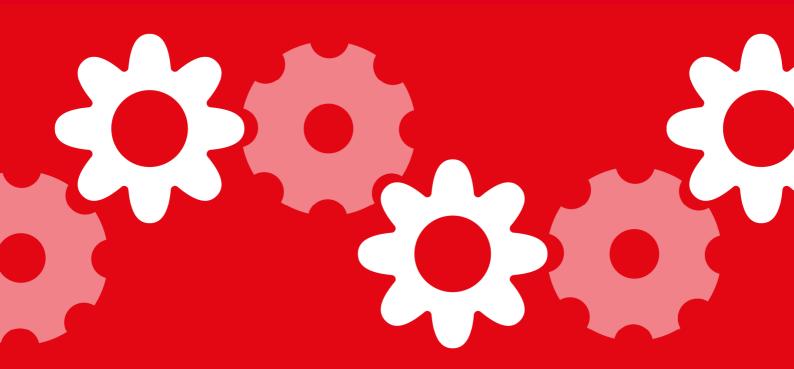


Simply the Best?

Highly-skilled migrants and the UK's knowledge economy

Laurence Hopkins and Charles Levy







The Big Innovation Centre is an initiative of The Work Foundation and Lancaster University. Launched in September 2011, it brings together a range of companies, trusts, universities and public bodies to research and propose practical reforms with the ambition of making the UK a global open innovation hub as part of the urgent task of rebalancing and growing the UK economy, and with the vision of building a world-class innovation and investment ecosystem by 2025.

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Executive summary

Recovery from recession will depend on our ability to develop as a knowledge economy. Success here depends on the ability of our workforce to support and drive the creation and exploitation of innovative new products, processes and services. The UK's past success here has drawn on our ability to attract individuals with highly specific competencies, qualities, experience, knowledge and ideas. When thinking about skills we must avoid the lump of labour fallacy. High levels of unemployment do not mean that all of these capabilities are available to us from within the UK. We need an immigration policy which acknowledges this and sends clear signals to the rest of the world.

We need to offer confidence to potential investors that they will be able to access the talent that they need in the future. We therefore strongly urge the government to consider:

- Sending clear messages from the government on high-skill migration for both businesses and migrants alike. The UK has a historic and linguistic advantage in its attractiveness as a destination for talent from across the globe. This must be retained. Businesses sent a clear message via the Migration Advisory Committee that while migration in the main is an issue to address, action should not impede the success and growth of UK Plc. Highly-skilled migrants should be valued as contributors to the economy and be recognised for their contributions to enterprise and innovation, not just filling skills shortages. Policy needs to reflect this too.
- Taking a systemic approach to skills that acknowledges the total value of highly-skilled migrants as well as the effects of labour market re-entry, emigration and decline on existing workforce skills. UKCES has produced a wealth of information on the skills and employment challenges facing the UK at present and in the years ahead. These analyses need to be more effectively incorporated into current policy and strategy documents, which, at present, appear to only scratch the surface of the skills challenge that the UK must meet to remain competitive in the global economy.
- Enabling a 'just-in-time' approach to skills which prioritises the need for businesses to access the right skills at the right time. This will require a review of the administrative burden on organisations of all sizes in recruiting and retaining talent from abroad including the time taken from identifying the skill need and the length of time to address it.
- Increasing flexibility in Tier 2 limit. Anxiety about the inability to recruit from abroad continues to worry employers. The government will be unlikely to want to lose political capital due to another policy U-turn, but it has demonstrated its ability to increase flexibility in previously rigid approaches. The Tier 2 limit is one area that needs careful review and continued engagement with employer groups.
- Scrapping plans to change Tier 2 migration to a temporary rather than permanent path to settlement. Changing the status of Tier 2 migration increases

uncertainty for the migrant, reinforces their identity as an 'other' rather than providing an incentive for integration and offers little benefit to the UK as a policy change.

• Ensuring that international students remain a valuable source of high-level skills for the UK knowledge economy. The UK needs to develop this 'two-step' migration with the interests of business in mind, particularly since international students tend to be in demand disciplines including engineering and technology. The government describes the previous policy as 'overly generous', yet the United States, among other countries, has focused on retaining international students with post-graduate education and has a special quota reserved for students with a Master's or PhD from US academic institutions. Germany allows students to remain in the country for up to one year for the purpose of seeking employment and makes them exempt from the RLMT. Canada has a Post-Graduation Work Permit programme that grants up to three year permits to work. The attempts to improve the evidence base in this area through post-study tracking is a step in the right direction.

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Chapter 1 Introduction

Recovery for the UK economy will depend on us successfully driving growth in knowledge intensive, innovative activities. The rise of the UK's knowledge economy to date has only been possible because companies have had access to the right skills at the right time for the right price. Value in the knowledge economy is created through innovation, requiring high-level technical, research and analytical skills coupled with favourable conditions for creativity and enterprise. In recognition, all developed countries have invested heavily in higher education in recent years to create a highly-skilled workforce and all available evidence indicates that these skills will continue to be in high demand in the global economy, particularly as emerging economies develop more sophisticated markets, goods and services.²

While the case for high-level skills and their importance to the knowledge economy has been investigated elsewhere (see Levy and Hopkins, 2011), this paper looks at the importance of our immigration system in meeting high-level skill needs and driving innovation and entrepreneurship in the economy. It is argued that migrants will remain important to our skills system since it is impossible to predict labour market demand and plan for this entirely through the education system as technological change and consumer preferences are unpredictable; the uncertainty in the number of potential 'green jobs', many of which are highly-skilled, is a good example of this (see Levy, 2010). Nor perhaps would this be an efficient way to meet future skill needs; high-level skills require time to develop and therefore unexpected demand cannot be met immediately through the UK's training and development mechanisms, particularly since over 80% of the 2020 workforce is already in the labour market.

While the UK is still suffering high levels of unemployment, many employers are still resorting to migrant labour to fill job vacancies. HR surveys indicate that despite high levels of unemployment there are still difficulties recruiting for specific roles, particularly in high-skill professions such as engineering and IT.⁴ Unfortunately the structural changes that have

¹ For a full discussion of the role of innovation and knowledge intensive activities within our growth prospects see http://www.theworkfoundation.com/assets/docs/publications/290 Plan%20for%20growth%20in%20the%20knowled ge%20economy.pdf

ge%20economy.pdf

² For example, according to an article by Stalk and Michael (2011), China has about 90 cities with a middle-class population of a quarter of a million or more compared to fewer than 70 in the United States and Canada combined. Stalk and Michael draw on evidence projecting that by 2020 China will have 400 cities with a middle-class of at least 250,000, 50 of which will have more than one million. Moreover, in terms of current consumption, China is the number one global consumer of bikes and motorcycles, automobiles, mobile phones and luxury goods and the number two consumer of consumer electronics and home appliances (Stalk and Michael, 2011).

³ This focus necessitates the exclusion of many important questions related to the UK's low and intermediate skill

³ This focus necessitates the exclusion of many important questions related to the UK's low and intermediate skill base which are given admittedly scant mention. Wolf's (2011) recent report on vocation skills is an excellent starting point for many of the critical issues that require solutions.

⁴ For example, the CIPD Resource and talent planning survey 2011: http://www.cipd.co.uk/hr-resources/survey-reports/resourcing-talent-planning-2011.aspx.

occurred in the UK economy have created significant skills mismatches that have been left unaddressed for decades and are unlikely to be solved within a single parliamentary term. The government's current skills policy priority is an increased investment in apprenticeships but in terms of comparative investment this is still unlikely to produce noticeable improvements in the short to medium term and does not address high-level skill needs since only 4% of apprentices currently advance to higher education (Gittoes, 2010).

