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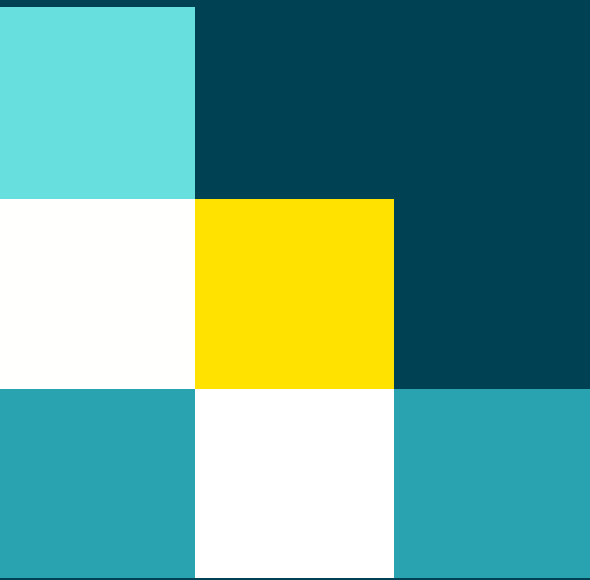
Migration in Wales

The impact of post-Brexit policy changes

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Summary

- In December 2018, the UK Government published an Immigration White Paper which detailed migration policy after Brexit, and incorporated a number of recommendations from an earlier report by the Migration Advisory Committee. This paper discusses the likely impact of these policies on the Welsh economy.
- Although the proportional reduction in migration will be higher in Wales than the UK, because Wales is less dependent on migration than the UK as a whole the overall impact on Wales will be less. We estimate a hit to GDP of between roughly 1 and 1.5% of GDP over ten years, compared to 1.5 to 2% for the UK as a whole.
- The proposals outlined in the Immigration White Paper will end free movement. Both EU and non-EU migrants who wish to come to the UK to work will normally have to apply via the Tier 2 skilled worker route, which will be liberalised and simplified; however, those earning less than £30,000 (subject to consultation) will generally not qualify.
- Depending on the detail after consultation, the impacts of these proposals will be to very substantially reduce low-paid EU migration to the UK; to reduce middle and higher-paid EU migration, but not by as much, and to somewhat increase non-EU migration.
- The changes would not just impact “low-skilled” workers and their employers; those with intermediate skills, particularly in manufacturing, would also be affected, as would the care sector. The impact on the education and health sectors will depend both on how the new system operates for skilled workers and the broader attractiveness of the UK as a destination.
- There is little case for differentiation in migration policy between Wales and the rest of the UK. Wage levels, and hence the proportion of immigrants likely to be affected, as well as the sectors and occupations most at risk, are similar in Wales to the UK outside London and the South-East.
- The priority for Welsh government and business should be securing a salary threshold well below £30,000, which would slightly mitigate the impacts, and for which there is broad support, as well as ensuring that the new system is as flexible and user-friendly as possible.

Introduction

The UK government has agreed with the EU27 the text of a Withdrawal Agreement and Political Declaration covering the UK's exit from the EU. Under the Withdrawal Agreement, free movement will continue during a transition period, which will end in December 2020 (although it can be extended, by mutual agreement, for one to two years). The Withdrawal Agreement, although it contains extensive provisions relating to EU citizens currently resident in the UK (and Britons resident elsewhere in the EU) does not contain any provisions directly relating to UK immigration policy after the end of the transition period, although it confirms that the Common Travel Area between the UK and Ireland will continue as now.

The Political Declaration, which provides a (non-binding and high level) outline of the future relationship (that is, after the end of the transition period) states clearly that the UK will end free movement of people. It also refers to short-term business visits and visas, but although both the UK (in the Chequers White Paper) and the EU27 have previously referred to “ambitious provisions” on labour mobility, there is no reason at this stage to think this means anything more ambitious than those contained in the Canada-EU deal, which have little or no impact on immigration policy.

This suggests that, if the Withdrawal Agreement is passed, free movement of people with the EU will come to an end, and the UK will largely be free to set its own immigration policy after the end of the transition period, with relatively little if any constraint from any agreements with the EU; although, of course, this could change if there are material changes to the UK Government's approach to Brexit and/or to the negotiations over the future relationship. Assuming that UK Government policy remains broadly as now, the purpose of this paper is to discuss the likely changes to immigration policy that may result, and the economic impacts of such changes on Wales. It builds on previous work undertaken by the authors on the impact of changes to immigration policy after Brexit (Portes and Forte, 2018).

