



The IPPR Commission on Economic Justice

An immigration strategy for the UK

**Six proposals to manage migration
for economic success**

Discussion Paper

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The IPPR Commission on Economic Justice

The IPPR Commission on Economic Justice is a landmark initiative to rethink economic policy for post-Brexit Britain.

Launched in November 2016, the Commission brings together leading figures from across society – from business and trade unions, civil society organisations and academia – to examine the challenges facing the UK economy and make practical recommendations for reform.

The Commission is undertaking a wide-ranging programme of research and policy consultation on issues including industrial strategy, macroeconomic policy, taxation, work and labour markets, wealth and ownership, sub-national economic policy and technological change. Through a major programme of communications, events and stakeholder engagement it aims to contribute to both public debate and public policy on the economy. Non-partisan, it has been welcomed by both government and opposition parties.

The Commission's Interim Report, *Time for Change: A New Vision for the British Economy*, was published in September 2017. Its Final Report will be published in autumn 2018.

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Summary

Our current immigration system lacks a strategic mission. For too long, the development of immigration policy has been driven by ad hoc reactions to political and operational crises, operating independently of wider social and economic ambitions. The net migration target pursued by the Home Office has forced the Government to crudely drive down overall numbers, often in contradiction to the objectives of other departments, on the basis of unreliable data and irrespective of the social impacts of its policies. With the immigration system coming under increasing scrutiny, now is the time for a comprehensive rethink to ensure the rules meet the needs of our economy. A new immigration strategy for post-Brexit Britain should be designed to address some of our country's core economic weaknesses: including addressing geographical imbalances, boosting innovation, halting the stagnation of real wages, and tackling the trade deficit.

The ideas in this discussion paper do not attempt to predetermine the Brexit negotiations. We recognise, along with the Government, that any future policy for EU nationals will depend on an agreement with the EU. This paper is therefore designed to offer recommendations for policy change primarily for non-EU immigration. For each recommendation, we also explore how, depending on the post-Brexit agreement, EU migrants could be incorporated into the new system.

The UK's post-Brexit immigration strategy should be based on six key propositions:

- 1. Our immigration strategy should clearly differentiate between types of immigration.** The Government should replace the net migration target with an Annual Immigration Framework composed of separate targets for different types of migration. This could include categories for workers of different skill levels, entrepreneurs and investors, family migrants and resettled refugees. The Government would set each target annually, on the advice of the Migration Advisory Committee.
 - **Unlike the net migration target, which crudely combines all forms of long-term migration, the Annual Immigration Framework would provide the flexibility for the Government to tailor its policy in different ways for different groups.** For instance, it could expand numbers in some categories, such as the highly skilled, without needing to balance this with reductions elsewhere. The framework would be updated annually, to allow for wider demographic, social and economic changes.
 - **The Annual Immigration Framework would be more likely to receive broad support from the public.** This is because it would reflect the public's recognition of the different types of migrants coming to the UK. A recent study suggested nearly two thirds of the public would support the idea (Katwala et al. 2017). Unlike the net migration target, it could be set at the appropriate level each year and so would not stoke public distrust by unreasonably raising expectations.
- 2. Our immigration strategy should actively address geographical imbalances in the economy.** Geographical flexibility should be built into the immigration system, in order to address sustained economic imbalances across the UK's nations and regions. This could be done in one of two ways: a 'sub-state' system that would remain in the hands of central government but would allow immigration rules to vary across nation and region; or a 'devolved' system that would give new powers to sub-state bodies over how to shape

their immigration rules. Under both proposals, the Home Office would retain responsibility for issuing visas and non-labour migration would remain under the purview of central government. But there would be new variations between work migration rules across the different nations and regions of the UK.

- **A sub-state or devolved system could help to address geographical disparities in immigration.** The current system does little to address geographical imbalances in our economy. Skilled immigrants are disproportionately likely to settle in London, and the fixed rules on skill levels and salary thresholds make it easier for employers to recruit from abroad in the capital, where average wages are considerably higher. Parts of the UK which face population decline (such as the North East of England and Scotland) lack the means to address it. Geographical variations in migration policy could help to stimulate local economies outside London by giving them new powers to attract skilled workers from overseas.
 - **A devolved system would give nations and regions more control over their own immigration rules.** This would help cater for the different perspectives on immigration expressed throughout the country and give local people more of a say in how to manage migration. Over the longer term, it could foster a more constructive and practical conversation about the benefits and costs of migration.
 - **A sub-state or devolved system could be managed through the current Home Office measures to deal with immigration and prevent overstaying.** Migrants applying for a 'sub-state visa' would need to be sponsored by an employer within the nation or region. If they changed employer, they would need to reapply to the Home Office. Employers hiring migrant workers illegally would face fines or, potentially, criminal charges. For employers who need to easily move migrants around a range of sites, a separate UK-wide visa route would remain available.
- 3. Our immigration strategy should be designed to spur innovation.** The Government should introduce a Global Talent Visa to actively recruit top global talent from sectors critical to driving forward innovation, such as research, digital technology, and the creative industries. The Global Talent Visa would provide a new immigration route for those with relevant technical or creative skills, a track record in research and innovation, or a graduate degree in a science, technology, engineering or mathematics (STEM) or another key subject to work as employees, set up businesses, or freelance in the UK. The visa would be coordinated by industry bodies in relevant sectors alongside the Home Office.
- **The Global Talent Visa would send a clear signal that the UK is open to international talent.** There is a risk in the current economic and political climate that the UK will become a less attractive destination than it once was. A recent study from Deloitte has found that nearly half of skilled EU workers are considering leaving the UK in the next five years (Deloitte 2017). The Global Talent Visa would build on the current Exceptional Talent Visa to provide flexible access to talent in key sectors and send a strong message that talented overseas workers are welcome to contribute to the UK economy.
 - **The Global Talent Visa would accord with the public's support for highly skilled immigration.** The public broadly welcome the contribution of talented overseas workers. Moreover, the available evidence suggests that highly skilled immigration can benefit UK workers by complementing, rather than substituting, domestic skills (George et al. 2012). At the same time, the Global Talent Visa should not substitute for an active skills policy that invests in the training of the UK workforce.

4. **Our immigration strategy should forge a new compact between employers and government, as a means to achieving a high-pay, high-productivity economy.** For employers who seek to recruit internationally, the Government should introduce a new Trusted Sponsor Scheme. This scheme would offer additional visa benefits – such as fast-tracking, prioritisation, and access to an expanded Shortage Occupation List – in return for demonstrating responsible employment practices. Those employers who do not apply to the scheme would still be able to recruit as a Tier 2 sponsor, as they can now, but would face an increase in the Immigration Skills Charge.
 - **The Trusted Sponsor Scheme would strike a balance between ensuring employers are investing in domestic skills and not undercutting workers, while continuing to provide access to migrant labour.** To apply for the scheme, employers would have to demonstrate a commitment to socially responsible employment practices (such as paying the national living wage), a commitment to investing in and harnessing domestic skills (such as through meeting a target on apprentice starts), and a commitment to help migrant workers to integrate (such as through providing work-based English language tuition). This would encourage the fairer treatment of UK and migrant workers while continuing to ensure employers can recruit from overseas.
 - **The Trusted Sponsor Scheme would aim to ensure migration contributes to wage and productivity growth.** The relationship between migration, wages and productivity has been the subject of considerable political debate in recent years. Most of the available empirical evidence suggests that impacts on wages are non-existent or very small, though there are some evidence gaps and limitations. But through the Trusted Sponsor Scheme, migration policy can, nevertheless, be used as a means to stimulate greater employer investment, as part of wider efforts to boost pay and productivity.
5. **Our immigration strategy should support the UK's trade balance.** Recent research suggests that immigration can help to increase services exports through providing country-specific knowledge of export markets. But currently the UK's immigration policy is not well-equipped to meet our trade needs. The Government should introduce a new trade and migration strategy, coordinated by the Department for International Trade and the Home Office, to rethink how our immigration policy can contribute to boosting UK exports.
 - **The trade and migration strategy should aim to boost education exports by excluding international students from the Annual Immigration Framework.** A new post-study work route for international students in STEM and other key subjects should be introduced to attract new students and increase our share of the international education market.
 - **The trade and migration strategy should harness the skills of the UK's diasporas to boost services exports.** The Government should develop a new scheme targeted at diaspora communities in the UK – run by universities and local authorities – to place young people with country-specific knowledge of key emerging markets such as China and India with businesses planning on expanding their exports. The scheme, based on smaller-scale programmes initiated by UKTI in recent years, would expand the export potential of UK companies by breaking down cultural and linguistic barriers to trade.
6. **Our immigration strategy should promote equality and integration.** The UK is one of the most unequal societies in Western Europe. Inequalities cut across migrant groups: non-EU migrants face high rates of economic inactivity, while Eastern European migrants tend to be overqualified and on low pay.

Supporting the integration of migrants into the labour market and wider society is a critical means of addressing these sustained inequalities.

- **The Government should assess every new immigration policy against its effectiveness for supporting migrant integration.** The system should prioritise routes to settlement over temporary worker schemes. Efforts to transfer responsibility for immigration checks to employers, landlords and banks should be accompanied with strict safeguards against discrimination for migrants and ethnic minorities.
- **There should be new routes for citizenship for migrants on low incomes.** An interest-free, government-backed citizenship loan should be introduced for migrants on low incomes, in order to allow them to become UK citizens and pay back the cost over time. The fee for citizenship should be waived for EU citizens who have been living in the UK for more than five years.

Introduction

Despite being one of the most hotly contested issues of the day, the UK's policy on immigration is a muddle. Since 2010, government policy has been predicated primarily on a single goal: to reduce annual net migration to the tens of thousands. The strategy has not only proved unsuccessful on its own terms – today net migration stands at more than double the target set by government – but has also come at the expense of efforts to develop a policy that meets the country's wider strategic priorities.

Membership of the EU is not a sufficient explanation for this failure. The majority of the current immigration system is focused on non-EU nationals, over which the Government has considerable control. Yet non-EU immigration makes up nearly half of total inflows and net migration of non-EU citizens alone runs far above the Government's target. Even for EU nationals, where free movement rules do place constraints on migration policies, there has been untapped scope for domestic initiatives for managing migration which do not discriminate between UK and EU workers – from policies to register EU migrants living and working in the UK to interventions to more tightly regulate the UK's labour market.

Yet the need for an immigration strategy has become even more pressing since the EU referendum. Although the exact settlement on EU migration will be subject to the outcome of the negotiations, it is expected that the UK will gain greater control over immigration policy for EU citizens after Brexit. In preparation for this change, over the next year the Government is consulting widely on the contours of the new system. Now is a critical time to understand the role migration can play in meeting the country's broader strategic priorities – particularly in addressing the challenges facing our economy.

In this discussion paper, we focus on the key elements of a new immigration strategy targeted at addressing some of the UK's core economic problems. Our starting point is that the criteria used to guide the UK's strategy on immigration should seek to complement and reinforce efforts to address our broader economic weaknesses.

We will focus on five economic priorities, reflecting some of the key challenges the Commission on Economic Justice has highlighted: addressing geographical imbalances, boosting innovation, halting the stagnation of real wages, tackling the trade deficit and reducing inequality:

- 1. Our immigration strategy should actively address geographical imbalances in the economy:** Current patterns of migration reflect the wider inequalities that characterise nations and regions in the UK, with highly skilled migrants tending to move to areas that already enjoy a wealth of human capital. A new immigration strategy should actively tackle these inequalities to ensure that investors, innovators and the highly skilled do not cluster exclusively in high-growth areas.
- 2. Our immigration strategy should be designed to spur innovation:** A key ambition for our immigration system should be to promote the UK's interests in the highly competitive international market for talent and skills. In the post-Brexit climate, to do otherwise could jeopardise the objectives of the Government's industrial strategy and risk innovators and leading experts

choosing to work and settle elsewhere. The Government should therefore make an active bid to attract and compete for the top global talent.

3. **Our immigration strategy should forge a new compact between employers and government, as a means to achieving a high-pay, high-productivity economy:** The immigration system should be designed to contribute to boosting pay and productivity. We should seek a new settlement between business and government, which allows continued access to overseas labour while at the same time incentivising employers to seek out skills domestically wherever possible, invest in the domestic workforce, and make recruitment from abroad the exception not the default.
4. **Our immigration strategy should support the UK's trade balance:** The UK faces a substantial current account deficit, driven by a deficit in trade in goods. Our immigration policy should therefore be designed to serve our wider trade interests – whether this is through using immigration rules to secure free trade agreements or harnessing the skills of the UK's large diaspora populations to facilitate growth in trade and investment.
5. **Our immigration system should promote equality and integration:** The UK is one of the most unequal countries in Western Europe. Inequality cuts across migrant groups: non-EU migrants face considerably lower employment rates than average, while Eastern European migrants from the 'A8' and 'A2' accession countries tend to be on low pay. Supporting integration into the labour market and wider society is a critical part of addressing these sustained inequalities. Rather than placing prohibitive barriers which breed insecurity and population churn, the immigration system should encourage migrants to find their feet both socially and economically.