The government and some pressure groups argue that migration has prevented investment in the resident skills base. This may be true for low and intermediate level skills, ⁵ but it cannot be the case for high-level skills, which are delivered through the higher education system funded jointly between the individual and the state. Investment in higher education has increased significantly over the last two decades yet employers still face skills shortages and require highly-skilled migrants to fill graduate level occupations. This is not a cost issue since non-UK born employees are paid more than UK-born employees at similar occupational levels.

Irrespective of the political baggage of immigration, it is rarely acknowledged that migrants do anything other than fill temporary 'skill-shortages' in the labour market or that they might have an integral role in a long-term skills strategy. ⁶ Government policies will benefit from moving beyond this limited positioning. The evidence from the US, the UK and other OECD countries indicates that highly-skilled migrants do not just fill skill shortages but offer skills complementary to the resident labour market, improve international networks and trade links and improve innovation and enterprise.

The government's immigration policy is, in many ways, based on sound evidence and attempts to strike a balance between the majority opinion that the level of migration during the last administration was too high and the need of businesses and organisations to recruit and retain the high-level skills needed to power the economy. However, there are a number of areas where the policy could be improved which are detailed in the pages that follow. This paper also argues that the government needs to take a systematic approach to skills focusing on the factors influencing the total 'stock of skills' in the economy rather than just education and training – the Coalition Government's skills strategy appears to be a good example of the institutional memory loss that can so often occur in changes of administration.

Ultimately, the UK needs to be thinking strategically and holistically about how to gain some economic momentum to recover and surpass the level of economic output and employment that peaked in 2008. An intelligent approach to attracting and retaining high-level skills from across the globe will be an integral part of this strategy. With this objective in mind, attention is turned to the story of the knowledge economy and the skills that have driven its transformation.

⁵ For a discussion of evidence here please see Migration Advisory Committee (2010).

⁶ For example see UKCES (2009), Ambition 2020.

Chapter 2 Skills and the knowledge economy

2.1 The demanding skills agenda

The economy over the past thirty years has transformed towards a 'knowledge economy' driven by high-skill, high value added industry, and investments in 'intangible assets' such as IT, research, human capital and creative services (Brinkley, 2008). This transformation has been responsible for a significant proportion of the growth in the UK's GDP and is central to the UK's international economic competitiveness.

The shift towards the knowledge economy has driven demand for high-level skills and these demands have in large part been met by a significant increase in the proportion of young people entering higher education. While job growth has been significant in high skill occupations (managers, professionals and technical professionals), many jobs that can be done with low or no formal skills have disappeared in the last three recessions and never returned. Consequently, the large proportion of those out of employment are low-skilled faced with low wage temporary and insecure work opportunities which provide limited marginal returns above existing welfare arrangements. Much of the spare labour capacity in the economy is thus mismatched to the majority of jobs created.

Outside of the expansion of higher education, strategies to address the skill needs of the economy have been unimaginative and largely ineffective. The renewed popularity of apprenticeships and the strong analytical work of the UK Commission for Employment and Skills (UKCES) are lonely exceptions. It is no coincidence that the UK is predicted to be ranked 23rd out of 30 countries in Level 2 skills by 2020 and 21st in intermediate skills. In the words of UKCES in 2009 the country's skills base is "unlikely to improve let alone become world-class" (UKCES, 2009). While UKCES has made many sensible policy recommendations to rectify this situation, any significant changes will require not just policy changes but considerable funding – this is unlikely to happen given the current state of public finances and widespread retrenchment.

So what options does the UK have to ensure that the skills in its labour market meet the needs of employers? The Organisation for Economic Co-operation and Development (OECD) identifies eight core factors influencing the stock of skills. These split between those factors increasing the stock of skills and those factors decreasing the stock of skills as set out in **Figure 1**. The existing approach to skills focuses heavily on the first two factors that can have a positive effect on the stock and mix of skills in the UK, although even workforce training is given relatively scant attention in relation to initial education. In terms of outflows, permanent exit is the focus of recent analyses with little attention given to temporary exit and emigration. Decline in workforce skills is more complex as it is a relative measure dictated by technological advances. Lean budgets necessitate making the most of what is present and importing what is missing – more policy recognition of the complete skills picture and possible future permutations would be welcome.

People leaving initial Temporary exit: e.g. child education rearing, education Up-skilling the existing Decline in existing workforce workforce skills Stock of skills People re-entering the Permanent exit: labour market invalidility, death, retirement **Immigration** Emigration

Figure 1: Factors affecting the stock of skills in a country

Source: OECD, 2011. http://www.oecd.org/dataoecd/58/27/47769000.pdf

2.2 The role of migration in plugging high-level skills gaps

The standard rationale provided for allowing highly-skilled migrants into the UK is that they fill skills gaps in the labour market that can't be easily filled by the resident population. The specific skills needs of emerging job vacancies is difficult to accurately predict and so allowances should be made for employers to recruit and retain talent from outside the UK.

This is a straightforward proposition and has enabled UK businesses to have access to a wide range of high-level skills, particularly in demand areas such as medicine, technology and engineering. The key benefits of this approach are that employers can be confident that they can address skill needs provided that they can pay the associated price for those skills and the UK does not need to provide any investment to develop those skills as it does for the resident population.

Unfortunately, policy and political rhetoric often struggle to articulate any other rationale for the migration of highly-skilled migrants when the evidence suggests that there are several.

2.3 Highly-skilled migrants, enterprise and innovation

Very little attention is given to the added value of highly-skilled migrants for which there is a developing evidence base. Although the relationship between highly-skilled migrants and innovation is not particularly well researched and the research that does exist is US-centric, the evidence that does exist suggests a positive association. A report by the National

Institute of Economic and Social Research (George et al, 2012) on migration and strategically important skills for the Migration Advisory Committee (MAC) found that:

...Skilled migrants often make positive contributions to innovation and productivity performance. Therefore, whenever restrictions on immigration are contemplated, it is important to assess the potential economic consequences of such restrictions.

The seminal study on migrant entrepreneurship looked at migrants in Silicon Valley in the end of the last century and found that Chinese and Indian engineers were disproportionately responsible for the growth in technology businesses in the area and by 2000 immigrant-led companies in the Valley accounted for more than \$19.5 billion in sales and 72,839 jobs (Saxenian, 2002). Since the Silicon Valley study there has been an increased interest in the role of highly-skilled migrants in enterprise and innovation, particularly in high-tech industries. In covering the literature on migrants and innovation Ozgen et al (2010) identify five main mechanisms through which migrants boost innovation:

- Population scale and Population density Migrants contribute to innovation because they contribute to population growth reinforcing agglomeration, which has positive impacts on innovation and economic growth. Increased population through migration boosts aggregate demand and increases product variety and production.
- **Migrant share** The proportion of migrants in a location.
- Skill composition effect As a self-selecting group migrants have been found to be less risk-averse and more entrepreneurial, which has positive impacts on innovation.
- Migrant diversity Migrants increase the cultural diversity of cities which is positively associated with innovation and prosperity.

There are also spill-over effects through increased labour mobility of the highly-skilled as new ideas and work practices are transferred encouraging process and product innovations.