The MAC report and the Immigration White Paper

The Migration Advisory Committee (MAC), in its report on the impact of EEA migration published in September, made a number of recommendations on post-Brexit immigration policy. The UK Government responded positively to the MAC report and on December 19, 2018 published a White Paper on future immigration policy. The White Paper incorporates the key recommendations from the MAC:

- a) Unless a future trade agreement with the EU provides otherwise, there should be no “European preference” for EU or EEA citizens seeking to move to the UK for work purposes after Brexit. In other words, after the end of free movement, there should be no intermediate position where EU or EEA citizens still found it easier to move to the UK than non-EU ones.
- b) EU/EEA citizens would therefore have to apply for permission to live and work in the UK in the same way as non-EU citizens do at present. In practice, for most of those seeking to move here to work this will mean applying for a Tier 2 (“skilled worker”) visa, which requires the applicant to satisfy a number of criteria (relating, depending on the job, to salary, occupation, skill level, and the non-availability of workers from within the UK). Various fees and charges are also payable.
- c) The MAC recommended that the existing salary threshold of £30,000 for Tier 2 visas should be maintained. However, while the White Paper takes this as the starting point, it is explicitly subject to consultation and business (and, privately, some Cabinet Ministers) have argued for a lower threshold.
- d) The MAC report also recommended that the Tier 2 visa route be simplified and liberalised in a number of respects, and the White Paper broadly accepts these recommendations. In particular, it recommended that the current “cap” on the number of Tier 2 visas should be removed, that the Resident Labour Market Test¹ should be abolished, and that the minimum skill level required should be reduced (so that broadly jobs requiring A-level skills or above would qualify, as long as the salary threshold was met). Nevertheless, applying for a Tier 2 visa would still involve

¹ This requires most jobs to be advertised domestically before a Tier 2 visa can be issued for a worker from outside the EEA.

- considerable costs both to employers and migrants (including the Immigration Skills charge² and the NHS charge³) and the completion of numerous administrative tasks.
- e) The Shortage Occupation List (SOL), which specifies jobs for which a Tier 2 visa may be issued relatively easily even if other criteria (in particular the salary threshold) are not met, would remain, and the White Paper specifically raises the possibility of extending the current arrangements for Scotland, which has its own SOL, to Wales. It is unclear how the SOL would in practice operate under the new system. If the other changes are implemented – the abolition of the cap, the Resident Labour Market Test, and the reduction in the minimum skill level – the SOL would arguably be largely redundant except with respect to the salary threshold. It is unclear whether the MAC would consider extending the SOL to occupations such as, for example, social care workers, where salaries and required skill/qualification levels would be below the new thresholds.
 - f) The White Paper also proposes the introduction of a temporary work visa for migrants earning less than the salary cap coming from “low-risk” countries (that is, those whose nationals are viewed as unlikely to overstay). This would be valid for a year, and on expiry the holder would have to leave the UK for at least a year. The White Paper has very little detail on how this would operate in practice.

What would this mean in practice for different groups of potential immigrants? For these purposes, we can divide work-related migrants into four categories, and describe in broad terms how they will be affected:

- a) EU migrants earning less than £30,000 (assuming that this is indeed the eventual threshold – see discussion below). These currently benefit from free movement. Under the proposed system, they would not be able to obtain a Tier 2 visa (of course, some may be able to move to the UK through other routes which allow work, for example family/spouse visas). They would also be eligible for the new temporary visa. This would be the group most directly affected.
- b) EU migrants earning more than £30,000. Again, these benefit from free movement at present. In future, they would in most cases in principle be able to secure a work visa. However, they would face very significant new barriers; they would have to have a job offer, they or their employers would need to pay various fees and charges, and the current bureaucratic process is extremely burdensome. Moreover, as well as these costs, there are other reasons that it is less attractive to be resident in the UK on a Tier 2 visa than via freedom of movement; the former offers has fewer rights, in particular with respect to other family members and access to public services and

² This is a charge, generally of £1000/year, payable by the employer of each worker on a Tier 2 visa.

³ This is a charge, generally of £400/year for workers on Tier 2 visas; it also applies to students and other migrants at a lower rate.

welfare, and also faces additional barriers (in particular, a further, higher, salary threshold, currently £35,000) should they seek to apply for permanent settlement. So this group will face a considerably more restrictive migration regime, new financial disincentives and opportunity costs, and a less attractive status in the UK once here.

