

David Goodhart | August 2016

IMMIGRATION & INTEGRATION AFTER BREXIT

A POLICY EXCHANGE AGENDA

The Brexit vote is an opportunity to reboot policy thinking in many areas, not least immigration and integration, one of the main factors to have inspired the vote in the first place. Here are a few ideas ranging from the bureaucratic/technical (a target of no more than six weeks to deal with an employer's work permit request) to the more fundamental (creating an official population register). They are grouped together in the following five sections:

1. How to replace freedom of movement.
2. Making the bureaucracy work better
3. Reviewing employability of UK citizens and reducing dependence on immigration
4. Responding to social infrastructure pinch-points and building on Casey
5. Longer term: population register and two-tier citizenship.

It is important to note that all but the first point can be acted upon NOW prior to any final agreement on freedom of movement. And given that short term immigration flows might actually increase with EU citizens rushing to get in before the rules change (although see section 1 below), and that a UKIP-inspired "betrayal" narrative on immigration may become popular, it is important that the government takes the initiative in this field to reassure citizens that sensible action is being taken. Some of the proposals below have symbolic as much as administrative or economic significance, others clearly have non-trivial public spending implications. How will they be paid for? In the short term through a relaxation of spending targets for the Home Office in the longer run there are several possibilities, to mention just three: taking a slice of the current DfID budget (at least some of the extra spending will be refugee related so could count as a development issue); hypothecating a slice of the saving the UK will make from the net payment to the EU; making the richer universities (which now have significant reserves) pay for the running of a new Student Migration Agency to supervise student flows.

1. HOW TO REPLACE FREEDOM OF MOVEMENT

The Brexit vote has merely made more complex what was already one of the central tasks of British public policy: how to respond to the legitimate desire of a large majority to reduce the scale of immigration, especially low-skill immigration, while minimizing damage to an economy that has in some sectors become heavily dependent on migrant labour.

We assume that visa-free travel for visitors to and from the EU will continue after Brexit but any sort of deal between Britain and the EU will surely involve replacing the current free movement of citizens with a work-permit controlled movement of labour.

What about the 3m-plus who are already here? The government has already moved to reassure them that there will be no immediate change in their circumstances but we should not be saying, prior to a negotiation, that the terms under which they arrived will remain the same under any circumstances. There is certainly a strong case for saying that those who arrived before June 23rd should continue to enjoy the conditions that prevailed on their arrival—full access to the social state and rights to bring in dependents and so on—but what about those who arrived after June 23rd? This cannot be decided now, it must be part of a negotiation, a negotiation that will also involve the interests of the 1.2m British citizens resident in other EU countries. And if there is uncertainty about the future rights of post-June 23rd arrivals that may not be a bad thing in helping to prevent a last minute surge before the negotiation proper. Indeed if there is evidence of a surge an announcement should be made to the effect that there is no guarantee that those arriving after June 23rd will enjoy the same rights as those who arrived before.

For those that have been here for a decent period of time we should be reducing uncertainty so far as possible and thinking in terms of a special “Brexit Citizenship” offer. It is estimated that more than half of the 3.3m-plus EU citizens have been primarily resident in Britain for at least the five year qualifying period for permanent residence (about 1.6m of the total are employees, around 400,000

are self-employed and the rest are dependents or retired). Many of those people will have integrated into British society, will have British friends, may have children at British schools. They have already qualified in terms of length of residence to become British citizens and we should encourage them to do so (at least those without a criminal record or some other disqualifying characteristic). And we could make it more attractive by reducing the cost to say £1,000 from the current cost of around £5,000.

In any case, so long as the new arrangements are well managed and the decline in EU numbers relatively gradual there is no reason why this should cause significant economic damage in itself (though having to leave the single market to achieve it might have negative consequences and there may be adverse consequences for individual businesses).

It is worth recalling that the freedom of movement aspect of the EU's "four fundamental freedoms" is more political than economic in inspiration. All trade theory from Ricardo onwards assumes the immobility of labour. The whole point of trade is that you can buy goods and services from people in other countries, they do not have to come to your country to provide them. It is true that service industries may require more exchange and intermingling of people than making cars or fridges. And London will certainly need a large continuing flow of EU citizens to thrive. But this service sector anomaly may, increasingly, belong to the past. Communications technology already connects London's magic circle law firms to Singapore in the blink of an eye.



