



**Building Globally Successful Societies**



**THE CASE FOR IMMIGRATION**

## About Us

Global Future is an independent think tank campaigning for Britain to be a vibrant and open nation that reaches out to the world.

We believe the dynamism of our economy and creativity of our culture depends on our country remaining open to people, trade and ideas from across the globe. That improvements in people's lives will come from harnessing the great potential of global partnerships and that the current drift towards nativism and narrow nationalism represents a huge threat to the very people it professes to serve.

We seek to educate and help people appreciate the benefits of international openness. We also want to understand the genuine issues that stand in the way of realising these benefits and to develop solutions that help smooth the path to our collective global future. We explore new ways for people to take more control over what matters most in their lives without cutting themselves off from opportunities to succeed in our global world.

We work across politics, the arts and in business to make sure Britain's unique character as a country of tolerance and diversity is not undermined by short-term thinking that would make us a narrower and lesser nation. We are also committed to helping our businesses develop the leadership and culture to help them succeed on the world stage. In addition, we are active in ensuring that Britain's artists and creative industries benefit from open cultural exchange and the free flow of global talent.

May 2017

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## Introduction

Global Future's previous report, "The Brexit Immigration Myth", showed that cutting net migration into the UK by abolishing freedom of movement to and from the EU is likely to prove much more difficult than many think. In particular, we argued that there are many constraints on curbing immigration and that, beyond the natural ebbs and flows related to extraneous factors, Government targets will be hard to deliver.

In the current General Election, Britain two main political parties are both making the case for controlling immigration. There is a debate about how far this should be a priority over economic prosperity or remaining in the single market. There is little discussion, however, about the nature and extent of the UK's need for inward migration.

In this respect, we believe the current political debate is dishonest and is failing to serve the interests of the public. Although there appears to be strong support among voters for cutting immigration, there is no real debate about the consequences of this either for national prosperity, individual living standards or particular sectors of the economy.

Today's report by Global Future is designed to enable this debate by taking a fact-based look at the future immigration needs of the country and asking, if government could control the net in-flow, what would be the right level?

Our analysis shows that the previous and current Government's target of cutting net migration to the tens of thousands immediately or in the long-term is based on an outdated and backward looking view of policy in this area. It shows that making substantial cuts in immigration to these levels is not only very difficult but also overwhelmingly undesirable.

The UK is close to full employment, has an ageing population and low productivity growth. These factors make immigration an essential ingredient of a successful economy looking ahead. Global Future's top-down economic view is that a net migration figure well in excess of 200,000 will be needed long into the future to avoid catastrophic consequences for the economy.

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Furthermore, a separate analysis of different sectors of the economy reveals that structural and demographic changes mean that many are already on a labour shortage cliff-edge. This bottom-up view confirms that a net migration figure in excess of 200,000 will be needed to avoid collapse of whole sectors, as well as to alleviate the crisis in public services such as Social Care and the NHS.

The only way in which migration needs can be reduced beyond the levels suggested is if economic growth crashes. Furthermore, there is a risk that due to factors, such as the collapse in the pound and perceived cultural hostility to outsiders, that valued migrants may depart the UK or start to favour other destinations. It is entirely possible that the debate on immigration may move from “Is it too high to what can we do to make sure it is sufficient for the needs of the country?”.

The convergent conclusions from two very different perspectives raise significant questions for UK policy, as well as negotiations with the EU, over the years to come. Quite simply, we believe that at a time of full employment, the UK cannot ignore the benefits that immigration confers in terms of tackling chronically low productivity growth and the consequences of a rapidly ageing UK domestic population.

It means the case for staying in the single market is not limited to free trade – in goods, capital and services – to which all mainstream political parties pay at least lip service. Instead, it may mean we should also be making a positive case for the continued free movement of people which has usually been characterized as a downside of membership of the single market.

