehensive system is now complete and this £1.2 Billion project will enable us to count people in and out of the country in a real-time and usable way for the first time. This programme, which has been piloted since 2004, will also facilitate the gathering of information to support security and counter terrorist work by alerting the authorities in advance of those seeking to cross our borders.
- 3.4. Through the UK Borders Act 2007, the planning for which was instigated as far back as 2005, Government has passed legislation for the introduction of compulsory ID Cards for foreign nationals – including the mandatory reporting of addresses. The roll-out of the new identity cards for foreign nationals has already started with a pilot programme in April 2008 to test the technology, followed by phased implementation starting in November 2008. Through this scheme, combined with e-Borders, we will have a much clearer picture of how many foreign nationals are in the UK and their whereabouts.
- 3.5. In the period before these systems are fully implemented, the Government has commenced a programme for improving the migration and population statistics which will be overseen by the Minister for Local Government and the Minister for Borders and Immigration. This focuses on:
- Improving data on numbers entering and leaving the UK.
 - Making more effective use of existing survey and administrative data.
 - Improving local population estimates and projections.
 - Improving public reporting of population and migration statistics.
 - Establishing further indicators and analysis to inform the evidence base.

- 3.6. **Third:** Government has already put in place, in March 2007, the first ever cross government strategy for enforcing workplace standards which might be jeopardised by the exploitation of often vulnerable adults. Through the creation new Immigration Crime Partnerships – started in October 2007 and now covering over 80% of all Police forces in England and Wales, the Government’s has demonstrated a clear and new approach to combating the exploitation and abuse of often vulnerable migrant workers. Similarly, the budget for enforcing the National Minimum Wage has been increased by half for the 4 years from 2007/8 and Government will double the number of Employment Agency Inspectors.
- 3.7. Measures in this 2007/8 Parliamentary Session’s Employment Bill will increase the penalties that can be imposed on non-compliant employers and strengthen the enforcement bodies’ investigatory powers. The focus of the 2007/8 targeted enforcement campaign is the hotel sector. As recommended by the Low Pay Commission, the Government has chosen a migrant heavy sector recognizing the particular challenges in sectors with high numbers of migrant workers.
- 3.8. **Fourth:** Following an extensive public consultation process, Government has already proposed reform of the ‘Path to Citizenship’ for migrant newcomers. In particular, we propose to put an end to the decades-old practice where people can become citizens simply by staying in the UK for a certain length of time in accordance with their conditions of leave: we believe it is vital that newcomers earn their way to citizenship or permanent residence. Our green paper ‘The Path to Citizenship: Next steps in reforming the immigration system’ was published in February 2008, setting out proposals where the rights and responsibilities of becoming a British Citizen have to be earned. It does so by spelling out the rights and obligations of legal immigrants to Britain and the requirements that must be fulfilled to earn British citizenship, such as learning the English language, paying tax and becoming self sufficient and obeying the law. We also want to encourage people to join in with the British way of life through playing

an active part in the community. We will ask new migrants to pay into a migration impacts fund to help manage the transitional costs associated with migration. The period of consultation on our proposals has recently ended and we will be publishing the conclusions from it within a further document in the summer.

3.9. **Fifth:** Because we know that certain local areas experience transitional impacts due to the pace of population change, the Secretary of State for Communities and Local Government today set out a cross government approach to supporting local areas in England and Wales in managing migration impacts. This document is entitled, 'Managing the Impacts of Migration.' This will be supplemented by the proposal in the Earned Citizenship Green Paper to require new migrants to pay into a Migration Impacts fund to help manage the transitional costs associated with migration at a local level.

4. Recommendations

4.1. A response to each of the Committee's recommendations is as follows.

i. Improve radically the present entirely inadequate migration statistics

4.2. The Government has recognised the importance of high quality statistics and has argued for some time that current statistics require improvement.

4.3. For this reason, Government is bringing in an electronic information system - E-Borders. Procurement of this comprehensive system is now complete and this £1.2 billion project will enable us to count people in and out of the country in a real-time, useable way for the first time. It will also facilitate the gathering of information to support security and counter terrorist work by alerting the authorities in advance of those seeking to cross our borders. Through its implementation we will, in the future, have a comprehensive record of all journeys in and out of the UK, addressing many of the shortcomings in existing migration data.

4.4. Through the UK Borders Act 2007, the planning for which was instigated as far back as 2005, Government has passed legislation for the introduction of compulsory ID Cards for Foreign Nationals – including the mandatory reporting of addresses. The roll-out of the new identity cards for foreign nationals has already started with a pilot programme in April 2008 to test the technology, followed by phased implementation starting in November 2008. Through this scheme, combined with e-borders, we will have a much clearer picture of how many foreign nationals are in the UK and their whereabouts. These cards will also represent a crucial step in fighting illegal immigration, enabling those here legally to prove it and preventing those here illegally from benefiting from the privileges of Britain.