- c) Non-EU migrants earning less than £30,000. This group cannot, by and large, migrate for work purposes to the UK under the current regime. Under the new regime some, from “low-risk” countries, might be able to apply for the new temporary work visa. Beyond this, there will be no significant direct effects.
- d) Non-EU migrants earning more than £30,000. As set out above, the White Paper sets out a number of measures that will have the effect of liberalising migration for this group. In particular, the removal of the current quota of 20,700 for Tier 2 visas will mean that there is no longer an upper limit on numbers (although this limit has only been binding for limited periods over the last seven years) while the reduction in the minimum skill level will also have an impact. The White Paper also sets out measures to streamline and simplify the system; in principle, this could have a significant impact, but this will obviously depend on how it is implemented.

Estimating overall impacts

In order to assess the likely impact of these changes on migration flows both to the UK as a whole and to Wales, we begin by estimating the number of current resident full-time workers who fall into each of five categories (UK-born, EU-born earning less than or more than £30,000, and rest of world (ROW)-born earning less than or more than £30,000). We restrict the analysis in this, and in what follows, to full time workers, in order to ensure that we broadly capture primarily work-related migration, and not other forms. This means that our results show somewhat lower numbers and higher average salaries than analyses that look at all migrants (like that in the White Paper).⁴ The results are shown in table 1 below.

Table 1: Estimated number of migrants working in UK and Wales.

		Number	% of Total	Mean Yearly Earnings (£)	Median Yearly Earnings (£)
United Kingdom					
Oct 2017 – Sept 2018					
<i>Arrived any year</i>	UK native	16,860,748	82.6	31,661.6	26,728
	EU <£30k	1,073,163	5.3	19,470.7	19,188
	EU >=£30k	578,124	2.8	49,915	42,016
	ROW <£30k	997,070	4.9	19,655.2	19,916
	ROW >=£30k	904,824	4.4	52,287.3	44,980
Total		20,413,929	100	31,865.4	26,520
Wales					
Oct 2017 – Sept 2018					
<i>Arrived any year</i>	UK native	834,592	92.5	27,833.6	24,284
	EU <£30k	32,195	3.6	16,387	18,460
	EU >=£30k	16,967	1.9	42,883.1	40,092
	ROW <£30k	11,207	1.2	19,469.1	21,008
	ROW >=£30k	7,491	0.8	48,434.5	4,2016
Total		902,451	100	27,775.3	2,4024

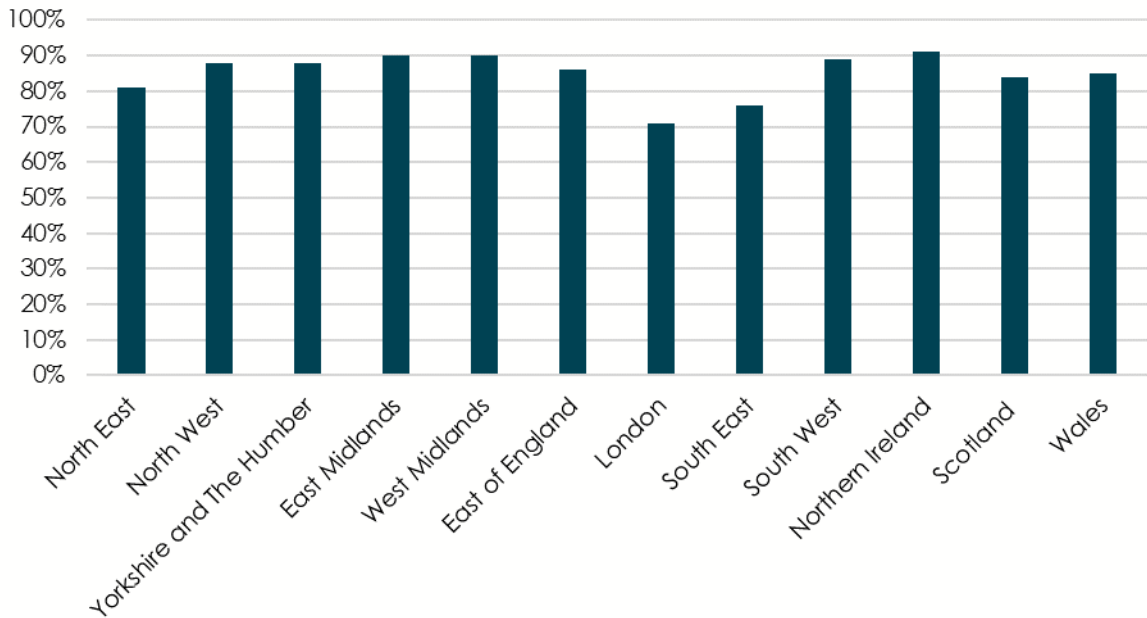
Data from the Labour Force Survey. The figures only apply to workers in positive-wage full-time employment. Sample size concerns leads us to pool the 4 LFS waves and consider all years of arrival together.