Source: Social Market Foundation 2016

The golden years of post-war economic growth for the European economy came when there was relatively little movement between European countries and movement has remained negligible for about two-thirds of the life span of the single market (launched in 1986). Even since the big increase in intra-EU freedom of movement after the 2004 arrival of the much poorer central and eastern European states the overall numbers have remained relatively small and significant inflows have been limited to a handful of northern European states, including the UK.

From the point of view of Europe as a whole there is a clear benefit in an unemployment safety valve which makes it easy for people to move temporarily from poorly performing economies with high joblessness to booming ones with tight labour markets. (This is what has happened since 2012 in the UK when large numbers of young unemployed southern Europeans unexpectedly arrived.)

There might also be some theoretical benefit in having a more Europeanised labour market in some niche areas, like parts of academia and some low skill sectors like agriculture and food processing. Employers certainly benefit in the short-term from having a much larger pool of already trained or willing workers though if this leads to a lower level of investment in training in the national labour market (or lower wages) the result may be negative for society as a whole. There are also brain-drain issues for the poorer central and eastern European societies as highlighted in a recent IMF report which estimates that 20m people have left

eastern Europe over the last 25 years with 80 per cent heading for western Europe.

These relatively small, and qualified, benefits have been bought at a very high price in terms of the popularity of the European project especially in the heavily receiving countries such as Britain. But there is no reason why some of the benefits could not persist with a differently designed and more controlled form of movement.

The distinction between citizen and worker is crucial here. Free movement may be a basic principle of the EU but it has changed its form radically over the years. Prior to 1992 it was labour that moved not citizens and the worker usually had to have a job offer. Since the creation of the category in the 1992 Maastricht Treaty it is the European citizen who has moved carrying with him or her almost all the rights and privileges that the national citizen enjoys.

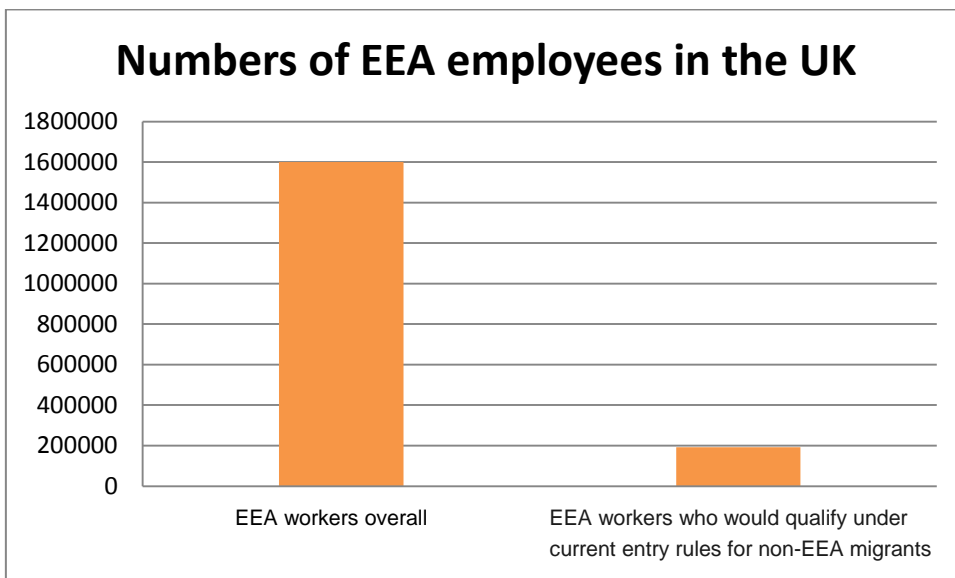
This did not matter when only a few people crossed EU borders but when, after 2004, it became a mass movement it was a hammer blow to the common sense notion that national citizens should generally be first in the queue for public goods.

Angela Merkel was unable to offer David Cameron the radical overhaul of European citizenship and free movement that might have kept Britain in the EU. It is, however, possible that Brexit might yet create a head of steam for such reform—Merkel's coalition partners the Social Democrats recently raised the possibility of a several year qualifying period for most social benefits for EU citizens.

But after the Brexit vote phasing-in access to parts of the welfare state for EU citizens is necessary but no longer sufficient. Emergency brakes also now seem otiose. The obvious step is simply to re-introduce work permits for everyone who does not have permanent British residence or citizenship. This essentially means treating EU citizens as we currently treat non-EU citizens.

The current system for non-EU citizens is a hybrid one—an employer driven (but capped) sponsorship system informed by a points system, which is why we have almost no unskilled immigration from outside the EU. Introducing work permits for EU citizens would allow us to control the flows into particular sectors as we see fit and allow us to get rather closer to an annual target than we have managed in the recent past.