4.5. In the period before these systems are fully implemented, the National Statistician has commenced a government funded programme for improving the migration and population statistics which is driven forward by a ministerial working group led by the Minister for Local Government and the Minister for Borders and Immigration.

4.6. In December 2006 the Inter-Departmental Task Force on migration statistics made recommendations for a substantial and progressive programme of improvements in the five years from 2008-2012. In February 2008, John Healey, the Minister for Local Government announced to the House of Commons,

"I can confirm that we will put in place a cross-Government programme of work driven by senior officials from central Government and the LGA, and led by the National Statistician. That will accelerate the work that has already begun to improve population statistics, including at a local level. The senior programme board will aim to meet for the first time this month. To support that programme of work a ministerial group, jointly chaired by me and the Minister for Borders and Immigration, will be set up, while the independent statistics board will ensure the quality of the statistics that are produced."

4.7. The senior programme Board has agreed that work plans will focus on:

- Improving the data available on numbers entering and leaving the United Kingdom;
- Making effective use of new and existing administrative and survey data sources;
- Improving local population estimates and projections used in allocating resources and developing services;
- Improving the public reporting of population and migration statistics; and
- Establishing a wider range of timely indicators and analysis to inform the evidence base on migration and its impacts on policy and public services.

4.8. ONS, the Department for Communities and Local Government, the Home Office and the Department for Work and Pensions have worked together to establish five interdepartmental working groups that cover each of these elements of work. These are cross departmental groups that also involve the Local Government Association (LGA), the devolved administrations, the Bank of England and, for the group on indicators and analysis, academic expertise.

ii. Review its immigration policies and then explain, on the basis of firm evidence on the economic and other impacts, the reasons for and objectives of the policies, and how they relate to other policy objectives such as improving the skills of the domestic workforce

4.9. In delivering the most fundamental reform of the immigration system for 45 years, the Government has already instigated policy improvements that are founded from clear objectives and which have undergone some of the most robust consultation and clearance processes of any previous immigration reform.

4.10. Immigration policy is based on a broad set of aims (see 1.2). The economic aspect of this – selecting and attracting those most able to make a positive contribution – both in terms of their productivity and contribution to economic growth is why the Government established:

- a national PSA migration target to that ensure Government objectives which govern migration boost the UK economy
- an independent Migration Advisory Committee to provide Ministers with its recommendations on where migration is sensible to meet the needs of the labour market and a Migration Impact Forum to ensure access to the best available evidence of migration impacts;
- a commitment to better regulation that requires the completion of regulatory impact assessments of all new immigration policies prior to their implementation.

4.11. It also why the Secretary of State for Communities and Local Government today set out a cross-government approach to 'Managing the Impacts of Migration' in England and Wales. This will build on existing good practice to support certain local areas experiencing transitional impacts due to the pace of population change.

4.12. The proposed Government reforms, when complete, will change the way we police our borders and will also provide a step change in the way we will decide who should and who should not have the right to come through those borders to work and study, and who should stay.

These policies, which we have already begun to introduce, are based on the best available evidence of which categories of migrant will make the most positive economic contribution to the UK. They are agreed across Government ahead of their implementation.

- 4.13. The implementation of each Tier of the Points Based System has been, or will be, preceded by the publication of a Statement of Intent and an Impact Assessment. Statements of Intent outline the rationale for individual Tiers of the Points Based System. An Impact Assessments assess the consequences of introducing a new policy, in particular on employers. Through early publication, the Government is allowing as much time as possible for public scrutiny and policy reflection so that those affected can prepare for change and comment on the implications of that change.
- 4.14. The work of the independent Migration Advisory Committee will be crucial in providing advice on how the policy for the skilled tier of the Points Based System (Tier 2) will operate ahead of its initial launch and at regular points thereafter. In the recently published Statement of Intent for Tier 2¹⁹, Government confirmed that the periodic publication of the Migration Advisory Committee shortage occupation list for skilled workers (entering the UK under Tier 2 of the points based system) will be used to assess the effectiveness of migration in supporting the economy. It will also reflect the impact of other Government interventions, such as investment in skills development, on the labour market and the British economy.
- 4.15. To produce a shortage occupation list, the Migration Advisory Committee has devised a methodology to determine those **skilled** occupations, experiencing **shortage** that could **sensibly** be met by migration. This will allow for consideration of the impact of migration on employers' incentives to train resident workers – including their current policy on apprenticeships. In addition, the Migration Advisory Committee will work jointly with the UK Commission for Employment

¹⁹ Reference to T2 Statement of Intent

and Skills (established earlier this year) to strengthen the role of employers in the development of an employment and skills service which is better tailored to meeting the needs of employers.