An immigration policy that simply has as its guiding principle the reduction in net inflows is inherently ill-equipped to meet these five challenges. But neither should we expect that a laissez-faire approach, unconcerned with the management of migration, will deliver the change we need. Just as in the other priority areas of the IPPR Commission on Economic Justice, the targeted and constructive use of market regulation over migration can help to advance, rather than hinder, the economic objectives we have identified. This discussion paper will set out a proactive new immigration strategy guided by these five economic priorities – identifying and recommending new policy measures in each area for government to introduce as it reconsiders its approach to immigration over the coming years.

Aside from addressing the economic priorities we have identified, this discussion paper tests each of our proposals against three additional criteria for assessing a future system:

- **Is it capable of securing public consent?** Any new strategy for immigration must be considered in the context of widespread public dissatisfaction with the status quo. Public concerns about the current system are widespread and sustained and were one of the key drivers of the vote to leave the EU. While the debate since the referendum campaign has been at times divisive and febrile, there is a core set of public concerns about current immigration policy that drive a considerable swathe of public opinion (see Katwala et al. 2017). As we have discussed in our earlier research, the main priorities of the public are that the system is fair and equitable, that it is safe and properly managed, and that it is based on the principle of welcoming only those who contribute (Morris 2016a). A new immigration system must address these concerns head-on.
- **Is it fair to both UK workers and migrants?** Aside from meeting the economic priorities set out above, a new strategy should treat both migrants and UK workers with fairness and respect. This means considering and accounting for the distributional impacts of migration policy decisions and tackling

exploitation, undercutting and other poor employment practices. It means ensuring immigration processes are clear, transparent and systematic. Moreover, it means across every dimension of policy government must uphold human rights and counter discrimination in all its forms.

- **Is there a viable plan for enforcement?** However noble its economic objectives, no immigration strategy will be successful if it cannot be effectively implemented. A new strategy must therefore take care to consider how its policies could be delivered in practice. This means ensuring high levels of compliance; collecting reliable and timely data; and allowing for smooth and efficient administrative processes.

This wide-ranging discussion of a new immigration system comes at an uncertain time for the UK: on one hand, there is unprecedented interest in reconfiguring immigration policy, but on the other, there is considerable confusion over how controls over migration could be compatible with our future trade relationship with the EU. IPPR has argued that there are a range of options for future policy on UK-EU labour mobility post-Brexit and has made the case for a deal on UK-EU migration as part of a future partnership agreement (Morris 2017). In this discussion paper, we will focus on domestic policy decisions, rather than the approach the UK should take during the negotiations. Given that there is continued uncertainty over the future outline of EU migration policy, and that any clarity will be largely subject to the negotiations, we will therefore focus our policy recommendations on managing non-EU migration. For EU migration, we will include a separate box in each chapter to illustrate how, if and when freedom of movement does cease to apply to the UK, EU migration could be incorporated into the new system.

This paper will outline a new strategy for immigration policy. In the next chapter we will set out our critique of the current system and propose a replacement to the Government's net migration target. In the following chapters, we will outline how immigration policy can contribute to addressing each of the core economic challenges we have discussed: actively addressing geographical imbalances, spurring innovation, boosting pay and productivity, tackling the UK's trade deficit and reducing inequality.

1.

Our immigration strategy should clearly differentiate between different types of immigration

A BROKEN SYSTEM

Our current immigration system lacks a strategic mission. For much of the past two decades, policy has been driven by ad hoc responses to a combination of shock events and crisis points, media and political pressures, and operational failures, often irrespective of any wider social and economic ambitions. From the growth of the Sangatte refugee camp in the early 2000s and the subsequent bearing down on asylum seekers, to the expansion of workers migrating from Eastern Europe in 2004 and the ensuing restrictions on EU migrants' benefits, immigration rules have tended to be drafted in reaction to events rather than as part of a wider proactive strategy. At the same time, the reassignment of responsibility for labour migration to the Home Office in 2001 cut the immigration system off from other critically related policy areas (Spencer 2010). The end result has been an overly complex, piecemeal system, institutionally separated and opposed to many of the primary objectives of other government departments.

THE NET MIGRATION TARGET

To make matters worse, since 2010, the ambitions of the immigration system have been subservient to one overriding aim: to bring annual long-term international net migration below 100,000. The net migration target was introduced to reassure an increasingly concerned public that the Government could manage the overall numbers of migrants coming to Britain.¹ The net migration target is not a substantive policy per se – it does not set a formal cap or restriction on the number of people entering the country. Instead, it is a tool for incentivising government to meet its objective to bring down net migration to sustainable levels. In practice, the target has meant that, across the vast majority of migration types and visa routes, the main priority of the Home Office is to drive immigration down and emigration up.

Since its introduction, the target has failed on its own terms and contributed to undermining the wider economic priorities of other government departments. Annual net migration has been far more than 100,000 in every year since the target was introduced; it now stands at approximately 250,000, more than double the target (ONS 2017c). The repeated failures to meet the target have, in turn, further damaged public confidence in government's approach to immigration.

Aside from this failure, the crude nature of the target – conflating all forms of migration into one single figure – has distorted attempts to change the make-up of our immigration flows and incentivised efforts to restrict types of immigration that are manifestly economically beneficial. This has led to the emergence of several policy contradictions between different departments: while BIS has set out a strategy to expand the UK's education exports industry, the Home Office has placed tighter rules on international students, one of the key components of our

¹ Net migration is the total number of long-term immigrants entering the country minus the total number of long-term emigrants leaving the country. The figure includes UK, EU and non-EU citizens.

total education exports (BIS 2013); while the Department for International Trade is actively seeking a new trade agreement with India, the Home Office position on students and skilled workers has so far proved a major blockage because of its unwillingness to countenance higher levels of students and skilled workers (Ahmed 2017); and while DCLG has pledged to build one million homes by 2020, the logic of the net migration target is expected to incentivise the Home Office post-Brexit to reduce the numbers of EU nationals working in construction (DCLG 2016). In many areas, the net migration target has therefore created incentives for one part of government to jeopardise the core priorities and ambitions of others.

Moreover, the evidence base that underpins the net migration target is weak. The target is founded on the Office for National Statistics' (ONS) long-term international migration statistics, which are, in turn, based on the results of the International Passenger Survey, a sample survey conducted across the UK's air, sea and tunnel ports. The statistics provide a breakdown of different types of migration, which form a key part of government thinking on how to meet the net migration target. But IPPR's research and the recent findings from exit check data highlight that there are serious flaws in these statistical breakdowns; in particular, they appear to have vastly overestimated the contribution of international students to overall net migration (ONS 2017d; Morris et al. 2016). The net migration target has driven a highly restrictive and damaging policy for international students based on unsound and unreliable evidence.

Finally, the target encourages the Government to favour short-term migration over long-term settlement, as stays of under 12 months are not included in long-term immigration figures. The argument for this approach is that short-term migration does not contribute to population growth. But transient forms of migration cause churn, place pressures on services, and can undermine cohesion in communities (Sachrajda and Griffith 2014). Short-term migration also makes social integration considerably harder, as migrants do not expect to be able to settle in the UK, and so tend to become less embedded in their local community (Griffith and Halej 2015). Prioritising short-term movements over long-term settlement risks further exacerbating social and political tensions over immigration.

REPLACING THE TARGET

The net migration target is a major policy failure. But this is not to say that targets themselves are unhelpful in designing a future immigration strategy. Targets can be an effective way of setting out aims for a system and improving accountability in government. They can also be a means of establishing a better dialogue with external stakeholders (such as employers, and UK nations and regions) who have an interest in the future of the immigration system. Properly designed targets can also be used to orchestrate a more informed and, consequently, more constructive dialogue with the public. They can be a means of helping government justify decisions based on evidence and the changing global, social and economic situation. When used effectively, targets can also help improve policy design: they can incentivise government to implement reforms and when they are missed they can prompt a deeper questioning of the factors that may be driving lower or higher than expected numbers. Targets in themselves are not unusual policy tools for managing migration and are used in a range of other countries, including Canada, Australia, and New Zealand (OECD 2006).

But a single, crude target is inappropriate for a complex, increasingly unsettled and globally connected economy like the UK. The core weaknesses of the Government's current target are its unfeasibility, its inflexibility, and its focus on net levels as the appropriate measure of migration. These weaknesses respectively account for the target's failure to deliver results and meet public

expectations; its conflation of different types of migration; and its preference for short-term churn over long-term settlement.

We therefore propose that the net migration target should be replaced with a new system: an Annual Immigration Framework (AIF). Under this framework, individual targets would be set for different types of immigration, rather than one crude overall number. This could include categories for workers of different skill levels, entrepreneurs and investors, family migrants, and resettled refugees. The targets would not just include long-term migrants (i.e. those in the UK for more than twelve months); it would also include short-term migrants. The targets would not be fixed, but would instead vary depending on labour market requirements, recent immigration levels, and the global humanitarian situation (to ensure we are taking in our fair share of resettled refugees).

Like the Government's net migration target, these targets would not operate as caps, but would instead function as objectives to guide policy-making, set public expectations, and increase transparency. And like the net migration target, the AIF would be a framework to incentivise future policy change; it would not directly affect visa routes in itself. The targets would not prevent the government from meeting (and indeed surpassing) its legal and humanitarian obligations. For family reunion, targets should be set in line with expectations of future immigration levels and set at a high enough level to ensure that they do not incentivise government to place restrictive rules for family sponsorship – as these can lead to families being separated for long periods and compromise future integration outcomes. The Government would set each target annually, upon the advice of the existing Migration Advisory Committee (MAC).

The AIF would be an important foundation for a new immigration system driven by the country's economic priorities. Under the AIF, there would be no crude overarching target; the breakdown of different types of migration would allow the Government to adopt a nuanced strategy that ensures our immigration policy meets our economic needs and humanitarian obligations. For instance, unlike the net migration target, the AIF could incentivise the Government to expand immigration in one category (e.g. highly skilled migration or resettled refugees) without obliging it to try to reduce immigration in other categories. Since the AIF is not fixed in perpetuity, it also allows for annual changes in sectoral labour demand, the global humanitarian situation (such as a rise in displaced people due to conflict), and recent migration patterns.

The AIF also meets the three tests discussed in the introduction: public consent, fairness for migrants and UK workers, and viability of enforcement.

CONSENT

The net migration target has had a sustained detrimental impact on the public debate on immigration: it has raised expectations that net migration will be brought down to 'sustainable' levels, and then has continually failed to meet these expectations. The AIF would provide scope for the Government to abandon the net migration target while nevertheless making clear to the public that it seeks to control and manage migration levels.

Moreover, by breaking down the migration target into its component parts, the AIF could come much closer to meeting the public's priorities. Public opinion research has highlighted that people have considerably different attitudes to different types of migration. The public tend to be much more relaxed about international students and migrants filling particular jobs – especially doctors, nurses, and scientists / researchers – than they are about generically described 'low-skilled' migration or family migration (Katwala et al. 2017). When asked directly if the net

migration target should be replaced with separate targets for different types of migration, 63 per cent agree and only 7 per cent disagree (ibid).

Finally, the AIF can be designed to incentivise rather than undermine integration. Because it removes the focus on net migration and includes short-term visa holders, it reduces the motivation to promote temporary migration where there is evidence that settlement would be socially and economically beneficial. The evidence suggests that, at the local level, the public favour migrants who settle and integrate over short-term migration and transient churn (Sachrajda and Griffith 2014).

The AIF could therefore serve the public far better than a crude and inflexible net migration target.

FAIRNESS

The AIF should give the Government far greater scope than the net migration target to tailor migration policies for different types of migrants. This could help to foster a fairer and less arbitrary system. However, the AIF only provides the framework for such a system; it does not have any direct effect on the fairness of the Government's migration policies. The 'fairness' test should apply to the policies that materialise as a consequence of the AIF, rather than the AIF itself. Therefore, rather than assessing the AIF against the 'fairness' test here, we will instead focus in detail on the fairness of the proposals in the following five chapters of this paper.