⁴ There is no “correct” approach here. Some, but not all, migrants who do not work full-time will have come primarily for work reasons; others via the family or other routes. The data does not allow us to distinguish between these groups.

Overall, migrants make up about 17.4% of UK full-time workers, but only 7.5% of full-time workers in Wales. However, migrants in Wales are more likely to fall into the category most affected by the proposed changes – EU workers earning less than £30,000 – than migrants elsewhere in the UK. Close to half of Welsh non-UK full-time workers fall into this category, while less than a third of non-UK workers do so in other parts of the country. Broadly speaking, this means that while Wales will be less affected economically than the UK as a whole – since it is less dependent on migrant workers overall – migration to Wales will be more affected, proportionally, than migration to the UK overall.

These results are consistent with the Home Office estimates published in the White Paper, reproduced below, which show that a greater proportion of EU-origin workers would be affected in Wales than in the UK as a whole. Note, however, that because the Home Office analysis looks at all workers, not just full-time ones, the proportions are somewhat higher, although the broad conclusions are the same. We think our analysis is likely to be a better reflection of the true impacts, since most people who come primarily to work will, in the first instance, be seeking full-time employment (in contrast to family and student migrants who may seek part-time employment).

Figure 1: Proportion of projected long-term EEA worker inflows to English regions and devolved administrations which would be affected by an RQF 3 and £30,000 threshold.



(HM Government, 2018)

Assessing the economic impacts therefore depends on how large the impacts of the proposed changes are on groups a), b) and d) above. There is considerable evidence that free movement resulted in a very large increase in migration flows from the EU to the UK, increasing them by approximately 500%. Moreover, since the referendum net migration from the EU has fallen by more than half, with net migration for work purposes falling even farther, even though nothing has as yet changed in practical terms. While this is not solely due to the Brexit vote, it is clearly a significant factor, since non-EU migration has not changed much.

Ending free movement is therefore likely to lead to a large reduction. For the purposes of this analysis, we make a number of stylised assumptions:

- First, we project net migration in the absence of policy change. We assume that net migration flows in each category over the ten years following the end of the transition period would have been, respectively, 60% of the current stock of lower paid EU migrants and 40% for higher paid ones; and 25% of the current stock for non-EU migrants. This broadly reflects the proportion of such migrants who arrived in the UK in the last decade (which in turn reflects the fact that much recent migration has been of EU workers, in particular for lower paid jobs);
- That the policies outlined in the White Paper reduce, relative to this “no policy change” scenario, net migration of lower paid EU migrants by 75%, and of those earning more than £30,000 by 50%. For non-EU migrants earning more than £30,000, we assume that a somewhat more liberal regime increases numbers by 20%. We assume no change for non-EU migrants earning less than £30,000.

From this, we derive an estimate of the impact on numbers of migrants in the workforce of the proposed policy change, over ten years, compared to a counterfactual of current policy (including free movement). This methodology implicitly takes account of return or onward migration for future arrivals - we are looking at the impact of alternative policies on changes in the resident migrant workforce over ten years. The results are shown in the table below:

Table 2: Impacts of proposed policy change on future net migration flows over ten years, £30,000 salary threshold.

	Net migration (no policy change)	Change over 10 years (%)	Change over 10 years (numbers)	Median Yearly Earnings (£)
United Kingdom				
EU <£30k	643,897.8	-75%	-482,923	19,188
EU >=£30k	231,249.6	-50%	-115,625	42,016
ROW <£30k	249,267.5	0	0	19,916
ROW >=£30k	226,206	20%	45,241	44,980
Total	1,350,620.9	-41%	-553,307	
Wales				
EU <£30k	19,317	-75%	-14,488	18,460
EU >=£30k	6,786.8	-50%	-3,393	40,092
ROW <£30k	2,801.75	0	0	21,008
ROW >=£30k	1,872.75	20%	375	42,016
Total	30,778.3	-57%	-17,507	

(Labour Force Survey, authors' calculations)

We do not take account of any impact on return migration rates for EU nationals already resident in the UK. This group will be entitled to apply for settled status under the Withdrawal Agreement, but some may choose to leave the UK as a result of Brexit; this would lead to additional reductions in net migration. Clearly, this analysis is broad-brush, reflecting both uncertainty about future developments in the Welsh, UK and European economies; and how the policies set out in the White Paper (which are not outlined in detail, and are in any event subject to consultation) are implemented in practice. Nevertheless, they can be regarded as a guide both to the scale and the relative magnitude of possible impacts. Note that, as set out above, while the absolute impact is greater for the UK than for Wales- 2.7% as opposed to 1.9%- the proportional impact (relative to the migrant population) is larger for Wales, a reduction of 57% in net migration over the next decade compared to 41%.

