Show and tell:

Sharing the benefits of skilled immigration

James Kirkup

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ABOUT THE AUTHOR

James Kirkup is director of the Social Market Foundation.

KEY POINTS

- Employers hiring skilled a migrant worker must now pay an additional charge of £1,000 for every year they employ that worker in the UK.
- Despite Government suggestions that this tax will lead employers' to hire fewer foreign workers and hire British people instead, the Government's own evidence suggests at best a very limited reduction in skilled immigration.
- The Immigration Skills Charge could raise £250 million for the Government. Ministers have not announced where that money will be spent, but have suggested it should fund new skills training for British people.
- Skills training is already receiving a boost of up to £2.8 billion a year from the new Apprenticeships Levy, which also takes effect today, so the political impact of spending another £250 million here will be limited.
- Money from the ISC should instead be spend on a major expansion of the Controlling Migration Fund, to help local authorities and others provide additional services to meet demands created by population change.
- £250 million might fund the construction of more than 700 new primary school classrooms.
- Clinical Commissioning Groups should also be allowed to bid for money from the Controlling Migration Fund and use that money for extended GP surgery opening hours and additional primary care staff time.
- £250 million might fund weekend access to a GP for more than 40 million people.
- All additional services funded from the migration charge should be visibly presented as the result of skilled migration to the UK, in order to demonstrate the economic benefits of migration to communities that have not previously felt those benefits.

BACKGROUND

From April 6 2017, employers must pay a new Immigration Skills Charge (ISC) when bringing skilled non-EEA nationals into the UK to work

The charge will be levied at a rate of £1,000 per Certificate of Sponsorship per year. A reduced rate of £364 per Certificate of Sponsorship per year will apply to small and charitable sponsors, including universities.

The charge is payable upfront in a lump sum, so an employer sponsoring an employee to work in Britain for five years must pay £5,000.

According to calculations from the Government's Migration Advisory Committee, a charge set at £1,000 per year would raise £250 million a year, assuming total Tier 2 immigration runs at around its current level of around 90,000 per year.

The Government has said that the money raised will be used to boost the skills of the "resident population" but has so far given no details. The most recent public statement on the ISC was from Robert Halfon, skills minister in the House of Commons on March 9. ("The income raised from the Immigration Skills Charge will support the provision of skills for the resident population, to address the skills gaps that employers face. Further information will be set out in due course.)

On the same day as the ISC is introduced, larger employers will start paying an Apprenticeship Levy meant to fund skills training. The Treasury estimates that when this levy is fully introduced, it will raise £2.8 billion by 2019/20.

Whether the ISC is a sensible or effective public policy is unclear and beyond the scope of this briefing; future SMF research will consider such questions as part of a wider assessment. For now, the ISC is about to be implemented and become a fact of immigration policy, so the focus here is on how to understand and make the best of it.

A DETERRENT TO HIRING?

There is little evidence to suggest that employees will engage in the direct substitution of labour suggested by the Department for Business, switching their employment decisions from foreign to British labour. The primary reason employers chose to sponsor visas for Tier 2 workers is that they have skills that employers cannot find elsewhere; a tax that makes it more expensive is, will in some cases simply increase costs for employers without changing their behaviour. The MAC's own theoretical assessment of the charge concedes that it will impose a non-trivial deadweight loss on business.

This is supported by evidence collected by the Migration Advisory Committee from businesses. That evidence suggested that in response to a charge of £1,000 per year, 24 per cent of employers said they would simply absorb the additional cost, 27 per cent would seek to employ EU workers instead of non-EU migrants and 9 per cent would leave vacant jobs unfilled. Only 28 per cent of employers said they would seek to hire more British resident staff in response to the charge.

Underlining the point, Home Office research suggests that employer demand for immigrant labour is relatively price inelastic, meaning that making it more expensive to employ foreign workers will not lead to a significant reduction in demand for those workers.

In addition, the MAC assessment did not consider technology, which means that those employers who do decide to seek substitutes for foreign labour do not have to choose British workers; they could invest in non-human alternatives. Indeed, some employers have already suggested that restrictions on future immigration could encourage them to increase their spending on automation and other technological alternatives to foreign labour. Public and political attention here has generally focussed on lower-income jobs, but there is no reason to think that Tier 2-level occupations will be immune to technological substitution for labour.

In summary, even if the ISC does succeed in bringing about a reduction in Tier 2 immigration (and thus, a reduction in revenues raised by the charge) the direct benefits in terms of direct employment substitution that will be felt by the UK resident population will be modest. Any reduction in foreign workers' employment that results from the ISC will not be matched one-for-one by a rise in employment for the resident British population. The evidence of the Government and its own advisers suggests that if employers do decide not to hire as many skilled foreign workers as a consequence of the charge, they are unlikely to, in the words of the Department for Business to hire "British staff to fill those jobs."