4.16. The Government has set an ambition of joining the world's "premier league" for skills by 2020. Our determination is backed by financial investment and a range of new approaches to meeting our skills needs. Funding of the Train to Gain initiative will rise from £520 million in 2007-2008 to over £1 billion in 2010-2011. We are also joining up the employment and skills systems to produce a new universal adult careers service in England.

4.17. Similarly, the Government's creation of the Migration Impact Forum has allowed for a wider understanding of the impacts of migration policy based upon views from front-line public service managers from across the UK. The Migration Impacts Forum provides a useful forum for debate between Government Ministers (the forum is co-chaired by Ministers from the Home Office and Communities and Local Government) and providers of services in local areas affected by migration. Part of its role is to identify good practice in dealing with the impacts of migration, and to suggest areas for Government research.

4.18. To date the Migration Impacts Forum has considered evidence from frontline practitioners about the impacts of migration on housing, community cohesion and skills. Future sessions are planned on crime and disorder, employment, health and education.

iii. Better enforce the minimum wage and other statutory employment conditions with effective action taken against employers who illegally employ immigrants or who provide employment terms which do not meet the minimum standards

4.19. The Government's welcomes the importance that the Committee has placed on enforcement as it has already put in place many initiatives designed to tackle those who exploit migrant workers – to respect their rights and to prevent employers from undercutting UK-based workers.

4.20. In March 2007, Government developed the first ever cross government strategy for enforcing workplace standards in this area.

4.21. Through the creation of new Immigration Crime Partnerships – started in October 2007 and now covering over 80% of all Police forces in England and Wales, the Government's has demonstrated a radically improved approach.

4.22. The Agency has continued the tough approach on tackling illegal immigrants with 40% more illegal working operations than in 2006 (6,308 in 2007 and 4,504 in 2006). In February 2008, we introduced new measures to tackle illegal working: a two-pronged approach to introduce a civil penalty regime for employers, together with a tough new offence of knowingly employing an illegal migrant worker.

4.23. Similarly, the budget for enforcing the National Minimum Wage has been by half for the 4 years from 2007/8 and Government will double the number of Employment Agency Inspectors. Since 1999, enforcement officers have carried out over 50,000 investigations and recovered over £29 million in underpayments affecting almost 97,000 workers.

4.24. Illegal working will become even more difficult with the introduction of ID cards for foreign nationals (see 4.4).

4.25. Measures in the new Employment Bill will: -

- Increase the penalties that can be imposed on non-compliant employers and strengthen the enforcement bodies' investigatory powers, including penalties for employers found to have underpaid their workers.
- Ensure that arrears repaid to workers who have been underpaid the minimum wage take into account the length of time that the arrears have been outstanding.
- Improve protection for agency workers so that infringements of employment agency regulations can be tried in a Crown Court where tougher penalties are available and where cases can be brought by the Employment Agency Standards Inspectorate without the need for a witness. These commitments to improve the rights of agency workers is complemented by the recent revisions to the Employment Agency Conduct Regulations which now give agency workers a right to withdraw from services provided – such as transport – without suffering detriment.

4.26. The 2007/8 targeted enforcement campaign is the hotel sector in line with the recommendations of the Low Pay Commission to choose a sector heavily populated by migrant workers. A campaign targeting migrant workers was carried out as part of the 2007/08 national minimum wage awareness raising activity. The Government has made it clear that it believes the best way for migrant workers to understand their rights is to learn English, and is encouraging employers to help them to do so. But this takes time and so the Government also promotes awareness of workplace rights through the distribution of 'Know Before You Go' leaflets to Lithuanian and Polish nationals before they leave for the UK. In addition Bulgarian and Romanian (A2) workers applying to the Home Office for an accession worker card receive a basic 'Know Your Rights' leaflet available in the relevant languages. This leaflet provides advice and contact details on a range of support organisations – including outlining the rights of workers to join organisations such as a Trade Union if they so choose.

4.27. Last year, we launched a Vulnerable Worker Enforcement Forum. Chaired by the Employment Relations Minister, it brings together the TUC and front line unions, the enforcement agencies, business groups and Citizens Advice to consider evidence on the nature and extent of abuse of legal worker rights and legislation and whether improvements to the enforcement regime are needed. It is expected to conclude its work this year. We are funding two vulnerable worker pilots, launched last year to identify and test practical ways of improving the advice and support available to vulnerable workers and their employers at a local level. The TUC is leading such a scheme in the City of London and Tower Hamlets focused on the cleaning and wider building services sector; Marketing Birmingham is leading the second pilot focused on the hospitality sector.