FEASIBILITY

Compared to the net migration target, the AIF is a realistic framework for a future immigration system. This is because the targets within the AIF focus on types of migration over which the UK has greater control (unlike, for instance, emigration flows), and because they can be adapted to reflect the economic and social needs of the UK. But the targets in the AIF would not operate as caps on the number of visas issued. As a result, the targets would not necessarily be precisely met each year, even under a reformed system – migration targets are inherently difficult to meet, because it is hard to predict how eligibility criteria for admitting migrants will correspond to overall numbers over time, particularly if demand for overseas labour among employers or interest in moving to the UK among migrants changes rapidly due to exogenous shocks.² But a framework that is designed in accordance with the reality of the UK's immigration needs – and that changes over time in response to these needs – is far more likely to be achievable than an arbitrary and fixed annual target.

The AIF is also modelled on other countries' approaches to immigration – Canada, Australia, and New Zealand, for instance, all have a long tradition of setting annual targets for different types of immigration (OECD 2006). The Canadian federal government reports its targets for economic, family, and refugee / humanitarian immigration categories to parliament every year after consulting with each of Canada's provinces (ibid; IRCC 2017). Unlike the UK's target, which is based on the International Passenger Survey, these frameworks are based on administrative visa data. This means that the agreed targets relate precisely to the number of visas issued, rather than unreliable estimates of passenger movements. This allows for a more coherent and transparent system. The AIF could therefore work similarly;

² It might be possible to introduce caps for some migration routes, but if applied too crudely these can typically lead to perverse and arbitrary outcomes (as well as substantial yearly backlogs (OECD 2006)). A system of caps would by definition maintain upper limits on overall numbers, but this can be at the expense of ensuring a fair system for migrants themselves. We therefore do not support the general use of caps or annual limits, though they may be required in some limited cases, as we highlight later in the paper.

where possible, data for measuring the effectiveness of the framework would be based on the number of visas issued rather than the International Passenger Survey estimates.³

Of course, the AIF is not sufficient for an immigration strategy; it is instead a framework for managing immigration as we leave the EU, without relying on the crude and misleading net migration target. In the following chapters, we set out in more detail the contours of an immigration strategy designed to meet the UK's economic priorities.

³ For EU nationals, the system of measurements would depend on the new system introduced post-Brexit: if EU nationals (excluding visitors) applying to stay in the UK have to apply for a visa or work permit, then administrative data could be used; otherwise the IPS will continue to be the only available measure. (Note that the IPS immigration estimates are more likely to be reliable than emigration estimates.)

2. Our immigration strategy should actively address geographical imbalances in the economy

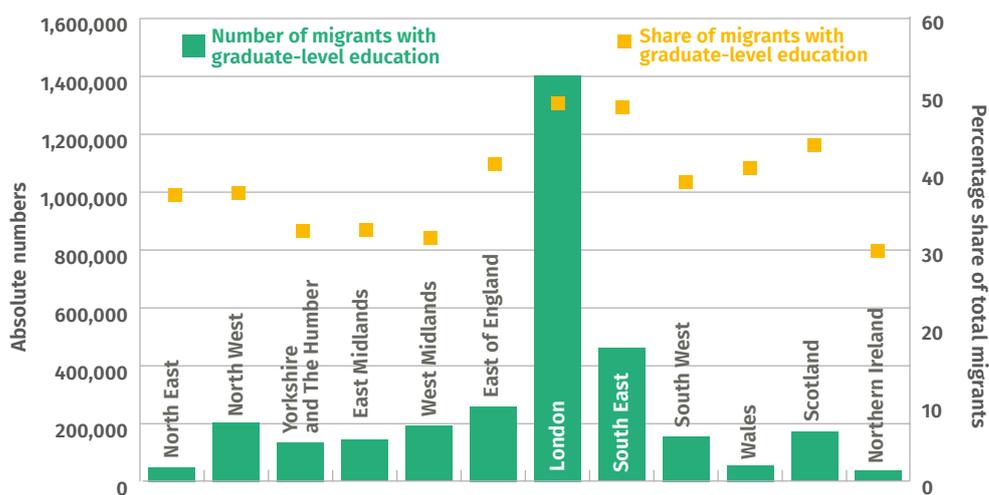
THE CHALLENGE

The Interim Report of the IPPR Commission on Economic Justice, *Time for Change: A New Vision for the British Economy*, highlights the scale of the UK economy's geographic disparities (IPPR 2017). Economic output is largely concentrated in London and the South East, which are currently responsible for almost 40 per cent of UK Gross Value Added. More than half of employees in London are in managerial or professional jobs, compared to around 40 per cent on average (Jacobs et al 2016). Over the past two decades, these inequalities have grown, as population, productivity and output growth have shifted further and further to the South East (ibid).

At present, the pattern of immigration to the UK reflects these wider geographical inequalities. Talent and skills tend to head to London and the South East (Figure 2.1). Poorer nations and regions tend to receive fewer skilled migrants.

FIGURE 2.1: MIGRANTS WITH A GRADUATE-LEVEL EDUCATION TEND TO BE CONCENTRATED IN LONDON AND THE SOUTH EAST OF ENGLAND

Migrants who completed their education at age 21 or older by nation and region (only including people in employment or of working age)



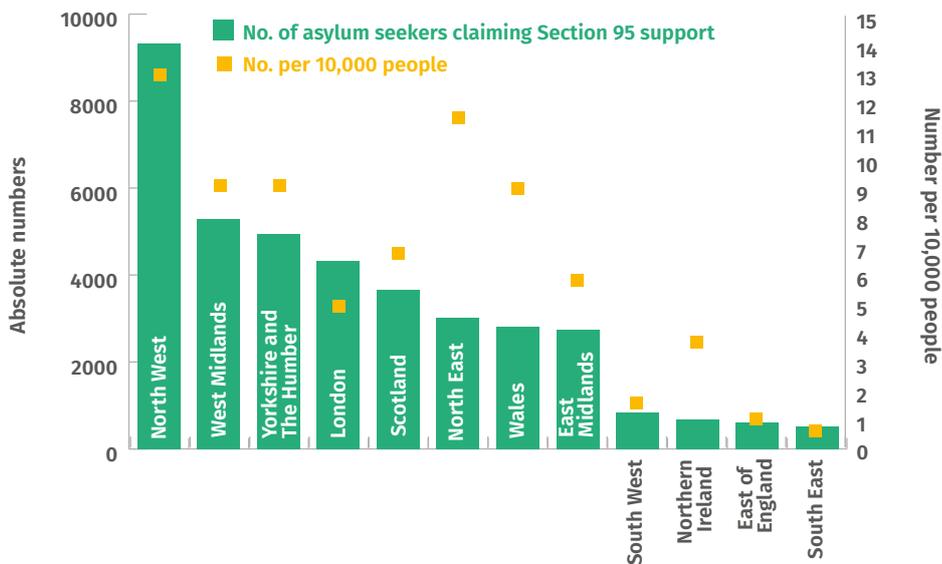
Source: ONS (2016–2017)

The drivers for these imbalances are likely to be largely structural. Skilled migrants are inevitably more likely to head to parts of the UK where job prospects are most promising. Migrants working in finance and information technology are concentrated in London, where these sectors are more dominant. On the other hand, migrants working in sectors such as agriculture and food processing –

mostly lower-skilled sectors – tend to be concentrated outside London.⁴ The distribution of asylum seekers outside of London and in parts of the North West has exacerbated these trends (see Figure 2.2).

FIGURE 2.2: ASYLUM SEEKERS TEND TO BE CONCENTRATED OUTSIDE LONDON AND THE SOUTH EAST OF ENGLAND

Number of asylum seekers claiming Section 95 support by nation and region



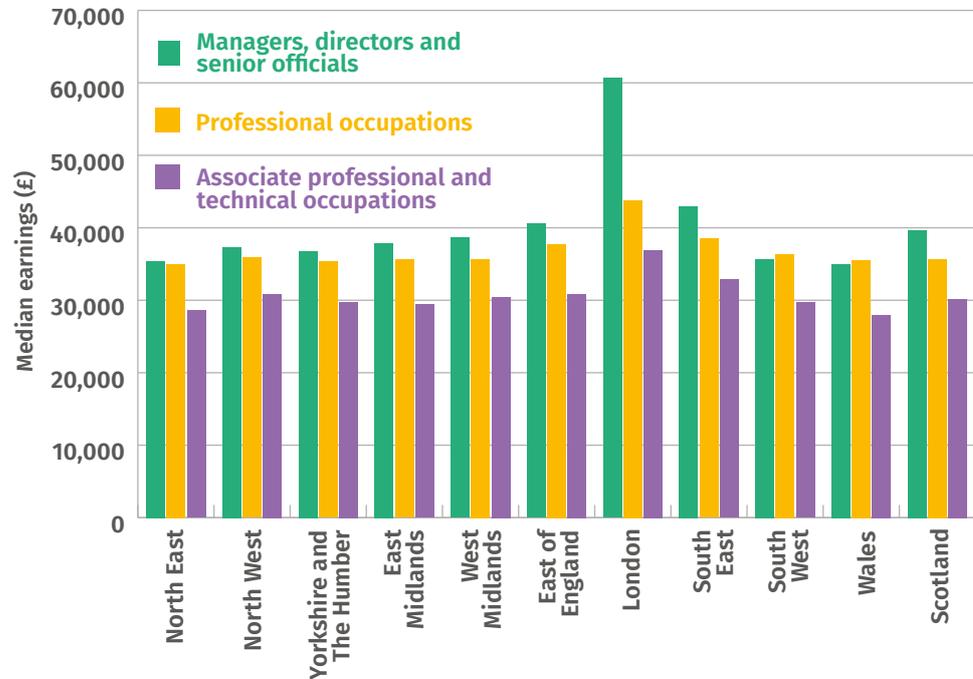
Source: Home Office (2017e); ONS (2017b)

The current visa rules do little to help address these geographical disparities. Because the system for non-EU migration is largely predicated on salary thresholds, employers in areas where average wages are low are at a disadvantage. For example, the minimum salary threshold for the Tier 2 (General) visa is set at £30,000 for experienced workers. But highly skilled jobs outside of London tend to be lower paid, making it harder for them to attract skilled migrants (see Figure 2.3). The share of all employees working in graduate level jobs and earning more than £30,000 is nearly 30 per cent in London, but much lower elsewhere (Migration Observatory 2016). Under the current system, there is little scope for nations and regions in need of skilled professionals to incentivise migrants to base themselves outside of London and the South East.

⁴ See ONS 2015 for a breakdown of industries by nation and region.

FIGURE 2.3: MEDIAN WAGES FOR SKILLED OCCUPATIONS ARE CONSIDERABLY HIGHER IN LONDON COMPARED TO THE REST OF THE UK (FOR ALL CITIZENS, NOT ONLY MIGRANTS)

Median full-time gross annual earnings for skilled occupations by nation and region (all citizens, excluding Northern Ireland)



Source: ASHE 2016

THE SOLUTION

A key tenet of the UK’s future immigration strategy should be to develop greater geographical flexibility within the system, in order to help address the sustained and growing economic imbalances across the UK’s nations and regions.

We recognise this would constitute a major shift in immigration policy. The Government’s current approach to immigration is highly centralised. Perhaps more than any other issue, policy is now the domain of a single department, the Home Office. Nations and regions have minimal influence over immigration policy decisions, aside from a few minor exceptions, such as the Scotland-Only Shortage Occupation list.

Centralisation has been justified on the basis of effectiveness. The aim has been to shelter decisions from influences that could compromise efforts to reduce numbers and tighten enforcement. The Government has argued that uniform rules and standards are the only way to ensure that the system is consistent, enforced and transparent.

While these are important goals, the current centralised system does not account for geographical disparities in immigration patterns and employer needs. Greater geographical flexibility could ensure that the immigration system is more in tune with the diversity of the UK economy and labour market. To echo a recent report by the House of Lords EU Committee, geographical flexibility could allow our immigration system to reflect ‘local and regional economic and demographic needs, rather than central targets’ (House of Lords 2017).

A system that tailors immigration rules according to different nations and regions could allow those nations or regions disadvantaged under the current rules to utilise immigration policy as a way of boosting local growth and productivity. Visa strategies could be designed to support efforts to establish new economic clusters in areas outside the South East of England and be part of the push for attracting investment. They could also complement the move towards devolution in other policy areas, such as the devolution of adult skills budgets, thereby giving nations and regions unprecedented control over the shape of their own economies and labour markets.

TWO MODELS

We set out two models for how such a system could work: a ‘sub-state’ immigration system and a ‘devolved’ immigration system.