The evidence from country and firm studies is limited but developing. Only three studies address the impact of immigration on innovation activity in Europe. Niebuhr (2010) found that cultural diversity, determined by workers' nationalities, boosts patent applications in German regions and Nathan and Lee (2010) found a significant positive relationship between the cultural diversity of the workforce in London businesses and innovation. A study by Ozgen et al (2011) on migration and innovation in 170 regions in Europe as part of the Migrant Diversity and Regional Disparity in Europe Project found that an increase in patent applications is associated with net immigration, the share of migrants in the regional population, the average skill level of migrants and the cultural diversity of migrants.

The NIESR report for the MAC (George et al, 2012) drew on existing literature in addition to 12 qualitative case studies with aerospace and financial industries firms as well as

stakeholder interviews with industry groups such as the Confederation of British Industry (CBI) and the British Chambers of Commerce (BCC). In addition to identifying the positive contributions of migrants to innovation and productivity, the report concludes that although there is a degree of substitution between migrant and native labour, this does not necessarily mean that firms are not investing or developing UK-born staff. It notes:

...So far as the development of strategically important skills is concerned, recruitment of skilled migrants does not preclude substantial investments in the recruitment and training of resident workers. Rather, many firms in these sectors combine heavy expenditure on training with reliance on skilled migrants for skills that are hard to find or develop in the UK.

Furthermore:

Employers had experienced shortages of strategically important skills, principally because they are in short supply, rather than because of retention problems or because of poor strategic planning. A particular problem was identified in the shortage of high calibre graduates in the UK in technical subjects, for example, engineering and maths.

The report emphasises that recruitment of migrants is just one part of a comprehensive approach to meeting skills needs which incorporates training graduates and school leavers, up-skilling existing staff and working with schools and universities to improve the supply of skills in the future.

The evidence base on migration and innovation in North America is more developed. Ozgen et al (2011) highlight the following findings from studies from the US and Canada:

- Highly-skilled migrants increase patenting at the state level in the US, do not crowd out native patenting, and contribute to patenting at least twice as much as their native counterparts (see Hunt and Gauthier-Louise, 2008).
- An increase in international students increases patent applications and does so
 more than an increase in skilled immigration (see Chellaraj et al, 2008). This finding
 is supported by a study by Hunt (2009) which found that migrants who enter the US
 with a student or trainee visa have better outcomes in terms of wages, patenting,
 commercialising, and licensing patents than native higher education graduates.
- The increase in 'ethnic patenting' in the US is strongly correlated with the admission of highly-skilled migrants through the H-1B Visa programme in the US.
- Return migration and fewer opportunities for gifted students to remain in the US following graduation may be detrimental to firm start-up and growth in the science and technology sector (see Zucker and Darby, 2007).
- Skilled migrants from developed countries increase patenting in Canadian provinces to the magnitude of 7.3% per 10% increase in skilled migrants (see Partridge and

Furtan, 2008).

 A study on the contribution of foreign born doctoral students in the US in science and engineering departments from 1973 to 1998 found that both US and international students contribute significantly to the production of knowledge in scientific laboratories and that visa restrictions that limit the entry of high-quality students are particularly costly for innovation (Stuen, Mubarak and Maskus, 2011).

It may even be the case that access to highly-skilled migrants increases the profitability of companies, particularly in high-tech industries. Conducting an event analysis of the American Competitiveness and Workforce Improvement Act (ACWIA) of 1998, which nearly doubled the number of available skilled migrant visas in 1999, Lin (2011) found that employers and shareholders in the industries that were more likely to use highly-skilled migrants, particularly high-tech industries, gained an average of over 20% in cumulative excess returns following the passage of the Act.

In summary, the evidence base, while still developing, suggests that highly-skilled migrants play a role in the economy that goes beyond merely filling skills gaps. This doesn't mean that foreign workers are 'better' than British, just different. Recruitment of migrant workers is also just one part of many firms' strategy for meeting their skills needs and does not necessarily reduce investment in native workers. In a knowledge economy with high degrees of job specificity, conceptualising skills matching and skills demand in the aggregate or in broad categories (even at the four digit SOC level) takes us only so far and ignores the evidence outlined above. There is a granularity to high-level skills – the capabilities of two knowledge workers are hard to value and compare in the abstract, only by those who are willing to pay for their services. Breadth and diversity are important for delivering individuals who will create new possibilities for our economy both within existing companies and as entrepreneurs. High-skill migrants also represent a route to access global expertise and capacity as they can often transfer knowledge into our economy. It is important that migration and skills policy recognises this significant potential added value of highly-skilled migrants to creativity, innovation and enterprise.

Chapter 3 The scale of highly-skilled migration into the UK

3.1 Migrants in the UK

Following a period of negative net migration between 1965 and the early 1980s with relatively low flows in and out of the country, net immigration to the UK was low until a period of large inflows and high net migration during the Labour administration. This rapid increase in immigration was not unique to the UK during this period as many countries across Western Europe saw dramatic changes to the composition of their populations. Migrants, defined as those people residing in the UK but born outside it, now account for around 14% of the working age population up from eight% during the 1990s.

The migrants who have arrived in the UK over the past twenty years work across the occupational spectrum and have migrated to the UK for different reasons. Economic migrants comprise over a third (38%) of all migrant inflows with significant numbers coming to the UK for formal study (32%), family reunification (16%) and, since the 1990s, large numbers of asylum seekers and refugees have sought refuge in the UK. These figures differ significantly by country of origin – in 2008, just 24% of non-EU migrants came for work reasons compared to 54% of EU migrants (ONS Annual Migration Report, 2008).

3.2 Skills composition of UK migration

The migration of highly-skilled migrants to the UK is not a recent phenomenon, however the annual inflow and the net annual migration of highly-skilled migrants has increased significantly in the past decade compared with the previous decade, as has immigration across all categories.

The ONS provides data on the number of migrants entering the UK who are 'professionals' as opposed to 'manual and clerical workers' and those 'not gainfully employed'. Between 1991 and 1997 there was a net outflow of 6,000 professionals from the UK but a net inflow of 123,000 migrants across all categories – see **Figure 2**. In the following ten years there was a net inflow of 437,000 professionals out of a total net migration of 1.4 million during the period accounting for 32% of all net migration. Even within this latter period there are significant differences. In the first half of this period (1998-2002) professionals accounted for 40% of net migration, compared to 27% of net migration in the latter half (2003-2007).

 $^{^{7}}$ Since 1998 net migration has exceeded 130,000 in every year and net immigration between 1997 and 2006 was 2.2 million.

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Figure 2: Net migration by total and professionals, 1991-2007

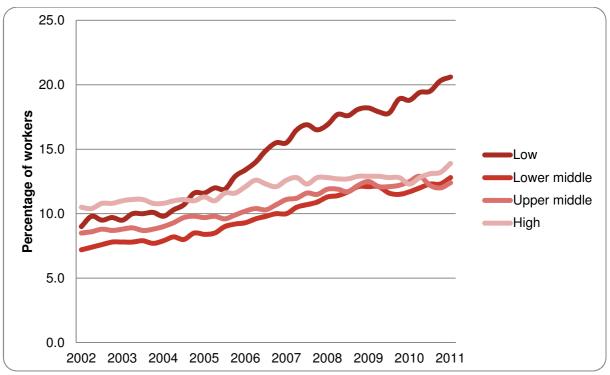
Source: ONS Annual Abstract of Statistics, 2010.