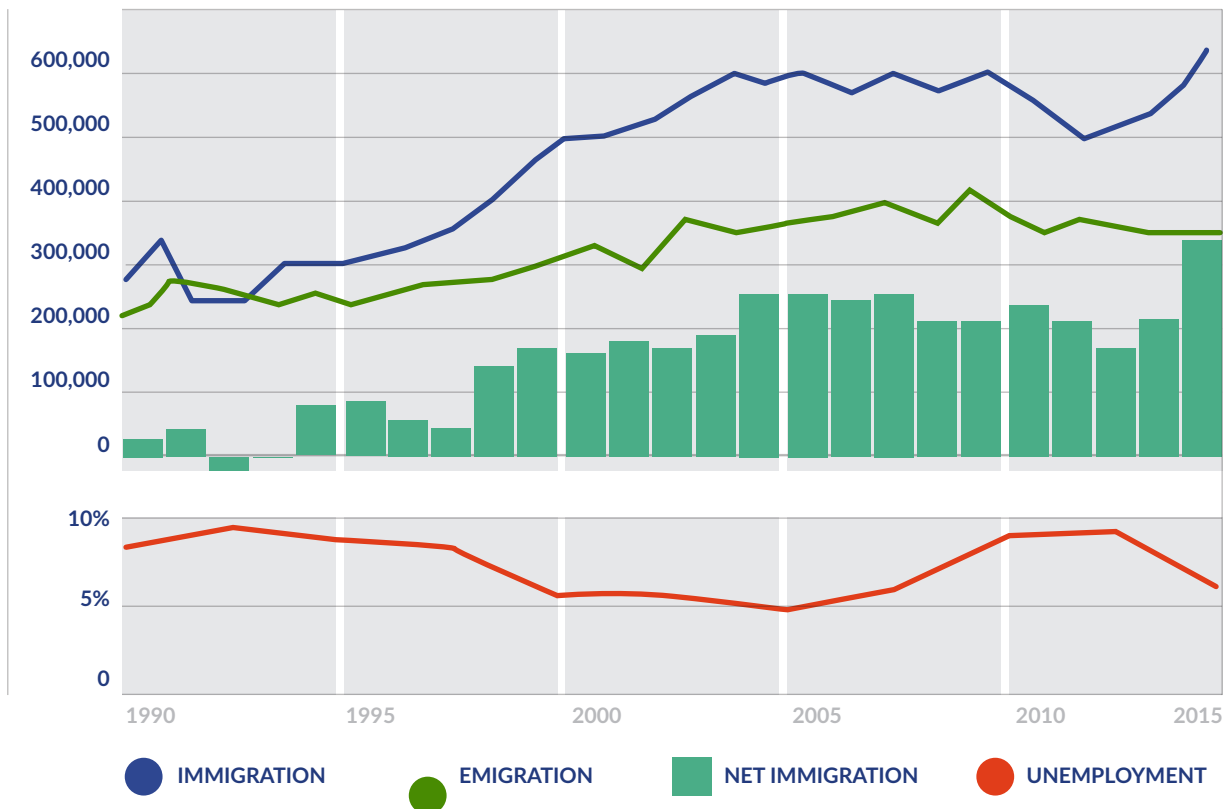
We welcome how the Government has avoided some of the nativist rhetoric of hardline Leave campaigners, insisting it is committed to ensuring the UK remains a globally dynamic economy that reaches out to the world. But we believe a target of cutting net migration to the tens of thousands is completely at odds with these principles.

It would be a significant step forward for the quality and honesty of public discourse if political parties recognised that cutting immigration substantially will damage the interests of the UK and its people. We believe that the Government should refrain from setting artificial targets for net migration. We also believe that priority should be given to clarifying the position of EU nationals in order to prevent an unwanted exodus from the UK.

## Historical UK Migration Trends

Superficially, the Government's stated aim to reduce net migration target to the tens of thousands looks to be a plausible goal. As Fig 1 illustrates, net migration into the UK has varied enormously in the past and there have even been periods when there was a greater outflow than inflow.

**Fig 1. LONG-TERM MIGRATION AND UNEMPLOYMENT UNITED KINGDOM, 1990-2015**



Source: International Migration Data - ONS.

As one can see from Fig 1, in the early 1990s, net migration was low and even became negative briefly following the economic crisis of 1992. However, as the economy picked up so did net migration. The link with unemployment is particularly important here.

As unemployment fell from the mid 1990s onwards, net migration surged. This was well before the EU8 countries (2004) and the EU2 (2010) obtained migration rights into the UK. From 1995 as unemployment fell from 8.1% to 5.0% in 2003, net migration soared from 76k to 185K. This trend continued until the recession of 2007-8 when, for a few years, net migration fell sharply once again as unemployment began to rise. However, as unemployment started to fall from 2010 onwards, net

migration started to rise again to its current levels in the region of 300k. Although the impact of the EU8 and EU2 accession to freedom of movement is clear from the figures, so is the relationship to the underlying performance of the economy.

An unemployment level of 5% or lower (the common economically accepted definition of full employment) seems to be particularly associated with high levels of net migration. Other than in the 1950s and 1960s, when the UK sought to attract immigrants from the Commonwealth to tackle labour shortages, it was only until the late 1990s that the UK attained this level.

In order to ascertain likely future migration needs, it is helpful to look at the economy both from a macroeconomic, top down perspective, as well as develop a bottom up view of the needs of different sectors of the economy. It is clear from both perspectives, which will be presented below, that the current government's aspiration to reduce migration to the tens of thousands is simply not achievable without catastrophic consequences for the economy, specific sectors or dynamic regions within the UK.

## Top Down View of UK Labour Requirements

There are three critical areas to look at in ascertaining the future migration needs of the UK. As we have seen above, the level of unemployment is critical. However, two additional areas also are crucial to consider: the UK's rapidly ageing population and its extremely low levels of productivity increases.

### THE UK ECONOMY IS AT FULL EMPLOYMENT

The latest ONS survey<sup>2</sup> indicates that the UK unemployment rate is at an historic low of 4.8%, see Figure 2. In the modern age this is regarded by most economists as full employment. This is because a certain level of unemployment is inevitable in a fast changing economy as the fortunes of different sectors ebb and flow. In addition, the employment rate of 74.6% is the highest recorded since comparable records began in 1971. These figures themselves help to explain some of the well-documented labour shortages that we will detail later. From a macro-economic point of view, the economy is running on a very tight labour market.