4.28. The Government's efforts to protect vulnerable workers are well demonstrated through the work of the Gangmasters Licensing Authority (GLA). Since 2006, GLA has licensed 1,200 labour providers (as of 12 May 2008) and taken action against those with critical failings by revoking 56 licences, eight with immediate effect. The first prosecution for operating without a licence was at the end of April 2008. Furthermore, approximately seven out of ten licence holders have been required to improve their business through the Authority imposing additional conditions on their licence.

iv. Clarify the objectives and implications of the new, partially points-based immigration system.

4.29. In 2005, the Government published its five year strategy for asylum and immigration and announced that a new points system would be created to replace the outdated and confusing rules that had grown up since the Immigration Act 1971. The strategy stated that the new system would allow into Britain the people and skills the economy needs, only taking migrants to fill jobs that cannot be filled from our own workforce, and focussing on the skilled workers we need the most.

4.30. Following an extended period of public consultation, in March 2006 the Government published a command paper in response to the consultation, providing further information on how the new points system would be shaped. The objectives of the new system, outlined in the command paper are as follows:

- To better identify and attract migrants who have the most to contribute to the UK;
- To provide a more efficient, transparent and objective application process; and
- To improve compliance and reduce scope for abuse.

4.31. These objectives have remained at the forefront of the development of the policy around the new points based system, which we started to implement in February this year.

4.32. This radical overhaul of the UK's immigration system, where around 80 existing routes will be replaced with five tiers, will have clear implications for all users of the immigration system.

4.33. One of the key principles of the PBS is that those who benefit from migration will play a part in ensuring that the system is not abused. That is why the system of sponsorship by employers and educational institutions, to ensure compliance with the immigration

rules, is integral to the operation of the points system. Only the most highly skilled migrants will not be required to have a sponsor under the PBS.

4.34. For the migrants themselves, the decision making process will be more transparent as they will be able to earn points under each of the Tiers against sets of objective criteria (such as previous earnings and qualifications) which will predict their future success and positive contribution to the UK.

4.35. Throughout the development of the PBS, we have extensively reviewed its likely economic impact. Some of the main economic benefits of Tiers 1,2 and 5 are:

4.35.1. Increased per head contribution to UK output from new migrants resulting from an intelligent selection process that ensures future migrants are more productive and a Tier 2 framework which is skewed towards skilled migrant workers who are complementary to the existing UK workforce.

4.35.2. Improved control of migration flows due to sponsorship requirements for Tiers 2 and 5, expanded entry clearance requirements and the closing down of routes potentially more open to abuse.

4.35.3. Reduced administration burden for both government and business resulting from clearer, transparent and streamlined processes.

4.36. The PBS will continue to ensure that migrants contribute to UK output growth while minimising the risk of abuse of the system

v. Monitor immigration by publishing periodic Immigration Reports giving details of the numbers and characteristics of non-EEA nationals entering the UK under each Tier of the new system

- 4.37. The Government recognises the importance of high quality statistics on migration and population. We accept its importance both in terms of policy development and for planning and providing public services. This point is dealt with in some depth in the 'Managing the Impacts of Migration' document published today. The cross-Government programme for improving the migration and population statistics is in place to take forward improvements recommended by the Inter-departmental Task Force on Migration Statistics.
- 4.38. Led by the National Statistician and overseen by the Minister for Local Government and the Minister of State for Borders and Immigration, these improvements will ensure that future migration statistics are trusted, authoritative and fit for the purposes for which they are used.
- 4.39. Specific performance information outlining the numbers and characteristics of non-EEA migrants entering the UK under each Tier of the Points Based System will be collected via landing cards and the first figures will be published 2009. This publication (relating to arrivals in 2008) will include information on the nationality of passenger and the Tier and Tier sub-category.
- 4.40. As each Tier of the Points Based System is implemented, consideration will be given to the publication of further representative statistics (outlining the volumes and characteristics of those applying). These will build on those that will be published under the Control of Immigration Statistics. The publication of statistics based on the new system will be taken forward in the context of the Government's programme of improvements to migration statistics. In particular, ensuring that the timing and content of publication is consistent with the aim of introducing a greater coherence and clarity to migration reporting across government.

vi. Given further consideration to which channels of immigration should lead to settlement and citizenship and which ones should be strictly temporary.