In order to assess the economic impact of these changes, we adopt the following methodology. We calculate the average salary for each of these four groups (also shown in the table). We assume that the contribution of an individual worker to GDP (migrant or

native) is proportional to her earnings.⁵ Current employment in the UK is equal to about 27.9 million full-time equivalents, while in Wales it is about 1.2 million.

The impact on the UK workforce as a whole would be a reduction of about 2.5%, while for Wales the impact would be a reduction of about 1.5%. If all migrants earned the average UK salary, this would translate into corresponding reductions in GDP. However, since the reductions are disproportionately concentrated on the lower paid, the implied reduction is somewhat less, approximately 1.4% and 1.1% respectively.

This is the direct, arithmetic effect of a reduction in the workforce. However, as with trade, migration also has indirect impacts on productivity. In its recent report, the MAC concluded that “the literature and the studies we commissioned point towards immigration having a positive impact on productivity, but the results are subject to significant uncertainty. While the evidence on overall migration is not entirely conclusive the evidence perhaps unsurprisingly suggests that high-skilled migrants have a more positive impact.” In fact, the studies commissioned by the MAC all suggested that immigration has a large and positive impact on productivity, as does the most recent major cross-country study, published by the IMF.

Broadly consistent with the MAC conclusions, we assume that immigration of relatively less skilled workers has no indirect impact on productivity. Consistent with the published empirical studies, we assume that relatively skilled immigration increases productivity, with an increase in the skilled migrant share of one percentage point being associated with a productivity increase of 2%. These assumptions appear relatively conservative, given the consistently positive evidence on the productivity impacts of immigration. However they are, as the MAC says, subject to a high degree of uncertainty. The impact under these assumptions would be a further hit to GDP of approximately 0.5% for both the UK as a whole and for Wales.

The corresponding impact on GDP per capita would be less, since reducing immigration would also reduce the population. However, this will depend on how much other, non work-related migration – that is, dependents and other family members of those in full-time work - is reduced. Lower paid migrants from the EU, who account for the bulk of the reduction, do not generally have non-working dependents on arrival in the UK (although a significant proportion of those who have been here for some time do), but there will be some.

Assuming a ratio of working migrants to non-working dependents of 3:1, then the reduction in population would be about 1% for the UK, and 0.8% for Wales. Putting all this together, we summarise the results in the table below:

⁵ That is, a reduction in the workforce of 1% would translate into a reduction in GDP of 1% if all the absent workers earned average earnings; but if they all earned only half average earnings, the reduction would be 0.5%.

Table 3: Modelled impact of migration changes on GDP.

		Without productivity	With productivity assumption
United Kingdom	GDP impact	-1.40%	-1.90%
	GDP per capita	-0.40%	-0.90%
Wales	GDP impact	-1.10%	-1.60%
	GDP per capita	-0.30%	-0.80%

As outlined above, these results are subject to several caveats, both on the impact of policy on migration flows, and the impact of changes in migration flows on economic outcomes. However, it is consistent with both economic theory and the empirical literature that a less open and more restrictive migration policy should, just as with trade policy, have a negative impact on output and productivity, and the magnitudes of these impacts appear broadly sensible. They should, however, be treated as illustrative scenarios, not as forecasts.

Reductions in migration will also impact the fiscal position. The IFS estimates that a 1% reduction in GDP over the long term results in a reduction in total government revenue by approximately 0.4%; at a UK level, this would translate into a revenue loss of between £11 billion and £15 billion; the amounts attributable to Wales would be between £300 million and £450 million. The overall impact on Welsh government finances would likely be similar to this, but mainly indirect (via the Barnett formula) since most revenue is collected centrally; although there would also be a relatively small direct impact given that some income tax revenue is attributed directly to the Welsh government.

Both the MAC report and the White Paper argue that restricting EU migration of lower skilled or paid workers will improve the prospects of native workers, particularly those with lower skills, in particular since it will increase the incentive of employers to invest in training or other measures to boost productivity. However, the empirical evidence set out in the MAC report does not provide much support for these propositions; the research commissioned by the MAC found no clear links between migration and training, and a positive one between migration and productivity, while little to suggest that reductions in migration would result in significant wage rises for low-paid workers. The distributional consequences of reduced immigration are therefore likely to be small, although it is possible that there might be bigger impacts in some sectors. There may also be negative distributional consequences if the reductions in government revenue result in less funding for public services.