If the current non-EU rules were applied to EU citizens currently working in the UK—i.e. a graduate job paying a minimum of £20,800 (rising to £30,000 next year)—only about 15 per cent of the 1.6m employees would qualify. It is evidently not in Britain’s interests to experience such a rapid decline in EU workers. Even if the number, particularly of unskilled EU workers, was to fall by half it would cause major disruption to some sectors and would need to be phased in over several years. It would also obviously require a significant expansion and reform of the bureaucracy, as I discuss in the next section, and it is clearly essential that it works swiftly and efficiently with a target of, say, six weeks to deal with every work permit request.



Source: Social Market Foundation 2016

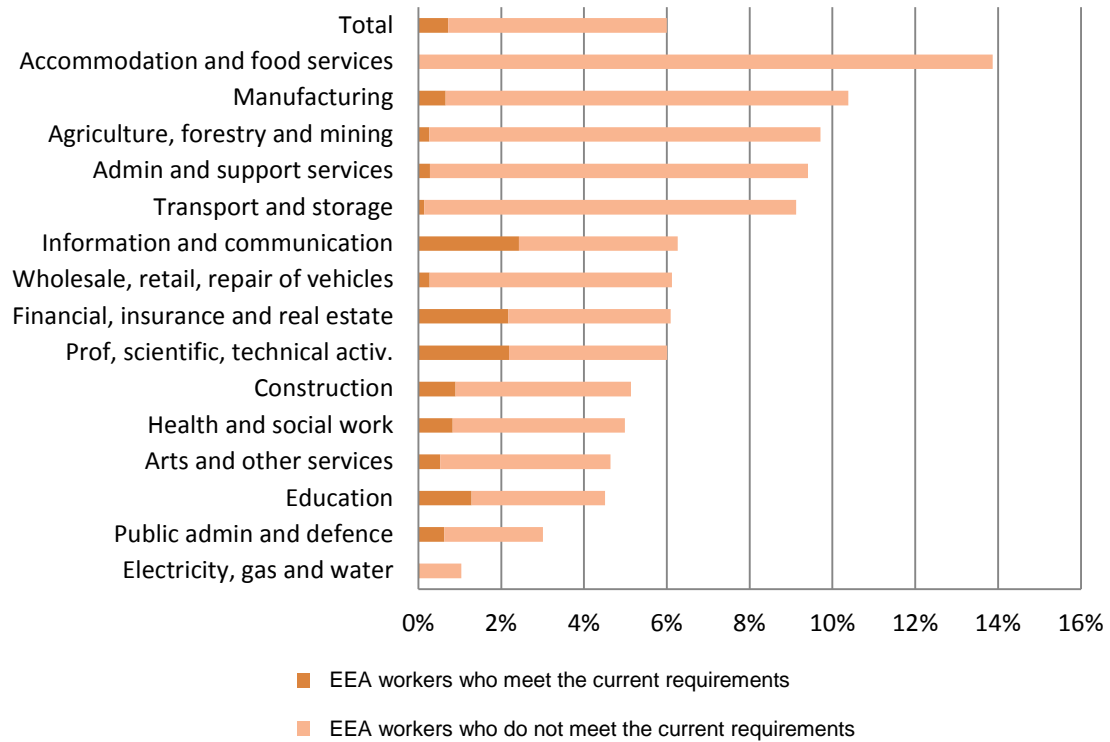
In the course of a negotiation we might well want to concede more favourable terms to EU citizens wanting to come and work, giving skilled EU workers some preference over non-EU skilled workers or allowing them quicker access to the social state. But the starting point should surely be the current non-EU terms.

In the medium term, even after revision of the rules, the demand for EU labour from British employers might not change much. And the supply too. It is true that about 40 per cent of EU citizens coming to Britain currently arrive without a job. But as so much recruitment happens either online or via word of mouth on EU migrant networks it would be a relatively minor administrative hassle for both job

seeker and employer to convert that into a formal work permit request. If all permits were granted (admittedly an improbable and undesirable outcome), the flow of EU citizens—even into low skill jobs in construction, food processing and agriculture—might remain at similar levels to today. The pull factors of the English language, established communities from all EU countries, and much better paid jobs—at least for those from central and eastern Europe—would all remain.