A sub-state system would allow labour immigration rules to vary according to nation and region, but would continue to be ultimately led and controlled by central government. The Home Office would work together with sub-state actors (including the devolved administrations, local government, LEPs, employers and local trade union groups) to design a new visa route, setting eligibility requirements and targets for each nation and region. This would be annually updated via a statutory mechanism for local voices to be heard – nations and regions could put a case to the Migration Advisory Committee, for example, based on the evidence of a coalition of local leaders and employers and the available labour market data. Sub-state visas would then be issued by the Home Office. A UK-wide worker visa would also be available for workers and employers who want the flexibility to move between nations and regions.

A devolved system, on the other hand, would allow nations and regions to decide and set their own labour immigration rules. In Scotland, Wales, and Northern Ireland, the devolved administrations would take on the responsibility; while in the regions of England, new regional immigration committees, comprised of representatives from local government, employers and civil society, would hold the reins. Devolution would apply to a new ‘sub-state visa’ for labour migration; as with the sub-state system outlined above, a separate UK-wide worker visa would be available for situations where employers need the flexibility to move migrant employees between different locations across the UK. The Home Office would continue to issue visas, lead on enforcement, and oversee the UK’s overarching immigration strategy. Sub-state decision-making bodies would need to accord with the Home Office’s aims, guidelines, and minimum standards; but otherwise they would have the flexibility to design sub-state visas to meet the needs of their economies.

A sub-state system could be designed to effectively address geographical imbalances, as the Home Office would have the power to coordinate and calibrate the system to incentivise migrants to apply to nations and regions outside the South East. Such a system could ‘level the playing field’ for areas which are losing out from the current immigration rules. For example, in order to attract skilled migrants, salary thresholds could be set at a lower level or post-study work advantages could be offered to international students based at local universities.

However, under a devolved system without central coordination, success in addressing geographical imbalances would depend on the policy decisions of the different sub-state bodies. These are difficult to predict with any certainty.

On the one hand, there is a risk that a devolved system could result in the accentuation, not the amelioration, of existing inequalities in immigration. IPPR analysis suggests that London is one of the parts of the UK where public anxiety about immigration is weakest (Morris 2017). As a result, a devolved policy could

mean London adopting a more liberal set of rules than the rest of the country, and thereby further incentivising migrants to move to the capital.

Against this political backdrop, it is possible to foresee how greater devolution could mean that London forges ahead with ambitious plans to attract the brightest and best (since the EU referendum, the GLA, the City and other key employer bodies in the capital have already argued that they should be given the power to issue visas which are specific to the capital's economic interest), while nations and regions elsewhere put in place more restrictive measures. This could exacerbate disparities in the immigration of skilled workers and potentially extend geographical imbalances further.

On the other hand, an alternative vision of devolution is also possible. For those nations and regions outside of London and the South East of England (notably Scotland) that are actively seeking more power to attract certain groups of migrant workers as a means of boosting local output and productivity or reversing demographic decline, the devolution of such powers could free them from a restrictive government policy. Over the long term, it could help to forge a healthier and more constructive local conversation in all parts of the UK and in turn lead to improved decision-making. It could also bring a greater range of local voices into the migration debate and thereby help to stimulate greater experimentation and innovation in immigration policy development. Over time, this could help to reduce geographical disparities in immigration across the UK.

While addressing geographical imbalances is the main rationale for a sub-state or devolved immigration system, it is not the only consideration. As highlighted in the introduction, each component of our strategy needs to also be tested against three further factors: consent, fairness, and feasibility.

CONSENT

Immigration is one of the most polarising issues in UK politics today. Attitudes differ considerably across age groups, social class, and political preference. They also vary geographically, with London and Scotland residents having more relaxed attitudes compared to elsewhere in the UK (Morris 2017). On the face of it, a devolved (though not necessarily a sub-state) migration system could give new, unprecedented powers for nations and regions to develop immigration policies to reflect the stances of their local populations. This could help to ensure that each nation and region of the UK has an immigration policy that suits its own priorities.

In the long term, there is potential for a devolved policy to further advance the public debate on immigration. IPPR's research involving members of the public has confirmed how, in many cases, local debates about migration have become trapped in an unhelpful cycle of powerlessness and inaction. Many people are affected by a pervading sense of disempowerment in the face of considerable change. In the context of limited powers and reduced funds, these concerns have often been met with a void of action and leadership at the local level. Local actors have inevitably been reluctant to show leadership on an issue over which they have no control, especially an issue that has become as contentious as immigration. Even in areas of the UK that have received record levels of immigration, local efforts to sustain cohesion and support public services have been sorely lacking (Griffith and Halej 2015). This leaves little scope for an active and meaningful local level dialogue.

By diverting the focus away from the aggregate UK-level migration figures towards a more localised conversation about the drivers and impacts of migration, a devolved immigration policy could contribute to a better-informed and more balanced public conversation. With sub-state actors gaining greater powers over immigration rules, local debates could start to become more constructive

and solution-oriented – focused on people’s direct experiences and priorities and the local impacts and contributions of migrants, rather than abstract national arguments and statistics. Over time, such a system could lead to a more consensual and less divisive immigration debate.

FAIRNESS

Sub-state and devolved immigration systems are designed to secure a fairer settlement for the UK’s nations and regions. But could such systems, in improving geographical equity, become unfair on migrants themselves? Some have argued that sub-state and devolved systems are discriminatory, because they tie migrants to one nation or region and prevent them from freely moving around the UK once they are resident.

This is an important critique, and if it were true it would expose a serious flaw in the proposed model. But it is not the case that a sub-state or devolved system prevents the mobility of migrants once they have settled in the UK. Indeed, from the point of view of the migrant, little would change compared to the current employer sponsored system for skilled workers. Under the current rules, a migrant applying from outside the EU as a skilled worker must typically secure an employer to sponsor them as part of their application. They are then attached to that employer while they reside in the UK. But that does not mean they have simply no option but to stay with this employer. They can of course decide to move jobs – in which case they can reapply to the Home Office for a new visa – or they can apply to switch their visa route.

Similarly, under a sub-state or devolved system, a migrant with a ‘sub-state visa’ would be attached to an employer in a particular nation or region; but, as under the current system, they would have the option to move jobs or switch onto a different visa route if they so wished, as long as their application was successful. Otherwise, those with a ‘sub-state visa’ would be free to travel anywhere in the UK or even live outside the nation or region of their employment, as they do now. The only substantive difference that migrants would experience under a sub-state or devolved system, compared to the current one, is that there would be greater variation in the eligibility requirements for securing visas in different nations and regions of the UK, and accordingly some nations and regions would be harder to successfully apply to than others.

It may of course be argued that any form of employer-sponsored policy is unfair on migrants, because it ties them to their employers. But this is a critique that applies to the current non-EU skilled worker system just as much as to any sub-state or devolved policy. It is also very hard to avoid in any controlled system of migration, given, as we highlight in the next section, the importance of the labour market in regulating migration. Nevertheless, any additional requirements on employers should be coupled with rigorous safeguards to monitor and prevent discrimination. Under no circumstances should it be acceptable for employers to reject migrant workers simply on the basis of their nationality or ethnicity.

FEASIBILITY

A sub-state or devolved migration policy would present a new set of logistical challenges for the Home Office. But in our assessment these challenges are surmountable and a system with geographical flexibility could be both administratively manageable and enforceable.

The main critique aimed at a sub-state or devolved system is its susceptibility to non-compliance: migrants who successfully apply to one nation or region of the UK may move to another illegally after they arrive. If this were to happen

on a large scale, it would undermine the integrity of the system and lose public confidence.

However, there are sensible measures that can be introduced to regulate a sub-state or devolved system; indeed, these would simply be an extension of the current methods used to regulate migration and prevent overstaying. Regulation and the monitoring of compliance could be largely achieved through the labour market. Under a sub-state or devolved system, labour migrants would need an employer to sponsor them to be eligible to stay in the UK and work, as they do now under the 'Tier 2' system for skilled workers. The workplace of the employer sponsor would be attached to a particular nation or region, and the eligibility requirements for securing the visa would depend on where the employment was based. Once they had secured the visa, the migrant would then be required to work for that employer in the assigned nation or region – unless they reapplied with a different employer or switched visa route. They would not be required to live in the nation or region, but the vast majority would presumably do so for convenience.⁵

Employers would be responsible, as they are now, for hiring migrants with a legal right to work in the UK; so if a migrant with a sub-state visa chose to work in a different nation or region without reapplying to the Home Office, the employer who hired them would be liable for a significant fine (and potentially criminal charges). Moreover, if caught, under the current rules migrant workers would not be able to stay in the UK and could be barred from reapplying in future.

Evidence from sub-state visa systems in other countries suggests that compliance would be high, since even without enforcement checks migrants tend to settle where they are initially accepted. In Canada, for instance, where there are no requirements for migrants to stay in the region in which they are accepted as part of the Provincial Nominee Program, the overall regional retention rate of provincial nominees who arrived in Canada in the 2006-2011 period was on average 78% by 2011 (although there were variations between provinces) (Huystee and St Jean 2014).

Indeed, the many steps the Government has taken to limit overstaying in recent years could equally apply to the enforcement of a sub-state or devolved system. The introduction of the new Biometric Residence Permit could streamline the administrative processes for immigration checks, since the permits for sub-state visas could explicitly specify the nation or region of their eligibility, and therefore make it easier for employers to determine compliance. In addition, the latest statistics based on exit checks data suggest that overstaying rates for work and study migration are extremely low; this suggests that there is a relatively low risk of widespread non-compliance (ONS 2017d).

Aside from the compliance issues discussed, some have expressed concerns that a sub-state or devolved system might be too administratively burdensome on business. This would of course depend on the precise details of the system; but if designed appropriately, a new system should not differ substantially for employers from the 'Tier 2' skilled worker visa today. Similar checks to those that exist now would be required; with the single addition that a check should be made that the migrant has the appropriate nation or region listed on their documentation. Finally, for those employers with multiple workplaces in the UK – who favour the advantage of being able to move their workers around the country with ease – there should be an alternative UK-wide visa route that is not tied to a particular nation or region. This would allow those employers who require the flexibility

⁵ The Labour Force Survey indicates that, for most nations and regions, more than 90 per cent of migrant workers live in the nation or region in which they work (exact percentage varies depending on nation/region of workplace) (ONS 2016-2017). See also MAC (2017), Section 5.22.

of a UK-wide policy to continue to be able to easily move their migrant workers between workplaces.

Others have raised concerns about the overall feasibility of devolving to new regional immigration committees within England, given the current piecemeal state of devolution in England and the limited infrastructure capacity and revenue-raising powers at the regional level. It is clear that any move towards the greater devolution of migration powers would require additional investment to develop the regional immigration committees and ensure they had the appropriate capacity, funds and expert knowledge to deliver on their decision-making powers. The devolved option would therefore take time and investment – but this does not make it inherently unfeasible.

Another critique is that there is a lack of substantive data on the migration needs of employers at the local level. By their nature, local-level data tend to have smaller sample sizes, and so it is harder to determine where there are particular labour and skills shortages. To ensure the best results, greater geographical flexibility would therefore need to go hand in hand with improved data-gathering on local skills needs.

The Brexit question

Depending on the nature of the deal the UK agrees with the EU on migration, a sub-state or devolved immigration system could be available for EU workers as well as non-EU workers. If no preferential deal for EU nationals is agreed as part of the UK-EU negotiations, the proposal would work in the same way as described above for non-EU nationals: employers from a particular nation or region would apply to sponsor an EU worker and, provided all the salary and skills criteria for that nation or region were met, a sub-state visa for the EU worker would be issued. As with the non-EU proposal, EU workers would also be able to apply for a UK-level visa if necessary. At its most relaxed, in particular nations or regions a sub-state or devolved scheme for EU workers could be extended to apply to workers of any skill and income level. Under these circumstances, those nations or regions would effectively be permitting the free movement for EU citizens within their territories; albeit with the necessary administrative measures in place to ensure migrants were sponsored by employers and registered with the Home Office.

3.

Our immigration strategy should be designed to spur innovation

THE CHALLENGE

New technologies are driving radical changes within the UK economy and labour market. Over the coming decades, the sweeping expansion in the collection and use of data is set to reshape business models and working patterns across the developed world (IPPR 2017). For the UK to be at the forefront of these changes, improve our balance of trade and boost productivity, it needs an industrial strategy that promotes and supports innovation, both with respect to the development of new technologies and the adoption of existing ones (Colebrook 2016). Yet our current record on innovation is poor: while R&D spending in our major competitor countries has risen over the past two decades, in the UK it has stalled (IPPR 2017). A new strategy is needed that prioritises innovation by diversifying the UK's base of globally-leading innovative firms and by seeking to build regional clusters based on close university-business relationships – a strategy summed up as 'nationally diversified, regionally distinctive' (ibid).