Comparison with Home Office modelling

The White Paper also includes detailed modelling of the impact on migration flows, and the likely economic impacts, of the proposed changes. There are a number of differences between the Home Office modelling and ours above (which was prepared independently, before the White Paper was published). In particular, the White Paper analysis looks at a five rather than ten year horizon, uses inflow and outflow information from the International Passenger Survey, does not restrict the analysis to full-time workers, and use a production function approach⁶ to deriving the impact on GDP (which implicitly assumes that the capital stock does not adjust), and they make no allowance for any indirect impact on productivity. They also do not model impacts on Wales.

Despite these differences, their results are broadly similar to ours, and certainly within the margin of error for such modelling exercises. In particular, they forecast a reduction in the number of EU workers in the UK by between 200,000 and 400,000 by 2025, which is consistent with our estimate of a reduction of about 600,000 over a ten year period. The estimated impact on GDP is 0.4-0.9%, again over a five-year period, compared to ours of 1.4% (not allowing for productivity impacts) over ten years. This gives us some assurance that our estimates are broadly credible for the UK as a whole, and by implication for Wales as well.

Sectoral impacts

The discussion above focuses on the overall macroeconomic impact of reductions to immigration over the medium to long-term. This suggests, consistent with earlier work, that the impact on both the UK as a whole and Wales will be negative but relatively modest. However, given the data available and the modelling approach adopted, this can tell us little about short-term impacts, particularly in sectors and sub-sectors that are particularly dependent on EU migration. There is growing evidence of skills and labour shortages in specific sectors since the referendum, which are frequently attributed to the reduced attractiveness of the UK to EU workers since the Brexit vote, with manufacturers in particular reporting recruitment difficulties, as well as much publicised shortages in social care and nursing.

⁶ That is, output is modelled as a function of different inputs, in particular labour and capital.

In order to focus in more detail on sectors that might be most affected in the short-term, we look at the distribution of EU workers across sectors and by occupations. The table below shows the “top 10” sector-occupation pairs for EU workers in Wales, showing both the number of workers and median pay levels. The numbers and ranking are taken from the Census, while pay levels are taken from the Annual Population Survey. These figures will understate the presence of EU workers in these sector-occupation pairs, since the Census is now eight years out of date, and there has been substantial net migration of EU workers since then, but they provide some indication of the relative impact.

Table 4: Top ten sector-occupation pairs for EU workers in Wales.

Top 10 Industry-Occupation pairs By EU participation in Wales			Wales		
Industry	Occupation	Number of EU workers	Census		
			Total number of workers	%	Median Yearly Earnings (£)
C Manufacturing	8 Process, Plant and Machine Operative	4,160	89,640	4.64	22,984
I Accommodation and food services	9 Elementary Occupations	3,160	76,500	4.13	13,520
G Wholesale, retail, repair of vehicles	7 Sales and Customer Service Occupations	2,500	166,820	1.50	16,484
C Manufacturing	9 Elementary Occupations	2,220	52,600	4.22	18,096
P Education	2 Professional Occupations	2,220	111,960	1.98	35,984
Q Health and Social Work	6 Caring, Leisure and Other Service Occupations	2,120	110,920	1.91	16,796
N Admin and Support Services	9 Elementary Occupations	2,080	40,860	5.09	24,024
Q Health and Social Work	2 Professional Occupations	1,760	84,960	2.07	31,980
C Manufacturing	5 Skilled Traders Occupations	1,340	62,740	2.14	27,976
I Accommodation and food services	5 Skilled Traders Occupations	1,140	28,440	4.01	18,200
	Total	22,700	825,440	2.75	21,996

Job rankings from 2011 Census; earnings data from the Labour Force Survey (all workers). The figures only apply to workers in positive-wage, full-time employment. Sample size concerns leads us to pool the four LFS waves and all years of arrival. Census counts weighted by multiplying by 20 the unweighted numbers.

The key points that emerge from this analysis are the following:

- There is little difference between Wales and the rest of the UK in the sectors and occupations most exposed to a fall in EU migration; the overlap between the Wales and UK lists is substantial. Perhaps the most notable difference is that construction does not appear on the Welsh list.⁷
- Only two sector-occupation pairs – professional workers in education and in health/social work – have median earnings above £30,000, suggesting that half or more of such workers would qualify for a Tier 2 visa (although many will not, and some of those who would might well choose not to come to the UK when free movement is replaced by a more restrictive visa regime).
- But most of the sector-occupation pairs are not “unskilled” occupations (that is, “elementary occupations”). In fact they are spread across skill levels.
- Eight out of the top ten sector-occupation have median earnings below the £30,000 threshold, in most cases well below. For these sectors a substantial majority of EU workers would not qualify for a Tier 2 visa.
- The most vulnerable sector is likely to be manufacturing, with three occupations (skilled workers, plant and process operatives, and unskilled workers) in the top 10 and with even most skilled manufacturing workers earning less than £30,000. It is notable that EU workers are spread across occupations and are clearly not solely working in unskilled roles.
- Although not shown, given data limitations, agriculture (or some sub-sectors) may also be vulnerable.
- The social care sector, where the relevant occupation “caring occupations” has very low average salaries, also appears at risk.