In the past when the economy was at these levels of unemployment, and even before the EU8 and EU2 migration surges, net migration was close to 200,000.

**Fig 2. SUMMARY OF LATEST HEADLINE ESTIMATES FOR REGIONS OF THE UK, SEASONALLY ADJUSTED, OCTOBER TO DECEMBER 2016**

	Employment rate <sup>1</sup> (%) aged 16 to 64	Unemployment rate <sup>2</sup> (%) aged 16 & Over
United Kingdom	74.6	4.8
England	74.9	4.8
North East	70.3	7.0
East	76.7	4.4
London	73.7	5.5
South East	78.6	3.4
South West	77.5	3.6
Wales	72.7	4.4
Scotland	73.6	4.9

Source: UK Regional Labour Market Statistics - ONS, February 2017.

Furthermore, different parts of the UK are experiencing different levels of labour shortages. In the South East, South West and the East, the labour market is very tight, but the North East has yet to hit the economic definition of full employment. Since there are well-documented impediments to regional movements of labour, especially for lower paying jobs, migration is essential for meeting the needs of many parts of the UK.

## AN AGEING POPULATION

It is impossible to make a proper assessment of the UK's migration needs without looking at its working-age population. The sharp decline in birth rates combined with increased longevity is making this a real issue for most developed countries. Many are even set to experience overall declines in their population. For example, according to the UN, without migration the population of Italy will decline from 57 to 41 million, Japan from 127 to 105 million by 2050<sup>3</sup>. This demographic time bomb for Western societies will substantially change the debate on migration in the future.

The UK is not immune to these trends. The native UK workforce is ageing rapidly and large numbers of local workers have been and are expected to fall out of the labour market over the coming years. Indeed, according to the United Nations, the UK needs migration of 130,000 a year just to maintain the working population at its current level.

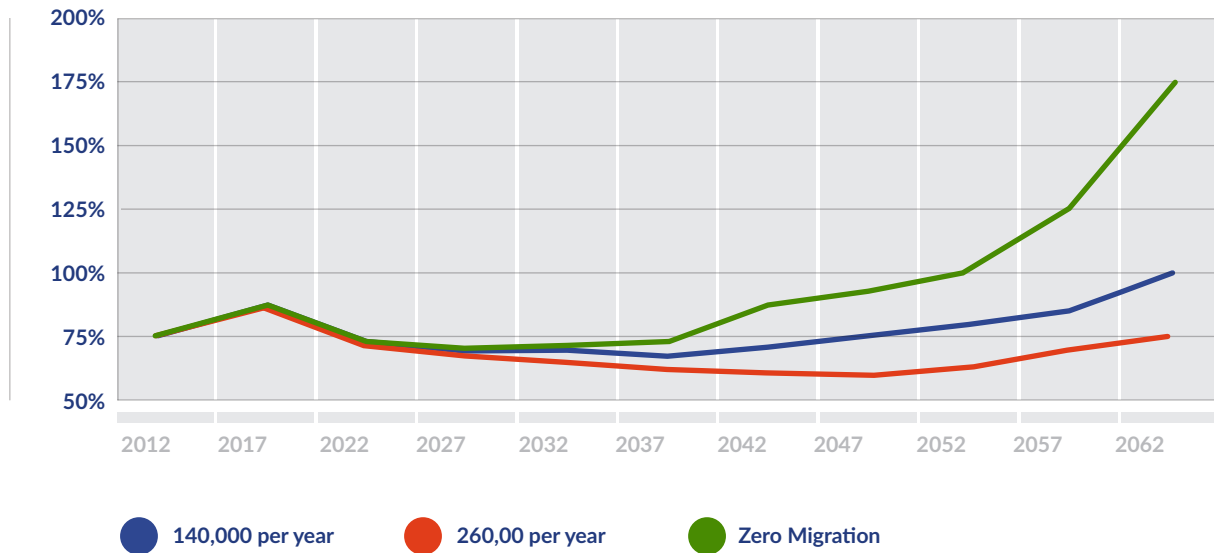
The dependency ratio - the number of people of working age (16-64) versus those over 65 - is critical. Between 1950 and 2015 this fell from 5.5 to 3.5. Only the recent increase in net migration has prevented it from falling even more precipitously. Between 2000-2050, the number of people over 65 will double, whilst the number of over 85s will quadruple. Indeed, the scale of challenge becomes clear when you consider that the working population would need to double in order to maintain the ratio at its current level. The UN calculates that net migration would have to be above 1,000,000 a year - that is ten times the Government's maximum long-term target for this to be achieved.

A more realistic ambition would be to stabilise the working age population and allow for some small increase to pay for the vast increase in retired dependents. This too, however, can only be done if net migration is substantially above the Government tens of thousands target. A net migration figure of 225,000 would, according to the Office of Budget Responsibility, be required every year for 50 years to increase the working population from 32 to 38 million, an increase of just over 20%<sup>4</sup>.