A key objective of this strategy should be to retain the UK's competitive edge in the international market for talent and skills. Skills requirements in fields of high innovation – from artificial intelligence to advanced manufacturing – are evolving with increasing speed. Employers in these fields require flexibility: a number of key, high-value sectors are highly reliant on access to a very fluid labour force – approximately 32 per cent of those employed in design occupations, 13 per cent of information technology and telecommunications professionals, and 11 per cent of engineering professionals are freelancers (Kitching 2016). Moreover, in the coming years emerging economies are likely to be better placed to compete in R&D (IPPR 2017). An inability to cater for these rapidly changing needs will hold back efforts to advance the innovation agenda.

Because of its world-leading universities and reputation for research excellence, the UK should be well positioned to be a lead player in the highly competitive international market for talent and skills. But our immigration system is currently not up to the task. Most visa routes for workers require employer sponsors. Those routes that are available for entrepreneurs or the self-employed are highly constricted. Eligibility for the Tier 1 (Entrepreneur) visa requires at least £50,000 investment funds (Home Office 2017a), while the Tier 1 (Exceptional Talent) visa requires an endorsement as being a recognised or emerging leader in the field of science, humanities, engineering, medicine, digital technology or the arts (Home Office 2017b).

A tough compliance regime for international students has also limited the opportunities for UK businesses to capitalise on the skills of overseas graduates (Morris et al. 2016). While international students can enter the 'Graduate Entrepreneur' route under Tier 1 if they have a credible business idea endorsed by a university or the Department for International Trade, few migrants enter through this route (Home Office 2017c). At the same time, the previous Post-Study Worker route for international students has been closed.

Moreover, in practice, very small numbers are entering through these visa routes. In 2016, only 812 entrepreneurs, 169 graduate entrepreneurs and 305 Exceptional Talent holders were successfully granted visas (excluding dependents) (Home Office 2017d). The Exceptional Talent route has an upper cap of 1,000 applicants per year, and all the routes are indirectly affected by the Government's efforts to meet its net migration target. This is a difficult climate for the new wave of technology-driven entrepreneurialism to flourish.

In the past year, there are signs that this climate is having a material effect on employers' access to talent in key research and innovation-oriented industries. Many international companies and research bodies cite the ability to recruit a top international workforce as one of their key concerns post-Brexit (see e.g. Academy of Medical Sciences et al. 2017). Tech and the creative sectors in particular have highlighted their reliance on a highly mobile and sought-after talent base (techUK 2017 and Creative Industries Federation 2016). Although it is likely to take time to fully emerge in the ONS migration statistics, there is also some initial evidence that talented workers and entrepreneurs from outside the UK are starting to look elsewhere – a recent study from Deloitte found that 47 per cent of highly skilled EU workers are considering leaving the UK in the next five years (Deloitte 2017). Indeed, many other top destination cities, such as Paris and Berlin, see Brexit as a unique opportunity to attract critical skills (Chazan 2016).

In this uncertain context, it is vital that the UK moves to revise its immigration system to ensure that, as part of its wider efforts to invest in and support research and innovation, it continues to successfully attract global talent.

THE SOLUTION

As part of its wider effort to spur innovation, the Government should introduce a **Global Talent Visa** (GTV). The GTV would replace the Exceptional Talent Visa and operate within the current Tier 1 system, which currently includes visa routes for entrepreneurs and investors as well as exceptionally talented migrants. It should be designed to proactively recruit global talent in research, digital technology and the creative industries and in other potential high-growth sectors. The GTV should allow eligible applicants to work as employees, set up businesses, or freelance in the UK for a period of two years, with the potential for extensions, as well as the option of settlement after five years. Visa holders should also be offered additional benefits, such as the right to be joined by dependents, without needing to pay additional charges such as the healthcare surcharge. The visa route should operate at a national level, independent of the sub-state or devolved system proposed in the previous chapter, as it is not an employer sponsored scheme.

The system should be modelled on the Tier 1 Exceptional Talent Visa, which gives migrants the flexibility to work in the UK as employees, self-employed, or company directors, at any skill level and within any sector (Home Office 2017b). Unlike an employer-sponsored scheme, the Exceptional Talent Visa does not tie a migrant to an employer, which allows for greater flexibility and lower administrative hurdles – a key advantage in facilitating mobility in sectors with high levels of entrepreneurialism, self-employment and job turnover.

However, the Exceptional Talent Visa in its current form is too narrowly defined. The eligibility criteria are extremely tough – migrants must either be 'internationally recognised' for significant contributions in their field, or must have demonstrated their potential as a 'future leader'. Examples of evidence meeting the eligibility criteria include: winning a prestigious internationally recognised scientific prize; being professionally engaged in producing creative work of outstanding quality which has been published, performed, presented, distributed

or exhibited internationally; or having a proven track record of innovation in the digital technology sector as a director or founder of a company or as an employee working in a new field or concept.⁶ Moreover, there is a maximum limit of 1,000 visas issued annually. This means that the Exceptional Talent visa is only available to a very limited group of applicants.

The GTV would instead target a wider pool of international talent. Eligibility requirements would be looser than the current stringent rules for the Exceptional Talent Visa. Rather than limiting access to only those who are at the top of their fields (or who have the potential to be), the GTV would admit those who can either:

1. evidence relevant technical or creative skills
2. show a track record of research and innovation in key strategic sectors or
3. evidence a recent honours degree from a UK university in a STEM subject. (The restriction to STEM subjects could be expanded to other skills over time depending on the UK's talent requirements.)

This would open up the visa route to a larger group, beyond just the 'exceptionally talented'. The GTV would also have a higher annual limit on visas issued – while the exact figure would vary annually and depend on the Annual Immigration Framework set out earlier, we would like to see the figure to be at least 10-15,000.⁷

As with the Exceptional Talent Visa, industry bodies in key growth sectors should play a central role in the design and administration of the GTV. Currently the recognised 'Designated Competent Bodies' who assess applicants and advise the Home Office on eligibility are the Arts Council England, the British Academy, the Royal Society, the Royal Academy of Engineering, and Tech City UK. This list should be expanded to include industry bodies in other sectors critical to driving forward innovation. These bodies should work closely with Government to identify priorities and to devise effective pre-arrival selection tests to ensure that recipients are well-suited to the needs of their particular sector and genuinely meet the criteria of top talent. They should play an active role in international outreach efforts to ensure that the schemes are reaching the workers with the most critical skills. Once migrants are selected, industry bodies should also continue to engage with Global Talent Visa holders as they settle in the UK, in order to provide entrepreneurial advice, help with integration, and gather data on their progress.

We now assess the Global Talent Visa against our three tests of consent, fairness and feasibility.

CONSENT

One of the dominant public concerns about migration revolves around the question of contribution: the public generally welcome those making a sizeable economic and social contribution to the UK, while expressing concerns about those perceived to not be paying enough into the system. Accordingly, the public tend to welcome migrants with particularly desirable skills and talents. The evidence suggests that concerns are not focused on restricting the UK's access to highly skilled talent and so, provided a GTV was shown to be in the UK's economic interests and attracting genuinely deserving candidates, it could be met with public approval (Katwala et al. 2017).

Indeed, as we have consistently argued, one of the intrinsic weaknesses of the net migration target has been that it makes no distinction between the different types of immigration and the different roles that migrants fill. This 'flattening out'

6 These are examples of the eligibility criteria for the Exceptional Talent visa; they do not all have to be fulfilled for the visa to be granted.

7 This would be a similar level to the previous Tier 1 (General) visa (Home Office 2017d).

of the distinct characteristics of different groups has acted as a major barrier to an informed and balanced conversation about migration (Griffith 2017). The introduction of the GTV, combined with the Annual Immigration Framework, could help foster a more nuanced debate by promoting types of migration that are manifestly contributing to the UK's economic priorities. And by framing the GTV as a core plank of the UK's industrial strategy and as a way of spurring innovation, it could secure broad public support.

FAIRNESS

The GTV would represent a more generous settlement to migrants as compared to the status quo. But might this be at the cost of UK workers? One critique of the GTV is that, rather than importing talent from abroad, the UK should focus on investing in skills and training within the domestic workforce.

It is clearly necessary to rethink the UK's approach to skills post-Brexit, as we discuss under Proposition 4 below and in IPPR's wider work on skills. But an active skills policy is not a substitute for seeking talent overseas. There will inevitably be a time lag for employers in addressing domestic skills shortages. Moreover, if the UK aims to position itself as a world leader in innovation, then it will need to maximise its potential talent pool to secure the best and brightest from across the globe. There are some occupations in research-intensive fields that are so specialised that, by their very nature, the chances of successful recruitment are far higher if the UK is able to access talent from abroad.

Indeed, there is a compelling case for the benefits that highly skilled workers bring to the domestic workforce. Recent research has provided evidence to suggest there is a relationship between migration and productivity. The relationship is both direct (i.e. related to the contribution of migrants themselves) and indirect. This suggests that, in overall terms, native workers can benefit from working alongside highly skilled migrants (Boot and Veugelers 2016; BIS 2015). This is because, in many cases, highly skilled migration tends to complement, rather than substitute for, the skills of domestic workers (George et al. 2012). In sectors where there is a high level of specialisation, such as digital technology, highly skilled migrant workers can play a critical role in addressing skills bottlenecks without displacing UK workers (ibid; House of Commons 2016).

Therefore, as long as the GTV is properly targeted and does not come at the expense of investment in domestic skills, UK workers should not lose out – and may even gain – from working alongside their international peers.

FEASIBILITY

The GTV is a form of 'points-based' or 'human capital' system – i.e. eligibility is determined by the skill level and characteristics of the individual migrant, rather than by the sponsorship of an employer, and so migrants are not tied to a particular job during their residence in the UK (see Boswell et al. 2017). This means that there is a higher risk of non-compliance when compared to an employer sponsored system, because enforcement cannot be directly monitored via the employer and overstaying is therefore easier.

Nevertheless, the risks associated with the enforcement of highly skilled migration are relatively low. Under the current rules, if migrants are found to be overstaying or otherwise not complying with the terms of their visas, they risk being removed (alongside potentially criminal charges). Given the likely importance of mobility and career development for GTV applicants, they stand to lose a great deal from contravening the rules.

A related risk is that GTV holders work in occupations below their skill level. GTV holders are free to work in any job they wish, but as the visa route is clearly designed for the highly skilled, those working in relatively lower-skilled jobs would in effect be abiding by the letter but not the spirit of the GTV rules. In the past, points-based routes – such as the Tier 1 (General) route for migrants coming to the UK without a job offer – have been closed due to evidence that large numbers of migrants entering through the routes were working in occupations below their skill level (Home Office 2010). For a visa route explicitly designed to attract highly skilled migrant workers and entrepreneurs and to spur innovation, any widespread use of this route by migrants to enter into work in occupations not in keeping with their skill sets would constitute a clear policy failure.

There is no way to completely eliminate the risk of abuse (or misuse) of systems like the GTV, as by their nature they provide more flexibility and fewer checks than employer-sponsored systems. Neither can it be guaranteed that every GTV holder will become a successful entrepreneur or leader in his or her field; there is necessarily an element of chance in the selection process.

Nevertheless, there are clear ways to mitigate the risks of failure and non-compliance. First, there must be a robust system for determining who is eligible for the scheme. An effective and thorough pre-arrival selection process – engaging with experts in sector bodies – should help ensure that those who are admitted genuinely possess the necessary skills and commitment. Second, there should be a transparent incentive structure to encourage GTV holders to follow the rules and maximise their potential. For instance, visa renewal and other benefits (such as settlement rights) could be made conditional on the ability to demonstrate having worked at the expected level and evidence relevant achievements. Third, an improved understanding of the data on immigration and emigration – through scrutiny of the recently established exit checks – will help the Home Office to detect overstayers and improve overall visa compliance. Therefore, while we recognise the potential for enforcement challenges for the GTV and no system can be completely clear of abuse, there are sensible measures to maximise the scheme's effectiveness and ensure that the vast majority use the GTV as they should.

The Brexit question

In post-Brexit Britain, if free movement ends and no separate preferential deal for EU nationals is agreed, the Global Talent Visa should also be available for highly skilled EU workers and entrepreneurs. This could help to ensure that the UK remains an attractive destination for top international talent after it leaves the EU.