Again, the analysis in the White Paper for the UK as a whole is broadly consistent with this, although looking at the UK as a whole allows them to identify at a disaggregated level some occupations that may be at particular risk.

⁷ The corresponding list for the UK is very similar, but in a different order and with generally higher proportions of EU workers. Seven out of the ten industry-occupation pairings are the same; where Wales has C9 (manufacturing-elementary occupations), C5 (manufacturing- skilled traders occupations) and I5 (accommodation and food services- skilled traders occupations), the UK has F5 (construction-skilled trades occupations), G9 (wholesale, retail, repair of vehicles-elementary occupations) and M2 (prof, scientific, technical activity-professional occupations).

The impact of alternative salary thresholds

The MAC and White Paper proposals have been heavily criticised because, as shown in the analysis above, they will exclude a large proportion of EU workers, including many who could not be described as “low-skilled.” A number of business organisations have suggested that applying a lower threshold would result in significantly less economic damage, and the White Paper leaves open the possibility that a different threshold might be implemented. What would be the impact of doing so?

The table below shows, for Wales, how the size of the group described above would differ if the threshold was £20,000 threshold rather than £30,000. The results are significantly different – the proportion of EU workers who would fall below the threshold falls from almost two thirds, to less than 40%. However, the reduction in total net migration over the ten year period, estimated at 57% for the £30,000 threshold, would still be 50%. So even with this lower threshold the impacts would be substantial. Our conclusion is that even with a significantly lower, the impact of ending free movement on future migration flows would be substantial. This result does depend crucially on our assumptions on how the changes impact on different groups, emphasising the importance of how new visa processes actually work in practice.

Table 5: Projected number of EU migrants for £20,000 salary threshold.

		Number	% of Total	Mean Yearly Earnings (£)	Median Yearly Earnings (£)
United Kingdom					
Oct 2017 – Sept 2018					
<i>Arrived any year</i>	UK native	16,860,748	82.6	31,662	26,728
	EU <£20k	570,915	2.8	15,363	15,860
	EU >=£20k	1,080,371	5.3	37,933	30,004
	ROW <£20k	503,483	2.5	14,920	15,600
	ROW >=£20k	1,398,411	6.9	42,474	34,996
	Total	20,413,929	100	31,865	26,520
Wales					
Oct 2017 – Sept 2018					
<i>Arrived any year</i>	UK native	834,592	92.5	27,834	24,284
	EU <£20k	19,332	2.1	11,350	15,600
	EU >=£20k	29,830	3.3	34,721	30,004
	ROW <£20k	5,601	0.6	15,352	15,600
	ROW >=£20k	13,097	1.5	37,796	30,004
	Total	902,451	100	27,775	24,024

The impact on the Welsh workforce and economy of applying such a threshold would therefore be somewhat smaller. This would vary across sectors - the impact on manufacturing, in particular, would be significantly mitigated, since two of the three manufacturing sector-occupation pairs in the top 10 have median earnings between £20,000 and £30,000. This is not surprising – the £20,000 to £30,000 level is a very densely populated part of the earnings distribution, so a system with the lower threshold would be considerably less restrictive and could be expected to have a significantly reduced impact, as shown in the table below. Nevertheless, the reductions would still amount to 1.6% of the Welsh workforce, and the impact on GDP (and GDP per capita) would still be about three-quarters as large as shown in the table above.

Table 6: Impacts of proposed policy changes on future net migration flows over ten years, £20,000 salary threshold.

		Net migration (no policy change)	Change over 10 years (%)	Change over 10 years (numbers)	Mean yearly earnings (£)
United Kingdom	EU <£20k	342,549	-75%	-256,912	15,363
	EU >=£20k	532,598.4	-50%	-216,074	37,933
	ROW <£20k	125,870.75	0	0	14,920
	ROW >=£20k	349,602.75	20%	69,921	42,474
	Total	1,350,620.9	-34%	-403,065	
Wales	EU <£20k	11,599.2	-75%	-8,699	11,350
	EU >=£20k	14,504.6	-50%	-7,252	34,721
	ROW <£20k	1,400.25	0	0	15,352
	ROW >=£20k	3,274.25	20%	655	37,796
	Total	30,778.3	-50%	-15,297	

By contrast, a higher salary threshold would exclude almost all current EU workers. In 2017, when the Tier 2 visa cap was hit, the salary cap rose above £50,000 to restrict demand – this would hit more than 90% of EU workers in Wales.