Another way of looking at this is to examine the impact on public finances. The OBR has suggested that migration is critical to lessen the fiscal impact of an ageing population. Spending on pensions, healthcare and social care means that in the absence of migration, debt as a percentage of GDP would increase from 75% in 2012 to 175% by 2057. Greece is currently the only European country with debts at such a level. Net migration of 260,000 a year would be required to keep debt as a proportion of GDP close to its current levels (which are already extremely high) while net migration of 140,000 would increase the proportion to 104%. To reach the Government's tens of thousands target would see this figure rise to over 125%, a level in line with Southern European countries such as Spain, Italy and Portugal.



Fig 3. DEBT (% of GDP) DEPENDING ON IMMIGRATION



Source: OBR.

The current crisis in the NHS illustrates the problem. Despite rising budgets, the service is already under severe strain due to increased demand. The parallel crisis in social care, where budget constraints have accentuated the problem, is even worse.

Many argue that, while migration is a solution to these demographic problems, it comes with its own social and cultural issues. Some say migrants themselves are the cause of this extra demand and it is true that they too will age over time. However, the vast majority of migrants from the EU have been young and for the most part educated to a higher level than the local population. As they age and their countries mature economically, it is entirely conceivable that they many may chose to return to their homes. EU migration could therefore represent currently a highly positive solution for the UK.

Furthermore, free movement of people currently ensures that the UK citizens moving to the rest of the EU are substantially older than the EU citizens who come to the UK. As the number of retirees soars in the UK, these outflows would be expected to increase and ease demographic pressures.

Another argument concerns the idea that while migration increases GDP, the impact on GDP per capita is less clear cut. For sure, there is a natural correction that one has to make to GDP benefits to take into account the increase in population. However, when the migrants are more skewed to working age than the local population and their presence leads to productivity increases in the economy (see below), the benefits to GDP per capita logically flow and are overwhelmingly positive.

## LOW PRODUCTIVITY

The UK has also had very modest productivity growth over the recent past, especially since the financial crisis. Before 2007-8, UK productivity grew at close to 2% a year but it has stagnated since then and is now only 0.5% higher than it was in 2007. In 2015 and 2016 there has been a slight pick up but only to 0.9% and 0.6% per year increases respectively. Most developed economies have seen productivity growth decline following 2007-2008. However, the UK has been particularly severely hit.

As a consequence, GDP growth in the UK post the financial crisis has been overwhelmingly dependent on having more workers, working longer hours rather than increases in productivity. The potential reduction in the working age population which will, as discussed earlier, occur without substantial migration is therefore likely to be catastrophic for long-term growth in the economy. Even if we optimistically assume that productivity growth can be pushed consistently up to 1%-2% a year, a 0.5%-1.5% increase in the working population would be required to achieve GDP growth of 2.5%. A 1% increase in the workforce would require 300,000 workers a year. If such an increase were to be sourced only half through migration, this equates to an extra 150,000 workers per year. Once dependents and other categories of migration are taken into account, this pushes the migration needs of the economy to well over 250,000.

As noted earlier, the OBR has estimated that net migration of 225,000 a year would be required to raise the working population from 32 to 38 million by 2064. This equates to a 0.3% increase per year. However, net migration of close to 100,000, would only take the increase to 34 million or barely 0.1% a year. This essentially means that net migration of 225,000 a year would result in 0.2% extra on economic growth a year or about 10% a year extra growth on the average of 2% a year. Cumulatively over time, this represents a huge impact on total GDP, as well as leading to substantially higher GDP per capita.

There are a variety of possible explanations for the UK's low productivity growth. Some argue that because migrants are willing to work for lower wages they reduce labour productivity. On this basis cutting down the supply of labour would increase the incentive on firms to invest in productivity improvement measures.

While such arguments may have some limited explanatory value in a few specific industries, they also have a number of deep flaws. Firstly, productivity growth has collapsed in most developed economies following the 2007-2008 recession. There is no relationship between migration levels to different countries and their productivity growth. Germany and the US, which like the UK have had high net migration, have recorded twice the productivity growth as the UK following the recession. The UK economy also showed its strongest productivity growth when net migration was particularly

high before 2007. Net migration reduced dramatically following this period, whilst productivity growth collapsed. Clearly both effects were due to the state of the economy rather than closely tied to each other.

Secondly, the UK economy's dependence on services – where productivity growth is typically slower – has perhaps contributed to this decline. The increasing importance of sectors such as health and social care means that the decline in productivity may have a structural component that will be difficult to reverse.

Thirdly, and most importantly, empirical analysis indicates that the youth, high levels of education, skills and drive of many migrants typically enhance rather than reduce labour productivity. Johnathan Portes, in reviewing a series of international studies concludes that “looking across cultures, immigration had a large positive impact on on GDP per capita – primarily by raising total factor productivity”<sup>5</sup>. This effect is difficult to quantify but research indicates that a 1% increase in the labour force due to immigration leads to over time between 0.6%-0.9% increase in income per worker, primarily due to productivity increases<sup>6</sup>.

Fourthly, the loss of inward investment following a potential hard Brexit and the economic inefficiencies created by leaving the single market and customs union, may serve to reduce productivity growth further. The OBR has already substantially revised down its productivity projections for the UK for the next five years because of the likely impact of Brexit.