Figures from the Labour Force Survey (LFS) show how these flows have manifested in changes in the UK labour market. An analysis of the LFS data by the ONS in 2011 showed that there has been a sustained increase in the proportion of migrants in the labour market in jobs of all skill levels including a significant rise in the number of migrants in low-skill jobs, mostly due to A8 migrants, from 9.0% of low-skill workers in Q1 2002 to 20.6% in Q1 2011 – see **Figure 3**. While A8 workers tend to be in low-skill jobs, their EU14 counterparts are disproportionately in high-skill jobs with 36.0% in this category and just 10.4% in low-skill jobs. Regional differences are also significant with London, the South East and the East of England the only three regions where at least 15% of migrants are in each of the three high-skill occupations while at least 20% of migrants are in elementary occupations in the North West (21%), East Midlands (24%) and Yorkshire and Humber (21%) (Miller and Reid, 2011).

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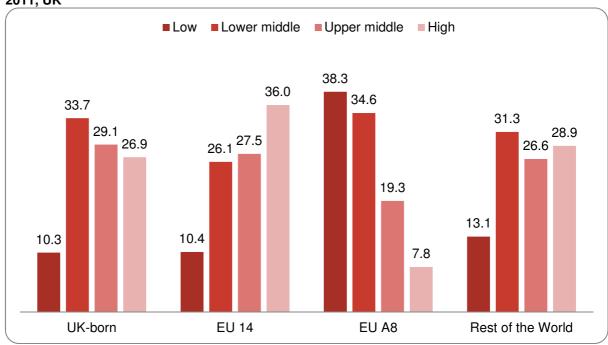
⁸ According to the ONS, 38.3% of A8 workers are in low-skill jobs and just 7.8% in high-skill jobs.

Figure 3: Percentage of workers who were non-UK born at each occupation skill level, 2002-2011, UK



Source: ONS. http://www.statistics.gov.uk/cci/nugget.asp?id=901

Figure 4: Percentage of workers by occupation skill level and country of birth, Q1 2011, UK



Source: ONS, Labour Force Survey. http://www.statistics.gov.uk/cci/nugget.asp?id=901

It is clear that the UK has been an attractive destination for skilled labour for both short-term

and long-term duration. The Labour Force Survey identifies the year of arrival in the UK allowing an analysis of the features of different cohorts as shown in **Figure 5**. While these cohorts are not directly comparable since the age profile, work experience and the length of stay will vary in addition to the effect of emigration on the cohort, they are useful in highlighting two points. Firstly, the migration of highly-skilled workers to the UK is not a new phenomenon; indeed the majority of migrants arriving between 1960 and 1999 that are still in the UK are employed in knowledge occupations. This is remarkable given that selective migration systems are a relatively recent phenomenon in this country. Secondly, despite an increased focus on managing migration in recent years, the proportion of migrants in knowledge occupations drops to 35% with 32% in low skill occupations. This is primarily due to the effect of A8 migrants who have entered into predominantly low-skill occupations, although it should be noted that the proportion was dropping even before 2004.

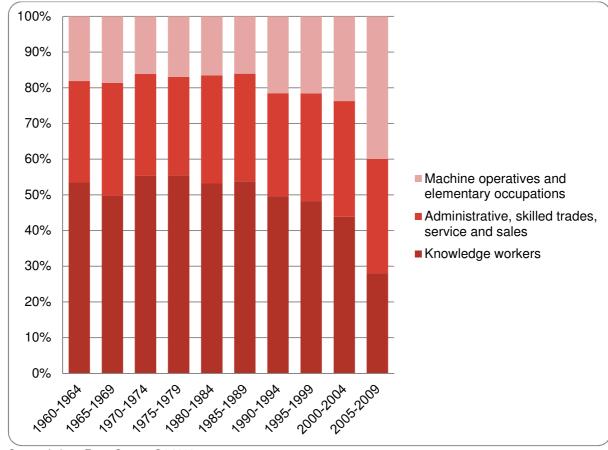


Figure 5: Year of first arrival and occupation of UK migrants, Q4 2010

Source: Labour Force Survey, Q4 2010.

Migrants in the UK tend to have higher qualifications than native workers, particularly those who have migrated recently.

Figure 6 shows the proportion of the working age population over 21 with a degree or equivalent population by country of birth. For all groups except 'new immigrants', those migrants who have arrived in the past year, the proportion of the group with a degree or above increased between 1997 and 2008. Immigrants are significantly more likely than UK-

born workers to hold a degree level or equivalent qualification with 38% holding a degree in 2008 compared to 18% of the UK born population (Nickell and Salheen, 2011). The figures are even higher for new and recent migrants with 46% of these groups possessing a degree or equivalent qualification (Nickell and Salheen, 2011). There are also significant geographic variations in migrant qualifications. For example, over 30% of migrants in London, the South East, the North East, Wales and Scotland have a degree or equivalent qualification while less than 20% do in the East and West Midlands (Miller and Reid, 2011).

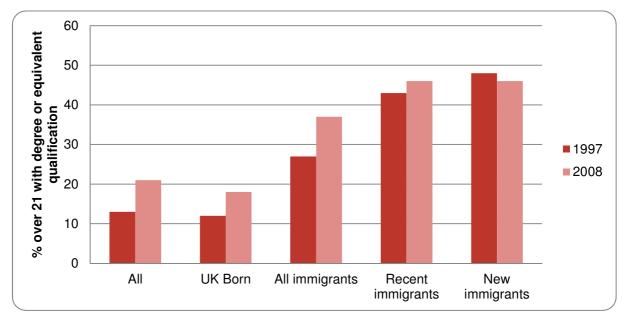


Figure 6: Degree or equivalent qualification by country of birth, Q1 2011, UK

Notes: 'Recent' immigrants are those who entered the UK in the survey year or four years before the survey was carried out. 'New' immigrants are those who entered the UK in the survey year or the year before the survey was carried out. Source: LFS data in Nickell and Saleen, 2011.

Migrants that are working in the UK through the recently set up Tier 1 and Tier 2 visa programmes (see section 6 for an outline of the various visa tiers) are predominantly in highly-skilled occupations. The UKBA PBS Evaluation Survey shows that over 90% of Tier 1 general migrants that have arrived to date are employed and of those nearly 90% are employed in knowledge jobs (MAC, 2010). However, for those migrants that were given Tier 1 visas through the post-study work route, only 50% were employed in knowledge jobs and a significant number were working in less skilled occupations (MAC, 2010). Tier 2 migrants are by definition employed in either skill shortage occupations, which tend to be graduate occupations although there are differences in the specific occupational mix depending on whether the individual gains their visa through the intra-company transfer route, resident labour market test route, or the skill shortage route. By a significant margin, the occupation with the largest number of Tier 2 migrants in the year to June 2010 was IT and software professionals (16,839) comprising 5.7% of all UK employment in that occupation. Scientific researchers on Tier 2 visas, usually acquired through the RLMT route, account for 11.4% of all employees in that occupation in the UK suggesting a significant dependence on this route for employers. The majority of migrants coming through the intra-company route in this period were science and technology professionals (58%).

3.3 Highly-skilled migrants in the recession

The recession of 2008-2009 had a significant negative impact on the UK labour market from which it is yet to fully recover with the level of employment around 300,000 below its 2008 peak. It would be expected that migrants would suffer similarly to their UK-born counter-parts and "buffer theory" suggests that many migrants would return to their countries of origin in times of economic contraction in the destination country resulting in a drop in total employment among those groups. However, the experience of migrants in the UK labour market during this period has been mixed with different migrant groups showing different pathways during the recession.