4.41. The Government believes it is vital that newcomers earn their way to citizenship. Our green paper 'The Path to Citizenship' was published in February 2008, setting out proposals for a new agenda of earned citizenship, ending the decades old assumption that citizenship or permanent residence followed automatically from meeting the conditions of their stay for a certain length of time in the UK, and instead setting out clearly the rights and responsibilities of becoming a British Citizen with permanent status having to be earned. It set out proposals for a clearer journey to citizenship, simpler and easier for the public and migrants to understand. They place shared values at the heart of the migration system. These proposals evolved following a UK-wide programme of listening events with the British public that were conducted over a 5 month period. In framing our proposals, we have listened to their views and their expectations for newcomers who choose to come to the UK and start on the path to citizenship.

4.42. The Green Paper set out the Government's view that there should be three key routes to naturalisation as a British citizen – highly skilled and skilled workers (economic migrants) and their dependants, under the points-based system; family members of British citizens and permanent residents; and those in need of protection (i.e. refugees and those granted humanitarian protection) There would be three stages in the journey that migrants take – temporary residence; probationary citizenship; and British citizenship/permanent residence.

4.43. Speaking English, making an economic contribution, obeying the law and being actively involved in the community will be the key elements determining progress through the system. Full access to benefits and public services will be delayed until migrants have completed a period of probationary citizenship.

- 4.44. The paper also announced the creation of a fund to manage the transitional impact of migration paid for by the migrants themselves.
- 4.45. This proposal recognises the fact that, on occasion, migration can have short-term impacts on the provision of public services in local communities and those providers, including local authorities, can be required to respond quickly and innovatively to this challenge. The Fund will allow us to alleviate some of the short-term pressures resulting from migration.
- 4.46. The Government invited views on the proposals and the consultation period for the Green Paper ran until 14 May 2008. The Government is now considering the responses and will publish its conclusions within a further document in the summer.

vii. Review the implications of its projection that overall net immigration in future years will be around 190,000 people. The Government should have an explicit and reasoned indicative target range for net migration and adjust its immigration policies in line with that broad objective

4.47. The Government is determined to maximize the benefits of migration for the UK, both economic and otherwise, while managing the challenges it brings, including at a local level. It is for this reason that we have introduced the Points Based System to ensure that only those that the UK needs come here to work and study. We are glad that the Committee supports our decision to exercise control through the phasing out of low skilled migration from outside Europe through the suspension of Tier 3 of the Points Based System.

4.48. We believe that a points based system is a more rigorous, flexible and effective way of controlling migration than a cap or quota. It enables us to ensure that only those migrants with the skills and talents to promote growth in our economy, and only those migrants, will be admitted while giving our economy, our labour market and British business the flexibility it needs. We estimate that close to 6 in 10 non-British migrants currently coming to the UK will be within the control of the PBS. It is worth noting that a cap aimed at economic migrants from outside the EU and excluding dependents, as some have suggested, would only cover 2 in 10.

4.49. Through the points system we will be able to look at the different occupations and the different skills that are needed by Britain at any given time. Where we then decide that we do not need a particular group of skills, we will not allow people to migrate to Britain. So we are achieving the same objective as the Committee suggests but by more flexible and effective means.

4.50. We believe that an arbitrary cap on numbers picked out of thin air simply risks denying Britain access to skills and ideas as and when

they are needed – thereby damaging the ability of the economy, the labour market and business to function in a flexible way.

- 4.51. The International Passenger Survey indicated that 529,000 long term migrants entered the United Kingdom in 2006, about 77,000 of whom were returning British citizens and about 136,000 were citizens of other European Union (EU) countries. The Government does not believe that it would be appropriate to limit the return of British Citizens or to renegotiate the principles of free movement within the EU, something which millions of British citizens have benefited from.
- 4.52. Of the non-EU migrants, the survey indicates that 114,000 came to the UK to study. The UK educates people from all over the world and it is an important part of the UK economy – contributing approximately £8.6 billion. The Government does not believe that such opportunities and economic benefits should be limited or stopped.
- 4.53. For a further 74,000 of the non-EU migrants, the main reason for migrating was to accompany or join another person. The Government does not believe that it would be appropriate to limit access to dependants through the reintroduction of the primary purpose rule.
- 4.54. Applying a limit, as some have suggested, on the number of non-EU citizens (and their dependants) would only affect a small percentage of those entering the UK to work. The survey indicates that those with a definite job to go to and those seeking work together accounted for approximately 100,000 non-EU migrants to the UK in 2006. The Government believes that a proposed cap would only apply to close to 3 in 10 of the non-British people who entered the Country in 2006 assuming it includes a proportion of dependants (or 1 in 5 – excluding dependants).