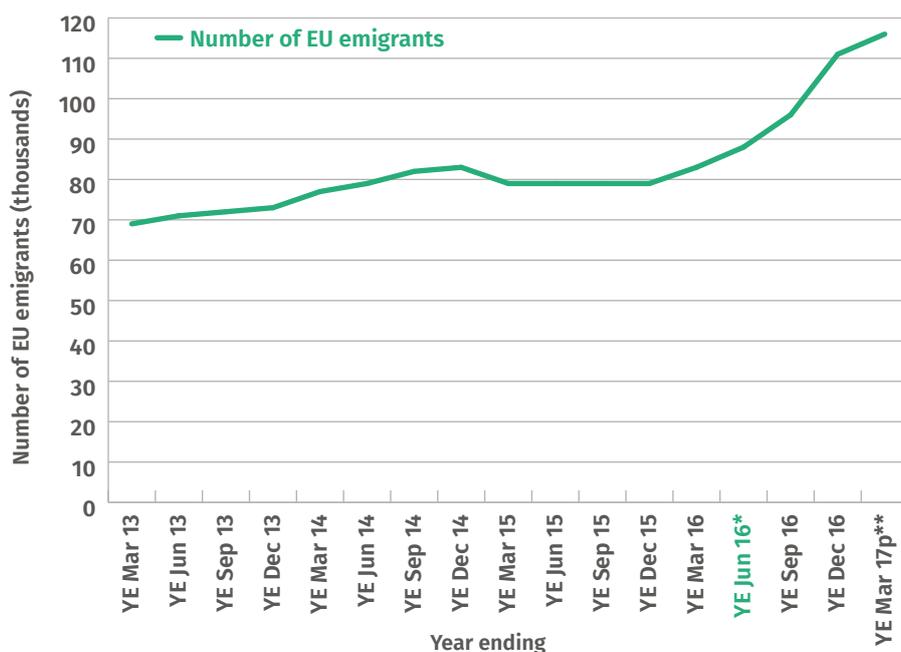
Recent evidence from the ONS international migration statistics suggests that greater numbers of EU migrants have been leaving the UK since the referendum result (see Figure 3.1). While there is currently limited evidence on the occupational and sectoral breakdown of these emigrants, a number of reports suggest there is a risk of a 'brain drain' amid sustained uncertainty and disquiet over the status of EU nationals resident in Britain (Deloitte 2017). A GTV for EU nationals could help to mitigate this trend.

The GTV would also address some of the concerns about Brexit that are shared among employers within sectors critical to boosting innovation, such as digital technology and the creative industries. These sectors tend to be characterised by large numbers of SMEs and freelancers, and their growth in recent years has relied on the flexibility that free movement brings. While the GTV will not afford the same flexibility as free movement, it may prove an appealing alternative for these sectors because it does

not require employer sponsorship, which makes it far less rigid and administratively onerous than other visa routes.

FIGURE 3.1: EMIGRATION OF EU CITIZENS HAS SEEN A STATISTICALLY SIGNIFICANT INCREASE SINCE THE EU REFERENDUM

Annual emigration levels of EU citizens pre- and post- referendum



Source: ONS 2017c

* EU Referendum

** Provisional

4.

Our immigration strategy should forge a new compact between employers and government, as a means to achieving a high-pay, high-productivity economy

THE CHALLENGE

As we argue in the Interim Report of the IPPR Commission on Economic Justice, a concerning number of sectors in our economy have fallen into a ‘low-pay, low-productivity equilibrium’ (IPPR 2017). Despite the rise in the national minimum wage, in recent years there has been an increasing prevalence of low pay, including a rise in workers paid below the living wage. At the same time, productivity growth has stalled since the financial crisis, and overall levels lag behind our major international competitors (ibid).

Progress in pay and productivity growth is inhibited by, among other things, a failure in skills policy. UK employers’ investment in training per employee has fallen by more than 10 per cent since 2007 and employer investment in continual vocational training is half the EU average (Dromey and McNeil 2017). This is not simply a question of supply; there is also a severe lack of demand for skills among employers. Indeed, many workers are being employed at below their skill level: the UK has one of the highest over-qualification rates in Europe (ibid).

The relationship between immigration and the low-pay, low-productivity economy has been the subject of considerable political debate in recent years. Migration affects both labour supply and demand (via e.g. increased spending on goods and services), so there is no straightforward theoretical answer to how it influences employment and wages. Most empirical evidence from the available labour market data indicates that increases in the numbers of migrants have either no statistically significant impact or a very small negative impact on native wages (Wadsworth 2015). However, this data largely misses the impacts of short-term migration and self-employment and is unsuitable for detecting local trends. The impacts of migration on productivity are more disputed: while some evidence points to migration, particularly highly skilled migration, boosting productivity by complementing the skills of domestic workers, some have argued that the easy and flexible access to EU workers for lower-skilled jobs over the past decade has meant that employers have felt less need to invest in new technologies or in training and hiring more productive workers (Wadsworth et al. 2016; Broadbent 2015; MAC 2017).⁸

Irrespective of the relationship between migration and pay and productivity, the potential changes in migration rules after the UK leaves the EU provide an opportunity for the Government to rethink its approach to skills and to utilise migration policy as a tool to that end. It has been argued that the end of free movement – and the widespread expectation that employers’ abilities to freely

⁸ The UK’s over-qualification challenge is also in part down to the high over-qualification rates of EU migrants – see e.g. Stirling 2015.

recruit from within the EU is likely to cease – could encourage some employers to develop a new approach to investing in skills. But a step change on skills from employers will only materialise with proactive government support and a partnership between government and business. It is therefore vital to consider how the immigration system should be designed to incentivise employers to invest in their workforce and contribute to a high-pay, high-productivity economy.

THE SOLUTION

We propose the introduction of a **Trusted Sponsor System** for employers who seek to recruit skilled workers internationally. The Trusted Sponsor System should operate alongside the current Tier 2 sponsor license. It should offer employers additional visa advantages in return for a commitment to responsible recruitment and employment practices, supporting the integration of sponsored employees, and investing in the domestic skills base.

To qualify for the scheme, employers should be able to demonstrate:

- A strong track record of socially responsible employment practices (e.g. offering the national living wage to all employees)
- A commitment to investing in and harnessing domestic skills (e.g. via apprenticeships, traineeships, paid internships, internal development schemes)
- A commitment to taking responsibility for supporting the integration of migrant workers (e.g. offering employment-based English language tuition).

Employers who participate in the scheme would be eligible for additional visa advantages. These could include:

- Access to visa fast-tracking via the Tier 2 Priority Service, which provides visa decisions within 10 days of applying
- Higher priority for entry within the Tier 2 (General) annual cap, similar to applicants sponsored for jobs on the Shortage Occupation List – this would mean that migrants sponsored under the Trusted Sponsor System would be prioritised for acceptance if the cap were reached
- A reduction in the Immigration Skills Charge from £1,000 to £500 annually per Tier 2 migrant employee
- A relaxation of the salary thresholds to the ‘New’ thresholds that normally apply to non-experienced workers (broadly defined as graduates or those aged 25 or under) – this would mean that the minimum salary threshold for applicants would be £20,800 per annum, as opposed to the current level of £30,000 per annum for ‘Experienced’ workers
- Access to an expanded ‘Shortage Occupation List’, including skilled occupations that are not necessarily defined as ‘graduate-level’, with a waiver of the salary threshold. This would allow employers to recruit in some low-paid but socially critical sectors such as social care. This would provide a route for employers to hire skilled migrants who are not necessarily in graduate level roles and highly paid – as highly paid does not necessarily equate to highly skilled.

On the other hand, for employers who do not meet the requirements of the Trusted Sponsor Scheme and who still operate under the old Tier 2 licence, the Immigration Skills Charge could be increased from £1000 to £2000 annually per Tier 2 migrant employee.

The Trusted Sponsor Scheme bears some resemblance to the current systems for Tier 2 employer sponsors and Tier 4 university sponsors (formerly known as ‘highly trusted sponsors’). These systems also represent a compact between business,

higher educational institutions and government. But in these cases, sponsorship rights are simply contingent on guaranteeing sufficiently high levels of compliance. In the Trusted Sponsor Scheme proposed here, the qualifying criteria would extend beyond responsibilities for enforcement to cover responsible employment practices, integration support and active investment in the domestic workforce. In this way, the Trusted Sponsor Scheme intends to incentivise employers to strengthen their employment practices and their investment in their workers, as part of wider efforts to boost pay and productivity.⁹

We now assess the Trusted Sponsor Scheme against our three tests of consent, fairness and feasibility.

CONSENT

The Trusted Sponsor Scheme strikes at the heart of one of the core concerns of the public about recent waves of migration: the feeling that the system is unfairly disadvantaging UK workers, particularly the lowest paid. Our deliberative focus groups with the public have found that worries about undercutting in the workplace, while less dominant than other issues raised relating to the use of benefits and public services, are an important driver of negative attitudes to immigration for many, and speak to a wider concern about the equity of the immigration system (Morris 2016a).

The Trusted Sponsor Scheme should help to address these concerns by encouraging employers who are employing migrant workers to behave responsibly and actively invest in the domestic workforce. Under our proposals, a new compact between government and business would give employers easier access to overseas workers when necessary in return for supporting and strengthening the skills base at home and contributing to a higher-pay, higher-productivity economy. By linking the visa system to wider efforts to address long-standing weaknesses in pay and productivity growth, the proposal aims to show that investing in skills and ensuring that employers have access to migrant labour can go hand in hand. This should help to strengthen public confidence in the Government's wider immigration strategy.

FAIRNESS

In our view, the Trusted Sponsor Scheme ensures a sensible balance between protecting the rights of migrant workers and ensuring fairness for the UK domestic workforce. The system we propose ensures there is a route for migrants to work in the UK, but this route encourages employers who hire migrants to behave responsibly and treat both migrant and UK workers fairly.¹⁰

The main alternatives to this system are problematic. The status quo – whereby employers can sponsor migrants through the Tier 2 route – does not do enough to incentivise employers to treat migrants fairly or invest in domestic skills. Neither does it actively encourage employers to support the integration of migrants and treat their migrant employees responsibly.

A more generous system, which allowed migrant workers freer access to the UK labour market without employers meeting the criteria set out above, could be disadvantageous to both UK workers and migrants. For UK workers, an immigration policy that did not encourage investment in domestic skills would be a missed opportunity. Indeed, higher levels of immigration could have a slightly regressive impact: evidence from the Bank of England and other studies suggests that, while

9 Some similar thinking has been previously put forward by CIPD and NIESR (2017).

10 There would of course also be a separate 'Global Talent' route for highly skilled migrants, as discussed under Proposition 3.

the impact of immigration on wages overall is very small, the largest impacts are felt at the lower end of the income and occupational spectrum (Nickell and Salaheen 2015). While a more generous system would expand the rights of migrants to work in the UK, this could be at the expense of high-quality working conditions and responsible employment practices while they are here; something which our proposal actively aims to mitigate against.

On the other hand, starving employers of overseas workers and skills by further tightening immigration policy is unlikely to lead to better outcomes for UK workers. A purely restrictionist strategy of this sort could simply force employers to stop growing or to downsize, as they struggle to fill roles with domestic workers. Neither would it necessarily lead to greater investment in skills or physical capital, particularly in a period of economic uncertainty where incentives for employers to invest are low (Morris 2017). Without the necessary investment in skills, it is unlikely that workers would be in a position to capture the opportunities of a tighter labour market. Therefore, limiting the labour supply alone is unlikely to lead to increases in productivity. The Trusted Sponsor Scheme would avoid the risks of simply choking off the supply of migrant labour while creating a real incentive for employers to invest in skills.

FEASIBILITY

The Trusted Sponsor Scheme would operate according to a similar principle to the current Tier 2 and Tier 4 sponsor licenses. Migrants wanting to move to the UK for work would need an employer to sponsor them. As long as the employer met the requirements for becoming a Trusted Sponsor, they would be eligible to sponsor the migrant under the Trusted Sponsor Scheme. The visa advantages – e.g. fast-tracking, the Immigration Skills Charge reduction, or the relaxation of salary thresholds – would then kick in. Trusted Sponsors would need to abide by a set of ‘duties’, just as Tier 2 and Tier 4 sponsors do now, including proper record-keeping, reporting of changes in the sponsored migrant’s circumstances, and cooperation with Home Office officials.

Some might argue that the proposed criteria for participating in the Trusted Sponsor Scheme are too vague and too subject to interpretation to properly implement. But each of the conditions of the scheme – ensuring socially responsible employment practices, investing in and harnessing domestic skills, and supporting the integration of migrant workers – can be judged via proxy measures. For instance, socially responsible employment practices could be evidenced through accreditation with employer programmes such as the Living Wage Foundation; investing in and harnessing domestic skills could be evidenced by employing a certain percentage of staff as new apprentice starts (e.g. the 2.3 per cent target used for public sector bodies); and migrant integration could be evidenced through the organisation of work-based integration schemes, such as work-based English language courses. Compliance with the criteria could be monitored via the compliance checks that currently exist for Tier 2 sponsors.