Overall immigration declined during the recession (DWP, 2009), which is consistent with previous recessions (Dobson et al, 2009), but there was still significant net migration compared to the pre-1998 period. As **Figure 7** shows, the significant net inflows that have occurred since 1998 and during the 2008-9 Recession dwarf the limited levels of net migration prior to the recessions at the beginning of the 1980s and 1990s. Net migration fell below 200,000 in 2008 for the first time since 2003, but was still 163,000 so there is difficulty drawing direct comparisons with previous recessions.

Net migration of managers and professionals shows a slightly different trajectory to overall migration during the recession, remaining positive but in decline. While this group has mirrored increases and decreases in total net migration since 2000, there was a 52% year on year drop to 24,000 in 2009 down from a peak of 69,000 in 2004. This reduction in high-skill migration is consistent with an analysis by the Institute for Public Policy Research which found that grants of employment visas under Tiers 1 and 2 of the points-based system (PBS) in 2009 and 2010 were substantially lower than 2007 and 2008 (Mulley, 2011). Section 2 presented evidence on the potential economic contribution of highly-skilled migrants. Trends in the changing composition of migration into the UK could therefore be seen as a cause for concern.

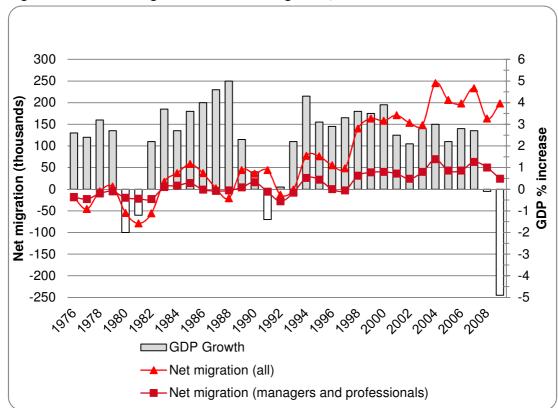


Figure 7: Annual GDP growth versus net migration, 1976 to 2009

Source: ONS, GDP (CVM); migration (LTIM, calendar year, table 2.05)

Chapter 4 The impact of migration on the UK labour market and the economy

The balance of economic evidence shows that the UK economy, as well as other developed nations in the OECD, has derived benefits from migration primarily due to the skills that these individuals possess, the development of new markets, increased consumption and improved networks with countries including important emerging markets. However, as a result of the associated costs of some migrants, particularly non-productive migrant labour, the positive economic effects demonstrated by studies are usually modest (Somerville and Sumption, 2009; Lemos and Portes, 2008). Low-skill migrants have had a benign overall effect on the economy. The influx of 'A8' migrants to the labour market from 2004 has had little overall impact on unemployment levels among the general working population on the whole (Nickell and Saleheen, 2011) but there is evidence that they are responsible for some wage depression at the lower end (Somerville and Sumption, 2009) and have not provided any net economic benefit (Fic et al, 2011).

Economic analyses have generally been limited in responding to the strong public concern, both real and imagined, ¹⁰ about the total effect of migration on local communities, British identity and local services (particularly housing). These challenges are not within the scope of this paper but it is important to recognise that bringing skills into the economy from outside the UK is not a purely economic consideration and there are considerable concerns about the externalities associated with migration. This paper also acknowledges that there are ongoing migration debates related to the expansion of the UK population and the future demands of our ageing society but engages with them only cursorily since they are rehearsed in volume, with more expertise and in greater detail elsewhere.

4.1 British jobs for British workers?

Gordon Brown's rallying call for "British jobs for British workers" in 2007 was eminently quotable but immediately regrettable in political terms. However, the statement succinctly encapsulates a commonly formulated proposition, either implied or explicit, that British-born citizens should have priority over migrants for jobs created in Britain. The pronouncements of Conservative MP Iain Duncan Smith in July 2011 are a good example of this. ¹¹ It appears to be a benign enough contention, but its simplicity completely misjudges the complexity of the labour market in the early 21st century. The idea that British workers should form an orderly queue to fill available British vacancies while migrants wait patiently at the queue's

⁹ Those migrants from the eight countries that acceded to the EU in 2004: Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia.

¹⁰ A poll conducted by the Financial Times in February 2011 found that on average people thought that 3 in 10 people in the UK were foreign-born. The actual figure is 1 in 10.

http://www.politics.co.uk/news/2011/07/01/ids-urges-firms-to-hire-british-workers-first

tail is absurd, but such is the prevalence of this idea that some attention should be drawn to the evidence in favour of its absurdity.

The economy has changed considerably over the last three decades as a result of globalisation and technological advances leading to considerable structural changes in the labour market. Previous investigations have highlighted the 'skills-biased change' to employment in the UK both as a result of the last recession and as a secular trend over the past thirty years. The Work Foundation's Knowledge Economy Programme has catalogued these changes as well as associated issues. 12 Its report The Knowledge Economy: How Knowledge is Reshaping the Economic Life of Nations (2008) details the long-term trends while Brinkley's (2009) review of the employment changes in the recession and immediate recovery covers recent developments as a result of the downturn showing that 84% of the total loss of employment was in low-skill occupations while knowledge jobs were either retained or reduced in smaller proportions. While this latter study was conducted earlier in the recovery, when the knowledge intensive public sector was still expanding in total employment, more recent studies have also confirmed the occupational bias. Acheson's (2011) study of adjusted productivity measures for the ONS showed that the trend has been for sectors to discriminate in favour of more productive labour shedding less productive, lower skilled, parts of the workforce.

The changes during the recession compounded and accelerated the skills mismatch that already existed in the UK. As **Figure 8** shows, the educational composition of those in employment, those unemployed and those who are economically inactive is significantly different. Of those people currently in employment in the UK, 37% hold at least a degree level or equivalent qualification while just 11.4% hold a qualification below Level 2 and 6.7% have no qualifications. In the unemployed and inactive populations degree level qualifications are held by only 19% and 17% respectively. Under one in five (18%) of those in employment hold below Level 2 qualifications or no qualifications, compared to over a third of the unemployed population and of the population that is economically inactive, a quarter have no qualifications and 14% hold less than Level 2 qualifications.

Similar differences in educational groups can be seen in the length of time that people have been unemployed. As **Figure 9** shows, 61% of unemployed people with a degree level or above qualification have been unemployed for six months or fewer compared to 43% of those with below Level 2 qualifications and 38% of those with no qualifications. At the other end of the spectrum, almost one in three (29%) of unemployed people with no qualifications have been looking for work for more than 18 months as have a quarter of those with below Level 2 qualifications. Only 14% of those with a graduate education have been looking for work for this period of time.

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¹² http://www.theworkfoundation.com/research/keconomy/kereports.aspx

Degree level and above Below NFQ Level 2 No qualifications

44.8

47.4

43.6

6.7

11.4

13.9

25.3

19.7

13.9

17.2

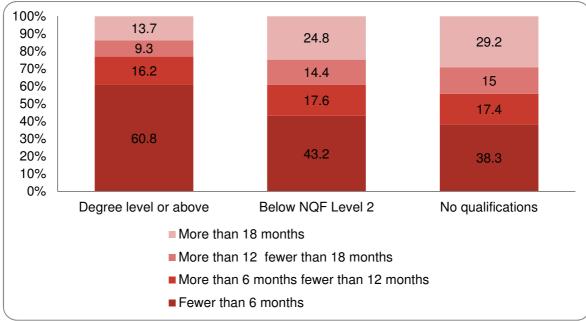
ILO unemployed

Figure 8: Economic activity by selected levels of education, UK, October – December 2010

Source: LFS, Oct-Dec 2010, weighted percentages.