Finally, the idea that UK firms are making inefficient decisions at the moment in favour of labour over capital flies in the face of economic rationality. Businesses are presumably making these decisions because the returns from employing labour exceed those from investing in capital. Forcing firms to substitute capital for labour is theoretically bound to reduce overall economic efficiency.

Overall, given the UK's current low levels of productivity, we simply cannot afford to neglect the positive impact that immigration has on productivity and thereby GDP per capita.

## THE CASE OF JAPAN

For much of the post-war period, Japan was seen as a model of prosperity, productivity and growth. Like the UK, Japan still has low unemployment as well as a rapidly ageing society. Unlike the UK, however, Japan has had low levels of net migration. The work force as a consequence is now declining at a rate of 1.5% a year.

Despite huge and repeated efforts at economic stimulus, Japan is now entering a third decade of economic stagnation. From 1980 to 2016, Japanese growth has averaged 0.51% a year. GDP growth per capita has also been at this level as the Japanese population has been roughly stable over this period. Given the sharply ageing population, there are now predictions that GDP per capita could stay flat for another 50 years. The ageing population is also leading to sharp labour shortages, especially in the health and caring professions.

Japan was meant to have been rescued from this fate by an improvement in productivity. So far this productivity miracle has failed to materialise. Indeed, Japan has one of the lowest labour productivity levels in the OECD. All this is a salutary warning to those who argue that restricting migration could help productivity in the UK.

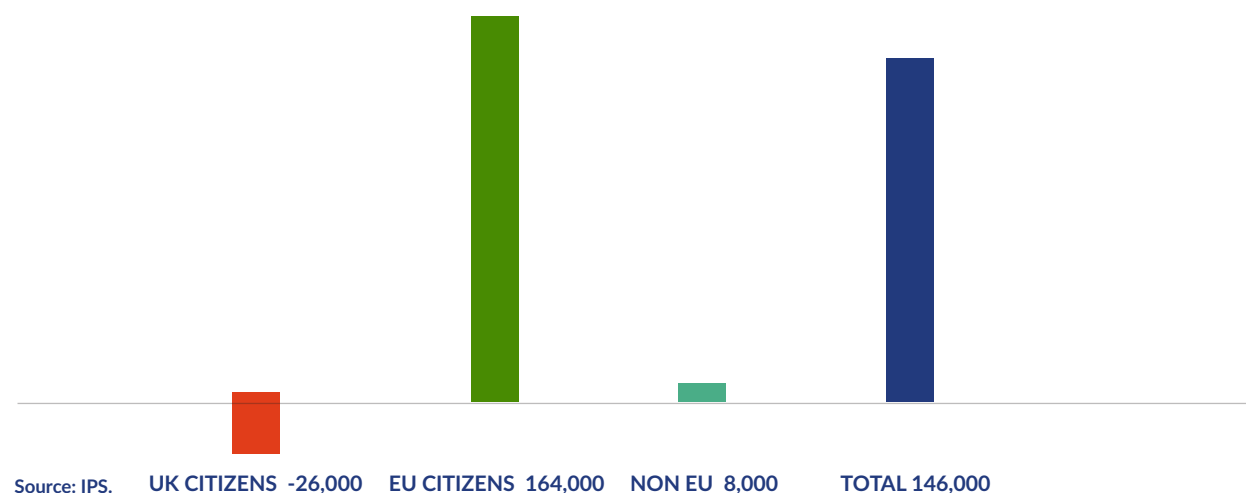
Finally, Japan's fiscal position is also dire, with debt at a staggering 250% of GDP – the highest levels in the world. Some of this is due to the injection of spending by the current Government to lift the flat lining economy, but even before this happened, Japan was running a debt to GDP ratio in the region of 150%, which is a level that Greece currently runs.

## Bottom Up View of UK Labour Requirements

In order to ascertain the needs for migration in the UK, it is also helpful to take a bottom up view based on the needs of particular sectors of the economy.

In this context, it is helpful to look at the current reality first. The latest IPS migration figures indicate that net long term workforce related in-flows and out-flows to the country were as follows <sup>7</sup>:

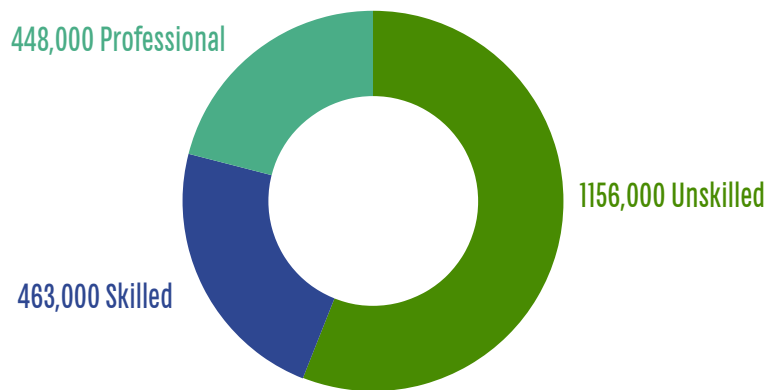
**Fig 4. WORK-RELATED NET MIGRATION**



These figures have been adjusted to take into account the overall migration figures reported by the IPS. They also do not include short term seasonal in-flows. These figures show very clearly how much the UK relies on EU migration for its workforce. Although close to half of the net immigration into the UK is from outside the EU, the vast bulk of this is related to to study or joining a family member.