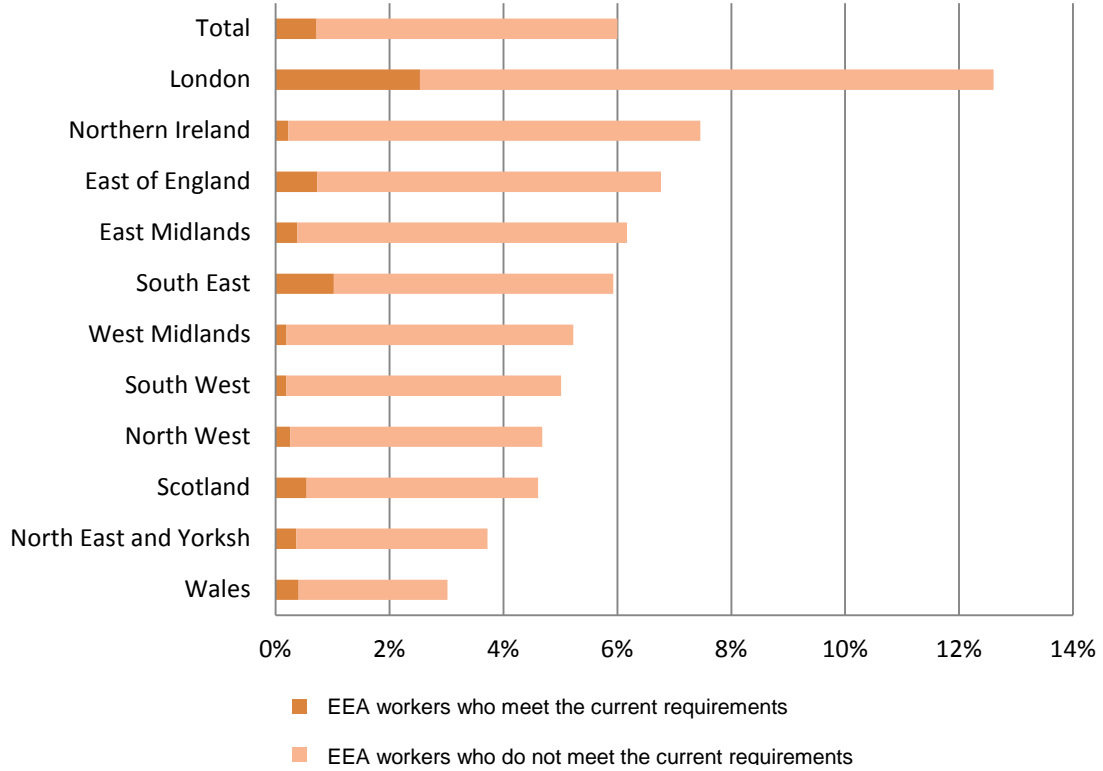
But there is no point in ending freedom of movement and then having similar numbers arriving as before. Decisions would have to be made about the desirable level of inflow in different sectors and the length of the transitional period to reach them. In hospitality the desirable number might be very low, in social care rather higher and in food processing and agriculture higher still. The degree of entrenched dependence on EU labour would be one factor to bear in mind along with how swiftly the jobs could be made more attractive to existing citizens, and/or how existing citizens can be made more attractive to employers (see section 3 of this briefing). In the medium term it would be hard to justify the disruption of leaving the single market if the headline net immigration figure did not fall below 200,000 a year (it is currently 330,000).

Proportion of total employees currently working in the UK who are from the EEA and would qualify under visa rules, by sector



Source: Social Market Foundation 2016

Proportion of total employees currently working in the UK who are from the EEA and would qualify under visa rules, by region



Source: Social Market Foundation 2016

2. MAKING THE BUREAUCRACY WORK BETTER

We need a new department of state for immigration and integration. Given how important the issue has become in the past two decades a dedicated department is overdue, several European countries have them. It is true Whitehall has a strong immune system and tends to reject foreign bodies. But there is a powerful national mandate to both reduce immigration in general and make the economically desirable short-term flows work more efficiently, this mandate needs to be heard louder throughout government.

It would be relatively simple to create. Just move the Home Office's crime and policing functions and the Office of Security and Counter Terrorism into the Ministry of Justice and bring in the integration work of the Department for Communities and Local Government. (Louise Casey's current review of integration is likely to recommend some semi-permanent body to oversee it, so timing is good.)

Given everything else on its plate it is unlikely that the government will be interested in this option in the short term but the Home Office will still need to change to manage a much larger work permit based inflow. The current work permit system is better than its reputation suggests but the process can be very expensive especially for small organisations and can take months to complete. More self-administration (within a cap) would be sensible for large organisations such as universities (which can easily carry the cost from the large reserves they have built up in recent years) but rather less self-administration for small firms that use the service only occasionally.