In employment

Figure 9: Time spent looking for work by selected levels of education, UK, Oct – Dec 2010



Source: LFS, Oct-Dec 2010, weighted percentages.

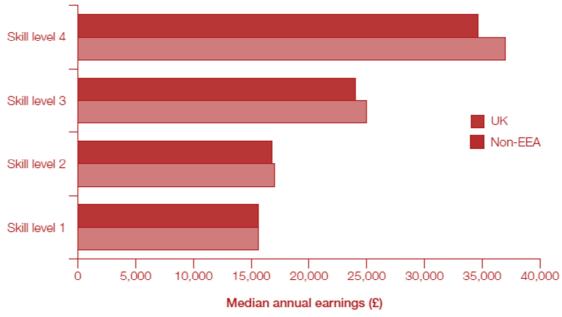
So while over 400,000 jobs have been created in the recovery from the recession, the skills mix of unutilised labour does not match the profile of those in employment and the jobs being created. This structural mismatch of labour supply and demand makes a goal of "British Jobs for British Workers" difficult to achieve. This contention is supported by recent business survey evidence that shows that despite relatively high levels of unemployment,

Inactive

skills shortages are holding back growth in many industries including manufacturing (EEF, 2011). According to the CIPD's 2011 *Talent and Resourcing Survey*, three quarters of organisations experienced recruitment difficulties in the year to April 2011 primarily due to the lack of necessary technical or specialist skills in applicants (CIPD, 2011). The same survey found that managers, professionals and technical professionals are the hardest areas to fill and more than half of employers (52%) believed that competition for talent is even greater now than before, compared to 41% and 20% in 2010 and 2009 respectively (CIPD, 2011).

The other common assumption of the "British Jobs for British Workers" proposition is that migrants displace opportunities for UK-born workers by undercutting resident wages. The evidence suggests that this is not necessarily the case and similar studies in other OECD countries support the proposition that migrant workers are more likely to be complementary to the resident workforce since they are imperfect substitutes for native labour. The MAC found that Tier 1 and 2 migrants are more likely to be complements to resident workers rather than displace UK-born workers and reduce resident employment in aggregate (MAC, 2010). It would also be expected that earnings data would show that non-EEA migrants are paid less than the resident labour force, yet the data mostly shows the opposite. According to an analysis of Labour Force Survey earnings data by the MAC in 2009 (MAC, 2009), Non-EEA migrants have an earnings advantage over UK-born workers in all occupational skill categories except for in low skilled occupations (Skill level 1) where earnings are equivalent – see **Figure 10**.

Figure 10: Earnings differential between UK-born and non-EEA born by occupational skill level, UK, 2008



Note: Chart shows the average pay levels of working age full-time UK-born and non-EEA employees by occupational skill level (as defined in the Standard Occupational Classification). Non-EEA immigrants are defined by country of birth. Source: Labour Force Survey, 2008 as presented in MAC, 2009.

While the response from the government has been that education and training can solve this skills mismatch, it is difficult to believe that this alone will solve the problem. In evidence supplied to the Migration Advisory Committee on the new immigration policy, employers stressed that training skilled workers takes a considerable time and that although there is scope to up-skill some resident workers to do skilled jobs, there will always be a requirement for a proportion of highly-skilled non-EEA workers (MAC, 2010).

The pragmatic approach therefore must be to acknowledge the need for highly-skilled migrants throughout the business cycle. We should not be developing a migration policy that responds to the recession. Rhetoric may be useful in gaining headlines in the short-term but to translate this into policy will be damaging to the UK economy in the long run.

4.2 A note on emigration and 'brain drain'

While it is now predominantly used to describe the exodus of highly-skilled workers from developing nations to developed countries, the term 'brain drain' was actually coined by the British Royal Society to refer to the significant number of scientists and technologists that left the UK to take up jobs in the United States and Canada in the 1950s and 1960s (Gibson and McKenzie, 2011). Emigration of highly-skilled UK workers is seldom addressed by politicians and policy makers but is a significant issue. While there are significant inflows of highly-skilled migrants, there has been a significant net outflow of highly-skilled workers from the UK, primarily to Australia. According to data from the IPS, there was a net decrease of 39,000 UK-born professionals and managers in 2008. This compares to a net increase of 13,000 EU-born and 66,000 non-EU born professionals and managers in the same year. Without the non-EU migration, this would have meant there was a net loss of 26,000 highly-skilled workers.

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¹³ http://ftp.iza.org/dp5730.pdf

Chapter 5 A special case - international education and migration

While several reports address the economic value of international students and their importance to the sustainability of higher education, less attention is given to the impact of international students on high-level skills in the UK despite the prevalence of graduates and post-graduate students in key subject areas. 'Two-step migration', whereby international students studying at higher education establishments enter the local labour market following graduation through either a specific visa path or through 'sponsorship', is an increasingly popular approach to meeting skill needs in OECD countries:

Countries increasingly see international students as a source of well-integrated, qualified labour and facilitate the entry of students through simplified visa arrangements and measures to make international study more attractive. These include reducing tuition and other costs connected with the stay, offering language instruction, facilitating credit transfers and allowing part-time work while studying. (OECD, 2011:17)

This provides distinct advantages in meeting skills needs since migrants have received their undergraduate and post-graduate education in the destination country, are typically more likely to be studying demand disciplines, and have usually acquired more advanced communication skills due to a longer lead-in period of settlement. It is also suggested that since many international students work while studying they are more familiar with organisational and work practices in the destination country.

The UK is a global leader in international higher education. In the 2009/10 academic year there were 125,045 non-UK EU students and 280,760 non-EU students studying in the UK including over 165,000 full-time postgraduate students (HESA, 2011). To put this in perspective, it is estimated that just 33,000 UK born students are studying at higher education institutions abroad. Students account for around 60% of non-EU immigration. Globally, the UK is the second most popular destination for international students and their economic value to both higher education institutions, which is approximately £2bn annually, and the wider economy is widely reported and recognised.

International students in the UK are disproportionally represented in demand STEM (science, technology, engineering and maths) disciplines and comprise a large proportion of post-graduate students. As shown in **Table 1**, international students comprise 31% of all engineering and technology students, a discipline which employers in the UK are facing severe skills shortages. Similarly, 23% of computer science undergraduates and 17% of mathematical science undergraduates are international students. In post-graduate courses international students are even more dominant, comprising 68% of full-time taught post-graduate courses in 2008/09 and 50% of full-time research degree students (UKCISA, 2010). Almost half (48%) of PhD students studying in the UK in 2009/10 were from outside the UK and one in three were from outside the EU (HESA, 2011).

Table 1: International students in HE 2008/9 by subject of study

International students in HE 2008/9 by subject of study (selected subjects)	No of international students	% in subject who are international
Business & administrative studies	101,715	31%
Engineering & technology	46,055	31%
Computer science	22,190	23%
Law	18,005	20%
Mathematical sciences	6,265	17%
Languages	21,265	16%
Social studies	31,365	15%
Mass communications & documentation	7,485	15%
Medicine & dentistry	8,935	14%
Architecture, building & planning	9,275	14%
Veterinary sciences	740	14%
Physical sciences	11,000	13%
Creative arts & design	19,260	12%
Biological sciences	16,654	10%
Total	368,970	15%
Source: LIKCISA 2010	1	1

Source: UKCISA, 2010.