It is also helpful to look at the broad categories of work which attract migrants to the country, as can be seen from Figure 5. Inferring from this pattern, one can hypothesise that of the 146,000 people coming to the UK for work-related reasons per year, 22% (32,000) are professionals, 22.5% (33,000) are skilled and 56% (81,000) are unskilled. The remaining 130,000 net migrants to the country predominantly come to study or join family members.

**Fig 5. EU MIGRANTS BY SKILL**



Total number of employed EU27 nationals in the UK 2,065 million

Source: ONS EU Migrants by skill level, from July 2015 to June 2016.

Given the needs of the NHS, the City of London and our IT sector, the Government has indicated that there will be no restrictions on professionals coming here. For example, 10% of the doctors in the NHS are from Europe. Our academic institutions also have grown to rely heavily on EU staff. The benefits to the UK of such highly qualified people, who have been trained at the expense of other countries, is clear and obvious. The biggest issue here going forward could be that we lose such valuable and talented people, if the debate on immigration continues being too negative or xenophobic.

While people are willing to accept migration of professionals, there is a widespread belief that many categories of skilled and unskilled workers can be much more tightly restricted after Brexit. However, once we start examining particular sectors of the UK economy that are dependent upon these categories of workers, this argument dissolves.

Employers report difficulties in attracting local workers to a number of sectors requiring both skilled and unskilled labour. Lack of geographic mobility on the part of local workers is also an issue. Furthermore, as the data on productivity cited earlier indicates, migrants are on average better educated and perhaps also more prepared to undertake certain jobs than some local workers.

There are now significant numbers of EU workers across a number of sectors. This includes 14% of workers in restaurants and hotels, 8.2% in construction and 10% of workers in transport. Even stabilising the figures at these levels once attrition, promotion and returning home is taken into account will require substantial injection of new workers.

However, to get a sharper look at the numbers that are likely to be needed, it is helpful to look at some of the sectors that are particularly reliant on EU migration, both skilled and unskilled.

## **SKILLED WORKERS**

### **Construction:**

Firms operating in this sector are near unanimous in saying that significant shortages of skilled workers are already beginning to have a negative impact on the sector.

A survey by the Royal Institute of Chartered Surveyors indicated that 66% of firms surveyed have turned down work due to staff shortages and that this was likely to grow in the next few years<sup>8</sup>.

The Construction Industry Training Board has estimated that 36,000 new workers a year will be needed to cover even current levels of demand. This is unlikely to be met from local workers as there are at most only 15,000 people predicted to finish the required apprenticeships<sup>9</sup>.

The sector is also experiencing demographic pressures with over 400,000 workers over the age of 55 set to retire in the next 10 years. The age profile of construction workers means that a far higher number of people will leave the industry than join it in the near term.

These labour statistics need to be set against the government's stated desire to increase significantly the provision affordable housing in particular and to turbo-charge this sector in general. It is our view that other remedies including increased training may be possible in the long term, for the immediate future there is no alternative but to rely on immigration in substantial numbers to address labour shortages in this sector. Estimates indicate this could be in the region of 20,000 a year.

### **Social Care:**

This sector is in a crisis that is having a severe impact on people's lives as well as the NHS and other services. The UK's ageing population means that the demands on this sector are likely to increase sharply in the future.

And, worse still, the sector faces its own demographic pressures. The UK Commission for Employment and Skills estimated that social care will need over a half a million extra workers by 2022<sup>10</sup>. That is close to 100,000 a year. This is because the sector is overwhelmingly staffed by older, chiefly female workers. The average age of current workers in different roles within the sector is between 50 and 65.

However, the UKCES report also identified that issues around status, lack of career prospects and low pay meant that younger workers, rather than being attracted to the sector, were increasingly inclined to leave it. Migration Observatory reports that approximately 20% of social care workers are now from overseas<sup>11</sup>.

It is likely that the well-recognised crisis in social care will be made significantly worse unless the sector gets a continued supply of migrant labour. Estimating that at least 20% of the extra requirement will need to come from overseas, this suggests a figure of 20,000 a year needed in this sector alone.

### **Nursing:**

Some 57,000 EU nationals work in the NHS, of whom about 20,000 are nurses. A number of areas of the NHS are experiencing staff shortages, even when there is money available.

The Royal College Nursing has reported a number of issues which are putting increased strain on the NHS including general staff shortages which have led to expensive and unsustainable use of agency nursing, the fall in applications for nursing courses after the Government axed bursaries for trainees in 2016, an ageing UK nursing workforce and the lack of systematic workforce planning for nursing across the UK<sup>12</sup>.