As the system expands to incorporate movement of people from the EU there should be a cast-iron guarantee to employers that all work permit requests will be dealt with within six weeks. This will require many more decently paid and well-motivated people sitting at desks as well as intelligent use of technology. The Border Force and Immigration Enforcement functions also need a big increase in funding and manpower to do their jobs properly in our more globalised era with more movement across borders, both legal and illegal. Indeed current annual spending on immigration functions by the Home Office is little more than 2bn or

about 0.3 per cent of total public spending. That should be both sharply increased and ring-fenced.

3. REVIEWING THE EMPLOYABILITY OF BRITISH CITIZENS AND REDUCING DEPENDENCE ON IMMIGRATION

We need a high profile commission—perhaps chaired by Sir David Metcalf who is due to end his period as head of the Migration Advisory Committee in the next few months—to consider the ways in which it can be made more attractive for employers to hire and train British citizens. Once outside the EU it would be possible to provide financial incentives for employers of low-skill or vulnerable citizens with funding for this coming, perhaps, from a time-limited National Insurance surcharge on non-Brits.

But the immigration flows of the past generation have underlined a broader crisis in basic British education and training that have made people from often much poorer countries (albeit some of the most energetic and enterprising from them) more attractive to employ than British people. Our flexible labour market strategy may have many advantages but it has left many British employees adrift without appropriate technical skills (look at the decline in HNDs and HNCs) and allowed employers to cherry pick from the European labour market on our doorstep. The private sector has persistently under-invested in Stem (science, technology, engineering and mathematics) and IT skills (indeed spending on training across the board has fallen sharply in the past 15 years). One reason: it is too easy to bring trained people from outside the EU on skilled worker or intra-company transfer schemes—151,000 such visas were granted last year alone. Moreover, that number includes 60,000 dependents. The right for people on work visas to bring in working dependents needs to be reviewed.

There is a particular problem in some low skill sectors. British workers are willing to do tough and anti-social work if it is well paid—look at the oil rigs. But the areas of heaviest demand for low-skill European workers—in construction, food processing, agriculture and so on—often require flexible 24-hour shift patterns, are heavily seasonal and in the case of agriculture are often in underpopulated

areas of the country. And, at least in food processing and agriculture, thanks to the margin pressure from the supermarkets pay is as basic as the law will allow. Even if some of these jobs were better paid they are often insecure and episodic: even traditional building trades have become much less popular with young British men because of the stop-start nature of the house building sector.

It may be that in some of these sectors if employers cannot afford the wage levels that British workers are prepared to accept then they should increase automation—Japanese agriculture is highly automated, and if a car factory can be full of robots why not a pork pie factory? Perhaps we should just import most of our strawberries rather than import the workforce to pick them.

There will be difficult decisions to be made in this transitional period. When Singapore was seeking to reduce its dependence on foreign labour a few years ago it offered grants and loans to labour intensive businesses to smooth the process of automation or finding appropriate local labour.

We also need to look again at the flexibility of the benefit and social housing system which can help to trap people in areas of decline. Local authorities could do more to help with job search and should perhaps take a more prominent role in the careers service by organising work placements for school pupils to help instill a greater sense of realism about what the labour market has to offer young people.

Also, some constraints on public spending can translate into higher immigration. Cuts to nurse training budgets leads to more nurses coming from Portugal or Poland (the number of training places fell by one fifth 2010 to 2013). The same is true for paramedics, care workers and teaching staff in shortage subjects. Public spending cuts need an immigration audit.

4. RESPONDING TO SOCIAL INFRASTRUCTURE PINCH-POINTS AND BUILDING ON CASEY RECOMMENDATIONS

Should part of the immigration reassurance strategy include a revised form of the Migration Impacts Fund (MIF)? The original MIF was a Labour creation in 2008 in response to complaints from local authorities in areas of high immigration that their government grants did not cover the needs of a rapidly rising population. It was abolished by the Coalition in 2010 then reinstated in 2015 in the light of a Conservative manifesto commitment to create a similar Controlling Migration Fund. A degree of scepticism towards this kind of body is entirely justified. It can reward those who shout loudest and can also appear to the settled population to be a public spending gift to the new arrivals rather than a way of reducing pressure on services for everyone. It is also true that public authorities always tend to be behind the curve on population changes. But if constituted in the right way, it could be a useful innovation in local demographic management. In its earlier incarnation the MIF had a tiny budget of around £35m a year. That headline figure should be increased significantly but local authorities should then have to bid for top-up money from the fund to speed the expansion of front line services such as GPs surgeries, A&E departments and even public housing. And money should only be granted where indisputable evidence is presented of social infrastructure pinch-points. The ONS now does annual estimates of local authority populations but they are still regarded with some scepticism by authorities in areas of high turnover. A new MIF should provide an incentive for local demographers to think of new, authoritative ways of establishing short-term population movements which could in itself help to make urban churn more transparent and therefore less threatening.