Less is known about what happens to international students following graduation and how they fare in the UK labour market. Fortunately this limitation has been recognised and the Department of Business, Innovation and Skills has commissioned the International Student

Tracking Study. 14 The UKBA did produce an 'operational assessment' of Tier 1 applications submitted in June 2010, 21% of which were from international students in the UK, which found that 60% of international students were in unskilled work, 9% were in skilled work while in the remaining 31% of cases it was unclear (UKBA, 2010). However, the quality of the data provided by applicants was noted to be variable 15 and the definition of 'unskilled' is earning under £25,000 (the average graduate salary is £20,000) rather than an occupational definition, therefore further evidence is needed.

International students have been able to remain in the UK for up to two years postgraduation and can switch to a Tier 1 or Tier 2 visa if they are able to find skilled or highlyskilled work. The existing arrangements have been described by the current Government as 'overly generous' and from April 2012 the post-study Tier 1 option will close and international students who have an offer of a skilled job from a sponsoring employer under Tier 2 of the points-based system will be able to stay to work.

Based on the experiences of other countries referred to earlier which shows evidence that international students improve entrepreneurship and innovation and on additional evidence submitted recently to the Home Affairs Select Committee, this appears to be an ill-advised decision from an economic standpoint. The evidence from the UKBA operational assessment has been used to support the contention that students aren't going into highlyskilled occupations but the methodology of that report is severely limited; particularly compared to the balance of evidence in favour of continuing to make the UK an attractive place for bright minds to come to study and work.

The Home Affairs Select Committee inquiry into the post-study work route for international students received only one piece of evidence in favour of closing the scheme yet this is what the government has decided to do. The MAC found no evidence that international students displaced opportunities for resident graduates and education bodies lobbied strongly in favour of retaining this policy since it is an attractive part of the recruitment package for universities and higher education colleges. This point was supported by a study conducted by the London School of Economics which found that 56% of international students cited the entitlement to post-study work as a significant factor in applying to study in the UK (Gower, 2011). An open letter from 40 of the 47 business schools in the UK stated that:

If implemented, these plans would have a serious impact both on the competitiveness, finances and reputation of UK business schools but also on the wider economy. UK business schools will suffer a serious loss of fee income as overseas MBA students switch to other countries, UK businesses will find their recruitment pool of highly-skilled and experienced individuals diminished and, over the longer term, they will lose the ambassadorial benefits

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¹⁴ The study began collecting data on two cohorts of undergraduate and postgraduate international students (graduating 2008 and 2010) in April 2011. http://www.i-graduate.org/services/International Student Tracking Study FAQs.pdf
¹⁵ According to LIKBA Many Joh titles was a superior of the superi

According to UKBA, Many job titles were vague and 26% did not provide employer details.

that British educated MBAs bring to international business relationships.

Chapter 6 Good migration not mass immigration – the UK's evolving immigration policy

Governments typically combine two types of immigration policy to regulate the numbers of migrants entering for work related purposes and to ensure that there is sufficient matching of skills to demand. Supply driven approaches use government determined criteria to select migrants entering the country. A common sorting process is a 'points based system', whereby the migrant needs to exceed a set number of points awarded for attributes such as level of education and previous salary. Skill shortage lists may be used in conjunction with points systems to identify and allow entry to those migrants with skills that employers are finding hard to recruit.

Demand driven approaches put employers at the heart of migrant selection and allow a direct link between employer demand and migrant skill supply. Sometimes called 'employer sponsorship', demand driven approaches usually require the employer to submit the vacancy for which the migrant is being recruited to a 'resident labour market test' (RLMT) which may involve advertising the post for a certain length of time to satisfy the government that the skills required for the job cannot be met through the local labour market, although the exact format of these varies significantly (Chaloff and Lemaitre, 2009). Another popular demand-led mechanism is the intra-company transfer, whereby multi-national companies can move existing staff between office sites often only provided that they meet minimum criteria with respect to tenure or salary. While demand driven policies are more efficient, there is a greater moral hazard in the transaction since the employer gets all the benefits from the migrant but bears none of the potential costs to the economy, such as increased pressure on services and housing.

The UK government has evolved a hybrid approach to migration that integrates all of the elements described previously with varying degrees of emphasis (see **Table 2**). A points based system was introduced relatively recently by the previous Labour government but selection mechanisms were in place prior to this. Employers are able to recruit directly provided they submit vacancies to a labour market test and international students are potentially able to work in the UK following study.

Table 2: Visa categories in the UK

Tier	Categories	Description
1	Exceptional talent, Entrepreneur, Investor, Post-study work, 'General'	Routes available to exceptionally talented and highly-skilled workers, investors and entrepreneurs wanting to work in the UK. The 'General' and post-study work categories are now closed and prospective migrants must apply under Tier 2.
2	General, Sportsperson, Minister of Religion	The Tier 2 (General) category is for foreign nationals who have been offered a skilled job to fill a gap in the workforce that cannot be filled by a settled worker.
3	Low skill migrants	Designed to replace the Seasonal Agricultural Workers Scheme (SAWS) and the Sectors Based Scheme (SBS) but suspended from implementation for an indefinite period.
4	General (Adults), Child	Tier 4 is for migrants who want to study in the UK at an accredited institution.
5	Multiple	Route for skilled temporary workers such as sports people, entertainers, overseas government employees and ministers of religion.

6.1 Government policy and its implementation

While the general systems and approaches remain from the previous administration, the incoming Coalition government has implemented a number of significant changes to the work-related migration machinery affecting non-EU migrants, ¹⁶ since workers from the vast majority of countries in the EU have the freedom to move to and work in the UK. ¹⁷ The government's original proposals to curb net migration through limits on skilled non-EU migrants were opposed vociferously by several employer groups leading to several important concessions and further changes have been made to the overall policy following a transition period. Although there were teething issues, the changes shifted the policy

The Migration Observatory at the University of Oxford provides a short overview of these changes: http://www.migrationobservatory.ox.ac.uk/commentary/target-government-policies-are-not-track-reducing-net-migration-tens-thousands-2015
 NB - A worker registration scheme operates for A8 migrants and there are restrictions on Bulgarian and

^{1&#}x27; NB - A worker registration scheme operates for A8 migrants and there are restrictions on Bulgarian and Romanian workers.

framework in favour of the wider evidence base on highly-skilled migration detailed in this paper, which begs the question of why the government had to endure such pain in implementation in the first place? The answer is primarily linked to the original description of the policy which was aesthetically popular and politically congruent but unspecific and potentially difficult to implement.

Much has been made by both the Conservative Party and the mainstream media of the former's manifesto objective to reduce net migration from the hundreds of thousands to the tens of thousands. 18 This commitment did not make it into the Coalition Agreement 19 but the two parties did agree to implement a cap on immigration to reduce the number of non-EU immigrants. To the lay voter and the Party's membership this statement sent a message that the Conservatives were ready to tackle what was viewed by many as a significant doorstep issue in the election and it ostensibly resembled a clear commitment to an immigration cap. However, notwithstanding the requirement to enter into a coalition with the Liberal Democrat Party to have a majority of seats in the House of Commons, the Conservative Party have encountered terrible difficulty in realising, in both theory and practice, a policy that would deliver this objective. Three of the main issues are technical but significant. Firstly, the majority of migration is, without recourse to a significant reorientation of the state's relationship with Europe, uncontrollable. Secondly, the migration that is controllable comprises only a small proportion of total net migration. Thirdly, net migration can increase even when inward migration decreases because emigration can fall, as it has done during the recession and recovery.