Meanwhile, there are as many as 24,000 nursing vacancies nationwide with almost every hospital in the country experiencing a nursing shortage. In the recent past there has been a sharp rise in nurses from the EU and over the past few years something in the region of 7,000 nurses a year have been recruited from Europe.

However, EU nationals who registered as nurses in England dropped by a staggering 92% after the Brexit vote and there has also been a rise in the number deciding to stop working in the UK according to the Nursing and Midwifery Council.

These concerns were reflected in a recent report from the House of Lords Select Committee on the Long Term Sustainability of the NHS<sup>13</sup>. The Committee said that the NHS was far too reliant on overseas workers and they criticised the lack of a comprehensive national long-term strategy to secure appropriately skilled, well-trained, committed workers that the health and care service will need over the next 10 to 15 years. However, these solutions will take time and for now the UK is critically dependent upon overseas nurses.

Overall, just adding the migration needs of the above three categories: construction, social care and nursing, the UK needs a total of 47,000 migrant workers a year. This is above the current migration total of 32,000 skilled, predominantly EU workers, entering the country each year – and this report has looked only at three sectors.

Quite simply in many sectors the ageing population means that either because of workers dropping out of the labour market or because of increased need for staff to cover additional demand that looking ahead, far from limiting skilled migration, UK employers may need more of it.

### **Unskilled workers:**

Many sectors that utilise unskilled labour are hugely dependent upon EU workers. This can be because of the difficulty of recruiting local workers into unattractive or low paid jobs or issues of geographic mobility. Coupled with the fact that they are often educated to a higher level and seen by many employers as better motivated than local workers, it has made the continued recruitment of EU migrants a logical option.

Global Future recognises there are legitimate concerns about how this perpetuates low wages and poor conditions for low skilled workers – be they local or migrants. But we also recognise that changing this situation overnight by curtailing the supply of overseas workers will create its own problems that could see the elimination all together of some businesses and many sources of employment. In some industries, measures which substitute capital for labour may help businesses survive through automating jobs. In others, technology and investment may prove to be hurdles too high to surmount.



A recent report by the CIPD indicates that issues around attracting and retaining EU workers after Brexit are already emerging<sup>14</sup>. It found that of the record number of 748,000 vacancies in the UK economy, 45% are in the retail, manufacturing, health, accommodation and food retailing sectors and relate to low-skilled jobs where there has been a high representation of EU workers.

The CIPD also reports a Labour Market Outlook survey of 1,000 employers which found that 27% of employers fear EU workers are considering leaving their organisations. Even more worrying for the future of our key public services, this included 43% of education employers and 49% of healthcare sector employers.

In the context of predicting needs in the unskilled labour category, it is helpful to look at some example sectors:

### **Hospitality and Tourism:**

The British Hospitality Association estimates that there are currently 4.5 million hospitality and tourism workers across the country, making it the fourth largest industry in the UK, contributing 10% of GDP. A report by KPMG commissioned by the BHA<sup>15</sup>, says that hospitality and tourism will be affected by EU migration restrictions more than any other sector in the UK, and that restricted access to EU workers will have a cumulative effect on the industry over time.

The report, which focuses on the hospitality industry, says there could be a labour shortfall of over 1 million workers 10 years after Brexit, if EU immigration is cut to zero from 2019. This shortfall equates to over a quarter of the hospitality industry's expected total work force of 3.5 million people by 2029. When combined with the workers needed also in the tourism industry, the recruitment gap would be even more extreme.

Currently, 12 - 24% of hospitality workers in the UK are EU nationals. The KPMG report says that upwards of 60,000 hospitality workers will be needed each year to maintain current activity levels. This would be in addition to the recruitment of 200,000 workers required to replace the high level of staff turnover and to fuel the growth of the hospitality industry. However, hospitality has the highest proportion of job vacancies relative to its total employment compared to any other sector and up to a third of all the vacancies are difficult to fill.

Led by the BMA, the hospitality and tourism industry has been the first major sector to submit a strategy to the Government for building its UK workforce and reducing its reliance on EU workers. The strategy aims to target future recruitment on three key groups: the unemployed, returners to the labour market, such as older people, and the next generation. However, there is no doubt that

achieving this will certainly take time and may not even be possible. Indeed, existing vacancies are still difficult to fill with UK workers, despite current efforts to attract them. The BMA therefore recognises that, even with their proposed strategy in place, the industry will still need considerable numbers of EU workers in the medium to long term.

On this basis, unless some magical transformation occurs in the attractiveness of the sector for British nationals, the UK will need to source a quarter of this replacement and extra staff from overseas – a figure of close to 400,000 over seven years. This equates to 60,000 a year for this sector alone. Even if we assume that staff leaving the sector are going to other unskilled jobs in other industries in the UK, the need for extra staff just to fuel growth in the sector equates to 10,000 fresh overseas workers a year.

### **Farming and Food Processing:**

The UK farming and food processing sector is deeply dependent on overseas labour from the EU<sup>16</sup>. Currently, out of a permanent workforce of 115,000 who work in agriculture, some 22,000 are from the EU. This is supplemented by 60,000 seasonal workers a year from the EU, who constitute 90% of this part-time workforce. Of the 400,000 workers who are employed in food processing some 120,000 are from the EU.