Another potential critique of the Trusted Sponsor Scheme is that employers – particularly SMEs – would struggle to manage the additional administrative burden of meeting the criteria on responsible employment practices, skills and training investment, and migrant integration. But while this would no doubt be the case for some employers, it should be noted that the scheme would exist in tandem with the current Tier 2 license. Employers unable to meet the higher standards of the Trusted Sponsor Scheme would therefore have recourse to an alternative visa route, which, while lacking the advantages of being a trusted sponsor, would still allow them to recruit migrant workers.

Finally, we have not yet set out how the Trusted Sponsor Scheme would align with the sub-state or devolved approach to immigration outlined under Proposition 2. As explained earlier, under our proposed strategy sub-state visas would operate alongside a 'UK-wide' visa route for employer sponsors. Our Trusted Sponsor Scheme would straightforwardly apply to this 'UK-wide' visa. In a sub-state system, the Trusted Sponsor Scheme would also apply to each nation and region, though the salary thresholds would vary according to nation or region, just as they would vary for the standard Tier 2 sponsor route. On the other hand, in a devolved system, each nation and region would have the choice to implement a Trusted Sponsor Scheme, and, provided it aligned with the Home Office's overarching immigration strategy, could vary the salary thresholds for trusted sponsors accordingly.

The Brexit question

If free movement ends and no preferential deal for EU nationals is struck after Brexit, the Government could extend the Trusted Sponsor Scheme to skilled EU workers as well as skilled non-EU workers. In order to ensure employers still continue to have access to migrants of all skill levels, a parallel UK-wide scheme could also be introduced for lower-skilled migrants from the EU (and potentially beyond), which would operate according to the same principles as the Trusted Sponsor Scheme. Under this policy, employers would be granted access to lower-skilled migrants provided they follow responsible employment practices, support the integration of migrant workers, and invest in the domestic workforce. Employers unable to meet the criteria set out above for the Trusted Sponsor Scheme would not be eligible. Depending on demand for the scheme and the targets set within the Annual Immigration Framework, the Government could also include an overall limit on lower-skilled workers entering through this scheme.

This proposal aims to achieve a balance between ensuring a route for lower-skilled level migration is still available post-Brexit while, at the same time, tackling instances of exploitation and undercutting. It would ensure that industries reliant on lower-skilled EU migrants – such as food processing, accommodation, and warehousing – are not severely harmed by restrictive controls (see Morris 2017). But it would also make it harder for employers with irresponsible employment practices and those who are making little effort to invest in and train the domestic workforce to recruit from outside the UK. This would provide an incentive to employers currently reliant on EU migrant workers to improve their employment and recruitment practices and increase their investment in the domestic workforce.

5.

Our immigration strategy should support the UK's trade balance

THE CHALLENGE

The UK has a large and sustained trade deficit. In all but one of the past 16 years, our trade deficit has exceeded 2 per cent of GDP (IPPR 2017). While we have a trade surplus in services, this is outweighed by a trade deficit in goods. There are only a small handful of sectors – mainly finance and insurance – where the UK has a comparative advantage. The UK's large current account deficit leaves it vulnerable to recessionary risks, because the deficit is financed by a surplus on the capital account, which depends on continued demand for UK assets. Reducing the UK's trade deficit should therefore be an economic priority for the Government (ibid).

The political outlook for the coming months and years puts further pressure on the UK's trade position. The Brexit process risks undermining the UK's surplus in services by denying financial services so-called 'passporting' rights that allow financial services firms authorised in the UK to establish branches and provide cross-border financial services in other EU countries. Moreover, long-term global trends suggest further competition in services from emerging economies such as China. While services trade is set to grow over the coming years, currently non-tariff barriers for services are high. The UK is therefore critically dependent on further progress in removing barriers to international trade in services (ibid).

Immigration policy could be a powerful tool for boosting the UK's exports and reducing the trade deficit. There is a well-researched relationship between immigration and trade. A meta-analysis of the link between immigration and trade has found that, for a ten per cent increase in the global number of immigrants, world trade rises by an estimated 1.5 per cent. This is most likely because immigrants increase demand for goods from their home countries and help to lower transaction costs by sharing knowledge of their home country's markets (Genç 2014).

This of course suggests that immigration has the potential to boost both exports and imports, which may have little effect on a country's overall trade position. But a carefully designed immigration policy could help to maximise the potential for migration to boost exports, which could in turn help to address the trade deficit. This is particularly important for services, where the UK is most competitive. A recent study on trade in services in UK firms found that immigrants can both increase bilateral services exports by bringing country-specific knowledge to help firms export into their home country's market and decrease bilateral services imports by making it easier for firms to do more in-house rather than offshore (Ottaviano et al. 2016). These effects are particularly large within services sectors that require substantial country-specific and cultural knowledge, indicating that migrants with particular soft skills (such as languages and social connections) can help exporting firms overcome cultural and language barriers to trade (ibid). This evidence suggests that, if designed correctly, immigration policy could be a means of reducing the UK's trade deficit.

Yet in its current form, our immigration system is, at best, poorly designed to meet this strategic objective, and at worst is actively undermining progress. The Government's restrictive approach to international students – through,

for instance, limiting their ability to work while studying and limiting their opportunities to work and contribute to the economy once they finish their course – is jeopardising one of the UK’s critical export service sectors. This uncompromising approach is also set to restrict our ability to forge new trade deals with non-EU countries once the UK leaves the EU. Finally, the Government is doing little to capitalise on the large diasporas in the UK who could contribute to increased trade. Although the UK is home to approximately 780,000 Indian-born people, compared to around 70,000 in Germany (UN Population Division 2015), the levels of trade with India remain comparatively low: the total value of goods exported from the UK to India in 2016 was \$4.4 billion, compared to \$11.2 billion from Germany to India (UN Comtrade Data 2016).¹¹

THE SOLUTION

The Government should institute a new cross-departmental trade and migration strategy, developed and coordinated jointly by the Department for International Trade and the Home Office. This trade and migration strategy should implement three main areas of reform:

1. Increasing the UK’s education exports

In 2013, the government estimated education to be the UK’s fifth largest services export sector (Morris et al. 2016). Because international students spend money from overseas in the UK via tuition fees and subsistence spending, they contribute to education exports. A recent estimate found that international students are responsible for approximately £10.8 billion in export earnings (UUK 2017). It is critical for the UK’s future trade policy to expand exports deriving from international students and increase our global market share in international education. This requires a welcoming approach to international students. While sensible measures should be taken to root out abuse of the system and ensure compliance with the rules – particularly with respect to overstaying and the phenomenon of ‘bogus colleges’ designed to provide a route into the UK labour market through the guise of international education – this must not come at the expense of an attractive offer for genuine international students.

In particular, the trade and migration strategy should agree to exclude students from any future migration target-based system. The Annual Immigration Framework discussed earlier should therefore not include a target for students. This would reduce the incentives for government to continue its restrictive approach to international student numbers. Moreover, the Government should also open up new routes for international students to work in the UK once they finish their courses. At national level, the post-study work route should be reopened for international students in STEM subjects. This could be extended to other subjects – including in humanities and the creative arts – over time and depending on the skills requirements of the UK’s labour market. Under a sub-state or devolved system, provisions for nation- or region-based post-study work should also be implemented or devolved accordingly, to allow nations and regions that want to retain students based at their universities to continue to contribute to the local economy after they complete their studies.

2. Including labour and student mobility within future trade agreements

The Government has said it is committed to leaving the EU’s Common Commercial Policy and independently striking new free trade agreements with non-EU countries post-Brexit. It is clear that, as modern free trade agreements seek more ambitious cooperation on trade in services, the issue of migration is set to become more central to trade talks. In the past 12 months alone, the EU’s agreements with

¹¹ Total exports of goods and services from the UK to India in 2015 was £6.9 billion, still less than Germany’s exports in goods alone (FCO 2016).

Canada and Japan have both included substantive provisions on labour mobility (Morris 2017; European Commission 2017); and in preliminary talks between the UK and India, the subject of student and skilled work visas for Indians has become one of the key issues under discussion (Ahmed 2017).

Therefore, for the Government to secure the expansive trade deals it is aiming for post-Brexit – which cover reductions in barriers to trade in services as well as goods – it must be willing to discuss bilateral agreements on migration. As part of their trade and migration strategy, the Department for International Trade and the Home Office should set up a regular working group to discuss the migration-related priorities of those countries where the UK is looking to secure FTAs, and then develop a plan for how migration policy can play a role in future agreements.

3. Making the most of the UK's diasporas to advance services exports

As discussed earlier in this section, there is clear evidence that the cultural capital and country-specific knowledge of migrants can help to boost services exports. The migration and trade strategy should therefore make the most of our migrant and diaspora communities to pursue new trade opportunities.

In recent years, the Government has already taken some limited steps in this direction. In 2014, UK Trade & Investment (UKTI) set up Postgraduates for International Business, a scheme for employers to hire international students during their studies in order to help them expand their export efforts by tackling linguistic and cultural barriers (UKTI 2014b). Similarly, the GREAT Ambassadors scheme piloted at the University of Sheffield – launched in the same year with the support of UKTI – helped UK companies enter the Chinese market by offering internship placements to Chinese-speaking students. The scheme has now been expanded and upgraded to the Sheffield China Gateway Scheme. It has provided support to a range of businesses looking to increase their Chinese exports, including tourist destinations, specialist manufacturers, and property developers (UKTI 2014a; University of Sheffield 2016; SUMS 2017).

We propose an expanded programme modelled on the above schemes, which connects young people with knowledge of the language and culture of priority export countries (such as China and India) with businesses looking to expand their exports into these markets. The programme would be funded and coordinated by the Department for International Trade, with the support of the Home Office, and would be delivered by a selection of universities and local authorities across the UK. Unlike the above schemes, this programme would not be restricted to students but would be available to wider groups with the appropriate skills or potential. The programme would match participants with relevant businesses and facilitate a three-to-six-month paid placement. The focus of the placement would relate to removing cultural and linguistic barriers to exports and could include projects such as: market research and social media analytics; brand development and online marketing; advice on business culture and etiquette; cooperation with distributors; and tourism support.¹² The programme should first be piloted with a select group of universities and local authorities, before being rolled out more widely. Success would depend on leveraging the skills within the UK's diaspora communities to help UK businesses break into new export markets.

We now assess the Trusted Sponsor Scheme against our three tests of consent, fairness and feasibility.

CONSENT

In our view, most of the three-point trade and migration strategy outlined here would receive support from the public. A more liberal policy on international

12 This list is based on the remit of the GREAT Ambassadors Scheme (UKTI 2014a).

students would be likely to find public backing, because the public tend to be more relaxed about students than other forms of immigration. Only 22 per cent of people in the UK think of international students as immigrants, and 75 per cent believe students should be allowed to stay and work in the UK for a period of time after graduating (British Future and Universities UK 2014). The placement scheme we propose is similarly unlikely to face public disapproval, as it is simply a means of maximising the contribution of existing migrant and diaspora communities to the UK economy (though it may face the critique that it unfairly advantages these groups in the labour market, as we discuss below under the ‘fairness’ section).

But our proposal for leveraging migration policy within the UK’s future trade agreements post-Brexit may prove less popular. It might be argued that, by agreeing labour or student mobility provisions as part of international trade deals, we would effectively be trading off controls on parts of our immigration system in return for greater market access for UK exporters. Whether this would ultimately be acceptable to the public depends on the coverage of a future migration deal. In the case of a very wide-ranging agreement that permits labour mobility for large numbers with few controls or eligibility restrictions, the public reaction may be similar to that which has recently been expressed about free movement with the EU. On the other hand, in the more likely scenario where any labour/student mobility provisions are of a far more limited nature – for instance, covering temporary movements for groups such as short-term business visitors, investors, intra-company transfers, and skilled professionals, like with the EU’s recent trade agreements with Canada and Japan – there is a far greater likelihood of securing public consent. This is because in these cases the migrants involved will tend to be highly skilled and few in number, and so an agreement will not undermine the overall integrity of the UK’s immigration system.

FAIRNESS

There are three main areas within the trade and migration strategy we have set out that may have a bearing on fairness for migrants and UK workers. First, the expansion of the post-study work route for international students could arguably undermine the opportunities for domestic graduates in the labour market. However, given our approach to post-study work is limited to international students in STEM courses and other strategic subject areas, this should only affect areas of the labour market where there is currently an under-supply of skilled graduates. Moreover, the evidence on the benefits of highly skilled migrants for UK workers that we reviewed under Proposition 3 of this paper applies equally here: in many cases, highly skilled migrants can complement rather than substitute for the skills of the domestic workforce, and there is little evidence of displacement.