Due to the speed at which the policy has been developed and the number of changes that have had to be made in response to both the demands of interest groups and practicalities, the current system is inherently cumbersome. For example, under the current Resident Labour Market Test (RLMT) route of Tier 2 sponsoring employers are required to advertise the relevant vacancy through Jobcentre Plus and, as agreed in a sector code of practice, for at least four weeks, before employing a migrant from outside the EEA. Not only does evidence suggest that RMLTs are ineffective and frequently 'gamed', such policies build in significant inefficiencies into the labour market and time delays for businesses that have identified specific skills needs.

Some aspects of the migration system are still under consultation and review and are proposing further changes that can only be detrimental to the UK as a destination for talent. Government is currently consulting on employment-related settlement proposals to restrict Tier 2 migration to being a temporary migration route rather than a permanent route as with Tier 1 migrants who are investors or entrepreneurs. A small number will be able to switch into Tier 1 or into a new route that sits alongside Tier 1 to progress to settlement. The aim of

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¹⁸ This idea was not completely novel. The Lords Economic Affairs Committee report (2008) recommended that government should set a target level for net migration.

¹⁹ Despite this, the Migration Advisory Committee still identifies the 'tens of thousands' figure as a government 'objective' (Para 45, MAC, 2011).

the change is to "end the notion that coming to the UK to work will result in permanent stay for those who want it". The UK should not be seen as a temporary destination for talent but an attractive place for the highly-skilled to work and add value to the UK economy and businesses based here. Those highly-skilled migrants who wish to apply their skills in the UK add value to businesses based here and should be welcomed to settle if they remain productive or wealth generating members of the workforce. Changing the status of Tier 2 migration increases uncertainty for the migrant, reinforces their identity as an 'other' rather than promoting integration and offers little benefit to the UK as a policy change.

The fear is that the government's policies will not only fail to achieve their desired objective, ²⁰ but they will be harmful to the economic recovery in the short term and to the UK's prosperity and global competitiveness in the longer term.

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²⁰ The Oxford Migration Observatory estimates that the current policies are likely to achieve about half the required reduction. http://www.migrationobservatory.ox.ac.uk/commentary/target-government-policies-are-not-track-reducing-net-migration-tens-thousands-2015

Chapter 7 Conclusions and recommendations

The growth and application of high level skills to spur innovation, creativity and enterprise have helped the UK remain one of the most productive economies in the world. However, the UK is yet to recover from the effects of the 2008-09 recession in terms of both output and employment and the need to power our knowledge-intensive industries with the requisite skills base, a favourable investment environment and access to capital is a priority.

The government's approach to skills to date has been worrying. The focus on apprenticeships is welcomed, but the investment in these intermediate level skills pales in comparison to the significant cuts to both higher and further education budgets, the abolition of the Educational Maintenance Allowance (EMA), and placing restrictions on the number of highly-skilled migrants able to enter the country. Despite all evidence that favours investment in education to drive economic growth, the government has chosen a path of retrenchment in educational expenditure and the creation of road blocks for both migrants and the companies that need to access their skills. By failing to acknowledge the breadth of internal and external drivers that influence the stock of skills in the labour market the current BIS skills strategy lacks a systemic approach. It also potentially overestimates the ability of the education system to up-skill individuals to meet labour market requirements in the short and medium term. If one in six companies are facing skills shortages during a period of flat growth, how are companies expected to meet skills requirements once the economy starts to grow again?

This paper has set out why highly-skilled migrants are needed for the knowledge economy and why it is important that businesses are able to access global talent pools. The impossibility of a 'Soviet style' planned skills system due to the nature of technological and cultural change will always require a flexible approach and just as 'lean' manufacturers have increased their efficiency, the government needs to facilitate a 'just-in-time' approach to skills, whereby companies benefit from the right skills at the right time. This approach is not mutually exclusive with an objective to up-skill the resident population.

This is not a prescription for an 'open' immigration policy; indeed many of the changes that the Coalition Government has brought in are sensible and evidenced based, such as the reform of the Tier 1 migrant visa. However, the UK needs to retain its attractiveness as a destination for foreign investment and multi-national businesses and these investors and businesses are unlikely to be encouraged by restrictions on access to skills as are potential highly-skilled migrants. Given the government's position, potential investors can have no confidence about their ability to access global talent from the UK in the future. Time limits on high-skill migration will similarly be viewed negatively.

The government needs to operate a migration policy that facilitates rather than restricts the ability of businesses to meet their skill needs and recognises that the country cannot simply 'grow its own' skills base. Because a large proportion of skill needs are unpredictable, a

country cannot plan and produce the exact skills required by the economy. The government appears to think that UK businesses need to tap the skills of individuals already in the country before looking elsewhere. This is overly optimistic for reasons given in section 4.1.

We therefore strongly urge the government to consider:

- Sending clear messages from the government on high-skill migration for both businesses and migrants alike. The UK has a historic and linguistic advantage in its attractiveness as a destination for talent from across the globe. This must be retained. Businesses sent a clear message via the Migration Advisory Committee that while migration in the main is an issue to address, action should not impede the success and growth of UK Plc. Highly-skilled migrants should be valued as contributors to the economy and be recognised for their contributions to enterprise and innovation, not just filling skills shortages. Policy needs to reflect this too.
- Taking a systemic approach to skills that acknowledges the total value of highly-skilled migrants as well as the effects of labour market re-entry, emigration and decline in existing workforce skills. UKCES has produced a wealth of information on the skills and employment challenges facing the UK at present and in the years ahead. These analyses need to be more effectively incorporated into current policy and strategy documents, which, at present, appear to only scratch the surface of the skills challenge that the UK must meet to remain competitive in the global economy.
- Enabling a 'just-in-time' approach to skills which prioritises the need for businesses to access the right skills at the right time. This will require a review of the administrative burden on organisations of all sizes in recruiting and retaining talent from abroad including the time taken from identifying the skill need and the length of time to address it.
- Increasing flexibility in the Tier 2 limit. Anxiety about the inability to recruit from
 abroad continues to worry employers. The government will be unlikely to want to
 lose political capital due to another policy U-turn, but it has demonstrated its ability to
 increase flexibility in previously rigid approaches. The Tier 2 limit is one area that
 needs careful review and continued engagement with employer groups.
- Scrapping plans to change Tier 2 migration to a temporary rather than permanent path to settlement. Changing the status of Tier 2 migration increases uncertainty for the migrant, reinforces their identity as an 'other' rather than providing an incentive for integration and offers little benefit to the UK as a policy change.
- Ensuring that international students remain a valuable source of high-level skills for the UK knowledge economy. The UK needs to develop this 'two-step' migration with the interests of business in mind, particularly since international students tend to be in demand disciplines including engineering and technology. The

government describes the previous policy as 'overly generous', yet the United States, among other countries, has focused on retaining international students with post-graduate education and has a special quota reserved for students with a Master's or PhD from US academic institutions. Germany allows students to remain in the country for up to one year for the purpose of seeking employment and are exempt from the RLMT. Canada has a Post-Graduation Work Permit programme that grants up to three year permits to work. The attempts to improve the evidence base in this area through post-study tracking is a step in the right direction.

The UK's knowledge economy is driven by the talents of its workforce and will only remain competitive if talent is valued, developed, managed and rewarded effectively. This talent cannot be completely home grown and indeed a homogenous population of highly-skilled workers will not deliver the optimum levels of enterprise and innovation required for recovery and beyond. The UK has historically been a magnet for the most able minds in the world and must continue to be so. Our businesses must be able to respond quickly to a fast moving global economy and this necessitates unburdened access to simply the best people available for the job.

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