A BOOST TO SKILLS?

The other stated objective of the ISC is to raise money that can be spent on increasing British workers' skills. Here, the outlook is good, at least in terms of revenue-raising. Demand for Tier 2 visas has remained consistent in recent years, and there may even be an increase in demand as a consequence of the decision to leave the European Union. EU workers are, as suggested above, a potential substitute for non-EEA staff. If EU workers become scarcer, or more expensive to hire, as a consequence of Britain's departure from the EU, demand for Tier 2 visas may rise.

However, here we use the MAC estimate for revenues from the ISC: £250 million per year. What should the Government do with that money?

So far, ministers have given no details of how the ISC revenues might be spent, but statements from ministers and others suggest that spending will have very similar objectives to that related to the Apprenticeship Levy. Revenues from that tax will be used "to fund new apprenticeships" and thus increase the skills base of the UK resident population.

A BETTER WAY TO SPEND

In the absence of clarity from Government about the use of the ISC revenues, it is not possible to analyse the effectiveness of any programme funded by the charge.

However, it is possible to make judgements on the political effectiveness of any decision to spend the ISC revenue on skills training.

Simply, the implementation of the Apprenticeship Levy will lessen the political impact of any initiatives funded using the ISC. Revenues from the ISC will be worth less than 10 per cent of the expected yield from the Apprenticeship Levy; money from the ISC will simply provide a modest addition to any work funded by the larger charge. Expressed in economic terms, the marginal political return on spending another £250 million on skills will be limited at best.

There is a better use for the ISC revenues, which is suggested by the MAC's own assessment of the charge.

On the one hand, highly skilled migrants can generate positive benefits in terms of innovation and productivity, as well as generating positive fiscal impacts and potentially helping to raise native employment and wages. On the other hand, there are some costs associated with migration: it adds to the population or changes the demographics of a given area, for instance. Tier 2 migrants and their dependants contribute to congestion and draw on public services, the provision of which may only adapt slowly to migrant inflows. ... A contribution to the exchequer associated with Tier 2 migration may help to improve public confidence that Tier 2 migrants make a net positive contribution to the UK economy.

The overwhelming weight of economic evidence, including several studies by Government departments and bodies, suggests that skilled migration like that under Tier 2 is beneficial to the UK economy.

However, it is equally clear from opinion polling and other sources that this benefit is not universally felt among the British population. It is commonly argued that migration imposes additional costs on public services and other aspects of British national life.

To help mitigate those costs, and distribute the economic benefits of migration, the Government has instituted the Controlling Migration Fund (CMF), which makes money available to local authorities to "mitigate" the consequences of population change.

Some of the fund is allocated for immigration enforcement measures, but the larger "local service impact" portion of the fund offers money "to help English local authorities and their communities experiencing high and unexpected volumes of immigration to ease pressures on local services."

That portion of the fund, which is due to run from April 2016 for four years, is worth a maximum of £100 million, implying £25 million per year. Several commentators including local government leaders have suggested that this is insufficient.

We concur with that conclusion. Despite the clear evidence that immigration has beneficial economic effects, those benefits have not been distributed equally and are intangible and invisible to significant numbers of people. We believe that making those benefits more tangible and visible is an urgent national priority.

In particular, public concerns about the effects of immigration on healthcare and education should be addressed. Polling from NatCen shows that voters believe immigration is bad for their local services: 54 per cent believe immigration has increased the pressure on their local health services to some extent, while 61 per cent believe the same about local schools.

We therefore suggest that the revenues from the ISC should be allocated to the "local service impact" part of the Controlling Migration Fund.

The addition of £250 million to the CMF would transform that fund in terms of both operations and perception, offering local authorities the scope for significant projects that would have significant – and visible – impact on the services they provide.

For context, the capital cost of a new local authority primary school place is around £10,800.

On that basis, a £250 million fund might cover the capital costs of more than 700 new 30-place primary school classes, or around 575 classes in free schools (where capital costs average £14,400 per new place.)

Effects of similar magnitude might be delivered in healthcare, and we recommend that the Government allow Clinical Commissioning Groups to bid for funds from the CMF as well as local authorities. Suitable uses for CMF funding might include extended opening hours at GP surgeries, or even the provision of additional staff.

Based on NAO estimates for the cost of additional opening hours for GP surgeries (£6 per patient per year), a £250 fund might offer weekend access to primary care to more than 40 million patients.

We also recommend that an additional condition of being granted money from the new, enlarged CMF is that recipient organisations demonstrate a clear plan to make visible to the public the fact that the additional services they provide were made possible by skilled immigration to the UK. Those plans should include both media announcements and physical labelling of any new capital projects; new classrooms, for instance, should bear clear signs explaining how they were funded. Another way to demonstrate the role that immigration played in funding new services would be to fly a flag bearing a message to that effect.

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