Like pressure on public services, anxieties about integration also exacerbate opposition to immigration, and with some reason. There is a growing divergence in neighbourhoods and schools in some areas between the white British and some minority groups—especially those from conservative, Muslim backgrounds. In recent years a second integration problem has been added: people from the poorer EU states who have no desire to integrate into British society because they are here for a short period to earn money. A society works better when most

people share some common norms and a common allegiance, a purely economic relationship is a form of free-riding and is rightly unpopular.

Louise Casey is due to complete her review on opportunity and integration in the next few weeks. This is good timing. Much of her focus is expected to be on the “parallel lives” parts of Britain in towns like Luton and Bradford where the focus is on the settled Muslim minority and its divergence from mainstream British norms. But the measures she proposes for “nudging” more mixing in neighbourhoods and schools could also apply to places of high eastern European migration, like Boston, Lincolnshire, where there is a different kind of parallel lives problem.

5. LONGER TERM: POPULATION REGISTER AND TWO-TIER CITIZENSHIP

Much of the above is about administrative or incremental changes but in two areas we need to start thinking more radically. First, a population register. The ID-card initiative of the last Labour government was bungled but we need to re-open the debate. Many people who voted for Brexit have an uneasy sense that the people running the country do not know how many people are here or where they are. And they are right. It is time for an overhaul of migration statistics and a much more reliable oversight of movement across borders—roughly 2m people arrive on visas every year (and that number will rise sharply when we leave the EU) and too many overstay. Currently the various different databases of DWP, HMRC and the Home Office do not speak to each other and most of us have several unique identifiers—NHS number, National Insurance number and passport number for example—that are stored in different places.

What is required in the long run is a Scandinavian style population register for all citizens (and non-citizens) incorporating a unique person number. There are problems with keeping such registers up to date, as people move around and leave the country, and there is a cultural resistance to the perceived big brother aspects of the system. One way of getting round the latter problem is to base the register on NHS registration. A well-functioning register helps to combat many problems from illegal immigration to knowing how much social infrastructure is needed in a given area. We also now have the experience of running biometric

residence permits for some non-EU temporary migrants and that could be extended relatively quickly into some kind of ID card for all those without permanent residence.

Finally, we need to establish a more formal distinction between full and temporary citizenship. Almost two-thirds of the annual inflow into Britain is now temporary—whether students or workers—and the number of people granted citizenship has actually fallen in recent times to a steady 100,000 a year (though it is set to rise sharply as a result of Brexit). Why? Because EU citizens form a higher proportion of the inflow and because of the European Citizenship rules they have not needed or wanted to become British.

Some of them, as I noted above, are integrating well into British society but many others live quite separately and have a largely instrumental relationship to the country. Thanks to the lack of a clear distinction between full and temporary citizenship unnecessary resentment is created. We allow people into our national home, goes the reasoning, and they treat it as a kind of economic transit camp. But when someone sees a Chinese student they do not think like that. They are more likely to think there is someone who is here for a few years—to the mutual advantage of Britain and the student—who will return home soon. The instrumentalism is mutual. This is the respectful, low-commitment relationship we want with all temporary citizens.

A temporary citizen should not be a full member, should not have full access to social and political rights (and would not have an automatic right to bring in dependents) and should leave after a few years. (The distinction is analogous to that between full-time and part-time employees in a company.) We can then concentrate rights, benefits and integration efforts (subsidised language lessons and so on) on those who are making a full commitment to the country. We already have several different categories of legal resident with different rights and access to services, so what I am proposing is more of a rationalisation of the existing system into two larger generic categories of citizen. It seems that in the long run there is a trade off, as academics like Martin Ruhs and Branko Milanovic have argued, between openness and citizenship. Much of this runs against the grain of recent human rights legislation which tends to blur the line between citizen and non-citizen. But if countries want to continue with relatively high inflows they will have to guard full citizenship more jealously.