Second, our proposal to include labour and student mobility within future free trade agreements would mean that migrants from those countries where we forge deals would gain an advantage over migrants from the rest of the world. This could be perceived as unfair – particularly in light of the concerns raised during the EU referendum campaign about the advantages that free movement affords for EU nationals over non-EU nationals. Nevertheless, even putting aside the rights conferred on EU nationals through EU law, it is not unusual or unprecedented for nationals of some countries to have benefits over others within the UK’s migration system. For instance, the Tier 5 Youth Mobility Scheme – which allows young people to live and work in the UK for up to two years – is only available to citizens from a select number of countries, including Australia, Canada, and Japan (Home Office 2014). Provided that any deal on labour or student mobility is reciprocal – and so affords the same rights to UK citizens and businesses in the countries in question – a degree of inequity within the system may be justifiable on the grounds of closer trade links, just as previous bilateral and multilateral agreements on migration have been.

Third, the placement scheme could be argued to unfairly discriminate against UK nationals, who will lack the cultural and country-specific knowledge to participate. To avoid discrimination, the scheme should therefore be advertised as clearly available to all nationalities, and the criteria for participation – which could include language fluency and familiarity with current affairs– should not prevent UK nationals from taking part.

FEASIBILITY

Most aspects of the trade and migration strategy set out here would be straightforward to implement. The policies we propose to increase international education exports are similar to a range of other recent reforms in our main competitor countries, such as Canada and Australia (Morris et al. 2016). The reintroduction of the post-study work route may lead to new enforcement challenges, as the previous route was closed in part due to misuse, but this could be mitigated in the future by limiting the route to students who have completed courses in certain subjects, by restricting participants to only work in graduate-level roles, and by using exit checks data to monitor compliance. The inclusion of labour and student mobility provisions within international free trade agreements would simply be an extension of the current trend in trade deals, such as the FTAs between the EU and Canada and Japan.

Finally, the placement scheme we propose would be modelled on other similar programmes, such as the Sheffield China Gateway Scheme and the Postgraduates for International Business scheme. The programme would be funded and coordinated by central government and delivered by universities and local authorities. A pilot and evaluation would be devised first in a small number of universities and local authorities, in order to ensure that there is sufficient interest from local employers and young people and that the programme delivers the kind of cultural and country-specific expertise that businesses need to expand their exports.

The Brexit question

A key pillar of the Government's new trade and migration strategy should be a comprehensive agreement on UK-EU migration as part of the Brexit talks. As we set out in our report 'Striking the Right Deal' earlier this year, the Government should seek a reciprocal agreement on labour mobility with the EU in the forthcoming negotiations on the UK-EU future relationship. This could take the form of a 'key workers' arrangement that continues to facilitate free movement for workers in key occupations but not others or an agreement that allows both parties to impose temporary controls on free movement under certain pre-defined circumstances (e.g. when immigration levels rise above a certain threshold) (Morris 2017). The negotiations on labour mobility with the EU over the coming years could help to raise awareness in the UK of the intrinsic relationship between migration and trade in the modern global economy, and so may even be a springboard for expanding the use of migration policy in future trade agreements post-Brexit.

6.

Our immigration system should promote equality and integration

THE CHALLENGE

The UK is one of the least equal countries in Western Europe. As the Interim Report of the IPPR Commission on Economic Justice sets out, while inequality in disposable income has reduced a little since the 1990s, this has not come close to redressing the sharp increase in inequality in the 1980s. Wealth inequality is on the rise as housing becomes increasingly unaffordable for young people. There are sustained pay gaps between men and women and between different ethnic groups. The consequences of these inequalities are wide-ranging: people from poorer backgrounds go on to have fewer life chances, including weaker educational outcomes, lower wages, and poorer health (IPPR 2017).

Some – though not all – migrant groups also face inequalities in employment and pay. The employment rate for non-EU migrants is significantly lower than average (Morris 2016a). English language is still a significant barrier for some migrant groups. And, although levels of economic participation are high for EU migrants, this comes at a cost: they are disproportionately overqualified for their jobs (Stirling 2015). A8 and A2 migrants (from Central and Eastern Europe) are on very low pay – their median hourly wages are around a quarter less than average (ONS 2017a). In particular, some migrant groups – such as Roma communities – face sustained poverty and marginalisation (Morris 2016b).

The process of integration – not simply into the labour market, but also into UK society and local communities – is critical to addressing inequalities for migrant groups.

But in recent years, immigration policy has taken little account of how decisions affect integration. On the contrary, one of the explicit aims of the system has been to break the link between coming to the UK and settling in the UK. Work visas for non-EU migrants are constrained to fixed time periods and the process of extension is designed to be arduous and forbidding. The rules governing family reunion have become increasingly strict and subject to high income requirements. And the naturalisation process is now prohibitively expensive, onerous and bureaucratic.

Meanwhile, policies designed to create a ‘hostile environment’ for migrants who are in the UK illicitly have over-ridden serious efforts to ensure that those who are here legally feel welcome and are encouraged to integrate. Across the board, the tone of the immigration system has become inexorably punitive. Of greatest concern is the fact that the policies which have been put in place to transfer responsibility for enforcement away from central government (such as placing greater responsibility for immigration checks on banks, employers and landlords) have not been accompanied with sufficient attempts to safeguard migrants and ethnic minorities from discrimination, despite growing evidence that these policies are making life harder for migrants and ethnic minorities (JCWI 2017).

Dignity and security are a prerequisite for migrant integration. The process of obtaining and extending visas, the way in which immigration policies are presented and implemented, the prospect of eventual settlement, family

reunion and naturalisation, and the existence of suitable safeguards against discrimination, are all critical to this process. To address inequalities among migrant groups and to help boost growth and productivity in the economy, migrants need to be able to feel secure enough to integrate. The immigration system should give just as much priority to integration as it does now to enforcement.

THE SOLUTION

While immigration rules should seek compliance, they should be designed to promote, rather than undermine, integration into the labour market and UK society. Visa extensions, as well as the prospect of settlement and eventual naturalisation, should all be actively used in the pursuit of this objective.

IPPR has previously proposed a number of reforms to the citizenship process (Murray 2016). The government should commit to freezing the citizenship fee. Support – via interest-free ‘citizenship loans’ – should be available for migrants with low incomes, who stand to gain the most from citizenship (ibid). A British passport can be an effective safeguard against discrimination.

As far as feasible, responsibility for supporting integration should be assigned to those who sponsor migrants. As argued under Proposition 4, to qualify as trusted sponsors employers should ensure that migrant workers can access English language tuition. Going further, they should also consider offering interest-free loans and guarantees for workers who are seeking to apply for citizenship or who want to get their skills accredited.

Local level capacity to promote integration also needs to be boosted. Our research has exposed chronic and worsening levels of under-investment in integration in many local authorities across the UK. New funding arrangements therefore need to be devised. The Government’s recent introduction of a new Controlling Migration Fund is welcome and central funding should be expanded. But central government should also consider creative options for devolving new powers to support integration to the local level and giving local and combined authorities new ways of raising funds for integration work. IPPR will explore this idea further in forthcoming research as part of our ‘Local Migration Panels’ work programme, supported by the Paul Hamlyn Foundation.

Finally, the Government should introduce an ‘integration test’ to ensure that every new reform of immigration policy is assessed against whether it supports or hinders integration into the labour market, UK society, and local communities. This should apply to all new measures to tighten enforcement. In particular, measures to transfer responsibilities for immigration checks to the frontline should be accompanied by suitable safeguards against discrimination for migrants and ethnic minorities. For instance, to address discrimination in the ‘Right to Rent’ scheme, which obliges landlords to check tenants’ immigration status, the Joint Council of Welfare for Immigrants has recommended new processes to monitor and investigate cases of racism and respond to complaints (JCWI 2017).

CONSENT

Our work across the UK shows that the public place a high value on integration. There is a widespread consensus that a good grasp of the English language is an important condition of coming to live and work in the UK. But the public’s expectations stretch further than this. In general, people are far more accepting of forms of migration that lead to settlement. Transient migration is associated with population churn and lower social cohesion (Griffith and Halej 2015). There is a perception in some parts of the UK, particularly in areas where immigration has increased rapidly in the past two decades, that some migrants are increasingly

detached from their local communities. Putting integration at the forefront of immigration policies would help to address this concern.

FAIRNESS

A pro-integration immigration system would be fairer to migrants. Rather than seeing them as economic agents who are allowed in the UK solely for the purpose of satisfying employer demands, it would create the conditions required for them to build better lives. In the long term, it could help to address underlying inequalities in pay and employment between migrant groups and UK citizens. Over time, this would help to reduce undercutting in the labour market and thereby lead to a fairer settlement for UK workers as well.

FEASIBILITY

Implemented correctly, pro-integration immigration policies could be leveraged in a way that helps to reinforce compliance. When migrants see no prospect of long-term settlement, absconding and over-staying can become more tempting options. Conversely, the prospect of visa renewal and eventual settlement would create a powerful incentive for migrants to abide by the rules, given the risk of losing this opportunity as a consequence of an infringement. In short, the goals of promoting integration and ensuring compliance should not be at odds.

The Brexit question

Integration has been neglected in relation to EU migration and free movement for a number of reasons. First, by merit of EU migrants being able to move, work and settle freely across different member states, national government has had limited leverage over their decisions. Second, complacency has affected both UK and EU policy decisions, as EU migrants have often been assumed to not need the same integration support as third country nationals. Third, due to their status, EU nationals have until recently had no real reason to seek naturalisation compared to their non-EU counterparts. Should no preferential deal be agreed as part of the UK-EU negotiations, efforts to use the immigration system to encourage integration could therefore be extended to EU nationals – and many could be applied regardless of the outcome of the negotiations, given they do not infringe free movement rights.

Most importantly, whatever the circumstances of the final deal, the UK should ensure that EU nationals living in the UK retain, in full, their free movement rights post-Brexit. IPPR has advocated for a generous settlement for EU nationals that ensures all their rights are protected and waives the fee for UK citizenship for those who have been living here for at least five years (Murray 2016). This is both the most just and the most feasible option.

Conclusion

The UK's immigration policy is at a crossroads. The current system has been found wanting in several respects: poorly coordinated and bereft of strategy; lacking public approval; and founded on a dubious evidence base.

The decision to leave the EU now forces a wider government rethink over its approach to immigration policy. One line of thinking is that, after the referendum, a crude restrictionist approach is the only feasible option. This means sticking to a failed net migration target, continuing to bear down on non-EU skilled workers and international students, and applying similar tough rules to newly arriving EU nationals, irrespective of their contributions to society and the economy.

But there is an alternative vision: a coordinated strategy that uses immigration policy to advance our economic priorities, from addressing geographical imbalances and boosting innovation to improving pay and productivity and tackling the UK's trade deficit. This immigration strategy is in our view feasible to implement, fair to UK workers and migrants, and capable of securing public support.

Some will want to assess this immigration strategy in terms of its direct impact on the overall 'numbers': would the policies recommended here lead to an increase or a decrease in net migration? In our view, this is both the wrong question to ask and impossible to answer. It cannot be answered because many of the policies proposed would not have an obvious positive or negative impact on overall levels of migration; in any case, overall net migration levels are not simply a consequence of government policy, and are influenced heavily by migrants' decisions themselves and wider economic circumstances. It is the wrong question to ask because, as we argue in Chapter 1, a policy predicated on shaping overall trends in net migration is ill-equipped to address our underlying economic challenges.

A new immigration strategy should therefore reject a simplistic focus on overall numbers and seek to coordinate policy with the economic and social priorities of other government departments. As the Government reviews its policy over the coming twelve months in preparation for Brexit, there is a unique opportunity to put this strategy into practice and deliver an immigration system that meets, rather than hinders, our economic needs.

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An immigration strategy for the UK

Six proposals to manage migration for economic success

Discussion Paper

The IPPR Commission on Economic Justice is a landmark initiative to rethink economic policy for post-Brexit Britain. The Commission brings together leading figures from across society to examine the challenges facing the UK economy and make practical recommendations for reform.

This discussion paper explores how the government should develop a strategy for immigration after Brexit. It argues that our current immigration system lacks a strategic mission and exposes some of the key weaknesses of the government's net migration target. The discussion paper sets out an ambitious agenda on immigration geared towards dealing with some of our most persevering economic challenges – from the UK's geographical imbalances and the trade deficit to sustained inequalities and stagnating wages.