There are significant barriers to reducing this dependency in the near future. Over time, automation in both agriculture and food processing could help bridge labour shortages but this an uncertain and expensive process.

Moreover, there are structural reasons for why farming may become even more reliant on overseas workers. The UK supermarkets now expect many agricultural products to be available at short notice and “just in time”. Consumers also want fresh produce delivered to their doors as rapidly as possible. Given these new pressures, Meurig Raymond, president of the National Farmers’ Union, has recently stated that the industry will need 90,000 seasonal workers every year by 2021. On the broader issue of employing migrant labour, Raymond said, “Quite simply, without a workforce – permanent and seasonal – it wouldn’t matter what a new trade deal (with the EU) looks like. Food will rot in the fields and Britain will lose the ability to produce and process its own food<sup>17</sup>.” The NFU has also called on the government for an urgent trial of a visa-controlled permit scheme for seasonal agricultural workers to replace those from the EU.

Already, the uncertainties around Brexit are creating difficulties for the recruitment of short-term labour. Employers report a marked increase in the rate of people failing to turn up for jobs that they have accepted. There is also evidence of the industry moving to permanent staffing models given the unreliability of the short-term labour supply.

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The two case studies above illustrate the difficulties of turning off the unskilled labour supply easily, quickly or cheaply. While it may be possible in some sectors, in most cases the lack of available local workers, difficulties in substituting machinery for labour and issues around geographic mobility of local labour means that many key industries will struggle if the tap is turned off too tightly - or too soon.

Currently, unskilled migration to the country is running at about 81,000 a year. It is our view that it will be impossible to reduce this by more than half, if at all, without severe implications for key sectors of the economy.

Taken together, this bottom up analysis suggests that a realistic reduction in work-related migration would be only around 40,000 a year from a total of 146,000. Even this may be difficult given the likely higher needs for skilled workers in health and social care. Once net migration for studying purposes and for joining family members is added, Global Future believes net migration will need to be in the region of 250,000 a year. The only way in which this figure could be reduced is if economic growth crashes or is brought to a shuddering halt paradoxically by things such as EU citizens departing.

## Conclusion

This report is entitled the Case for Immigration and its substance is a serious, fact-based analysis of both the top-down and bottom-up needs for migrant workers in the years ahead.

The UK is close to full employment, has an ageing population and low productivity growth. These factors make immigration an essential ingredient of a successful economy in the years ahead. Global Future's top-down economic view is that a net migration figure well in excess of 200,000 a year will be needed long into the future to avoid catastrophic consequences for the economy.

Furthermore, our bottom-up analysis which shows many sectors are already on a cliff-edge in terms of labour shortages, also confirms that a migration figure in excess of 200,000 will be needed to avoid collapse of whole sectors, as well as to prevent the crisis in public services such as Social Care and the NHS getting worse.

The remarkably convergent conclusions from two very different perspectives – top down and bottom up - raise significant questions for UK policy, as well as negotiations with the EU, over the years to come.

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This report shows that the Government's target of cutting net migration to the tens of thousands, either immediately or in the long-term, is based on an outdated and backward looking view of policy in this area. The clear conclusion of this report is that making substantial cuts in immigration to these levels is not only very difficult but also overwhelmingly undesirable.

The only way in which migration can be reduced beyond the levels suggested here is if economic growth crashes. Furthermore, there is a very real risk that, because of factors such as the decline in the value of the pound and perceived cultural hostility to outsiders, key employees may leave the UK while potential migrants will start to favour other destinations.

Quite simply, we believe that at a time of full employment, the UK cannot ignore the benefits that immigration confers in terms of tackling chronically low productivity growth and the consequences of a rapidly ageing UK domestic population.

It means the case for staying in the single market is not limited to free trade – in goods, capital and services – to which most political parties pay at least lip service. Indeed, there is a strong positive argument that can be made for the continued free movement of people to and from the EU rather than accepting the characterization of this as a downside of single market membership.

We welcome how the Government has avoided some of the nativist rhetoric of hardline Leave campaigners, insisting it is committed to ensuring the UK remains a globally dynamic economy that reaches out to the world. But we believe its target of cutting net migration to the tens of thousands is completely at odds with these principles.

It would be a significant step forward for the quality and honesty of public discourse if political parties recognised that cutting immigration substantially will damage the interests of the UK and its people.

We believe that priority should be given to clarifying the position of EU nationals in order to prevent an unwanted exodus from the UK. We also believe that the Government should refrain from setting artificial targets for net migration. Finally, we believe that politicians and political parties in this General Election should have the courage to speak out and make the positive case for net migration to continue at a level of at least 200,000 people a year.

Indeed, in the years to come it is entirely possible that the debate on immigration may shift from questions about whether levels are too high to asking what we do to make sure numbers are sufficient to meet the needs of the country.

We recognise there are political pressures at a time like this which can have a chilling effect on even the most rational argument. But strong leadership, the need for economic stability and the national interest require politicians to speak the truth even when it is inconvenient for them.

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