Temporary Worker Visas

None of the above includes any analysis of the impact of the proposed temporary work visa, and the White Paper does not contain sufficient detail to enable us to model any impacts quantitatively (the White Paper itself contains no such modelling). Since those entering under this route would, by definition, not remain permanently, it seems unlikely that it would materially alter the long-term impacts on net migration, population and hence the broader macroeconomic and growth figures set out above. Fewer than 5% of recent EU migrants currently resident and earning under £30,000 entered the UK in the last year.

Such a scheme could in principle alleviate pressure on specific sectors and occupations, in particular for unskilled and seasonal work. A pilot seasonal worker scheme is already under way in the agricultural sector, although this may be of less benefit to Welsh farmers where labour requirements vary less by season than elsewhere in the UK. However, it is questionable whether an explicitly temporary route would be attractive to either employers or workers in skilled or semi-skilled manufacturing jobs (where at least some on-the-job training is required, and productivity is likely to rise with job tenure) or in other occupations like social care. There are also considerable potential downsides to what would effectively be a “guest worker” route, where migrants would have fewer rights, the potential for abuse by unscrupulous employers would be greater, and the level of “churn” and any associated social costs would be higher.

Regional differentiation

In an earlier paper, we explored the options for varying the immigration system for Wales (Portes and Forte, 2018). We concluded that it would be feasible to apply different criteria (for example, maintaining open access to the Welsh labour market for EU nationals, or applying a different salary threshold). However, while the White Paper pays lip service to the specific interests of the devolved nations, and of the regions of England, it broadly rejects any regional differentiation, with the exception of the possible expansion of the Shortage Occupation List to Wales and Northern Ireland (and the continuation of the enhanced Shortage Occupation List in Scotland) – although this does at least implicitly accept that there is a case for some degree of differentiation, and that a single, national-level policy may not in practice be appropriate for national or regional needs.

Conclusions and policy implications

What can we conclude from the above discussion?

- There is no clear evidence that Wales will be disproportionately affected by the measures outlined in the White Paper in economic terms. Wales has lower levels of immigration overall than the UK average, and so is less affected in absolute terms on average. Wales' lower wage levels mean that a greater proportion of EU migrants would be affected than the UK average, but it is not clear that this is itself a strong argument. In fact, the impacts on Wales do not look very different from those on a number of English regions, particularly those in the North; the only clear outlier is London.
- Perhaps the one aspect in which Wales has a clear case for a differentiated approach is with respect to population. Wales, like the rest of the UK, faces the challenge of demographic change, with an ageing population, although this will be in part mitigated by increases in the retirement age. However, the challenges are significantly more acute in Wales than elsewhere, with slower growth in the overall population but faster growth in the over-65s; meanwhile, the 16-64 population is projected to shrink by 5% by 2039. Lower than projected migration will exacerbate these impacts.
- These conclusions are consistent with that outlined in our earlier paper (Portes and Forte, 2018) which concluded, "it would be difficult to make the case for a regional migration system on the basis of the short-term impact on specific sectors or localities in Wales. The case for any regional scheme would therefore have to be made (as it has been in Scotland) by reference to Wales' longer-term demographics and skills needs."
- The profile of detailed sectors and occupations affected in Wales is not dramatically different from the UK-wide one. The impact on manufacturing is of particular concern, across skill levels. Other sectors that are likely to be affected are social care (where an increasing proportion of new entrants to the sector, in both the UK as a whole and Wales, are EU citizens) and health and education (where many EU citizens might, in principle, still qualify under the new rules, but may well find the UK less attractive than under free movement). This in turn means that the creation of new, separate Shortage Occupation List (SOL) for Wales, while welcome, is unlikely to make a dramatic difference, since for most occupations the SOL is likely to be very similar in Wales and England.
- There is little reason to believe that the "temporary worker visa" outlined in the UK would do much to mitigate the impacts either overall or in the specific sectors most at

risk. The potential for significant unintended and undesirable consequences also exists

- Reducing the salary threshold to £20,000 would mitigate modestly the impacts on Wales (and on the UK as a whole) but they would remain substantial.

Taken together, this suggests, both on analytic and pragmatic grounds, that the focus of the Welsh government's response to the White Paper should be to concentrate on pressing for a lower salary threshold for the UK as a whole. This objective commands the support of a wide variety of business organisations as well as of other levels of government and (it is reported) members of the Cabinet. Since the White Paper explicitly says that the salary threshold is for consultation, the prospects of success seem higher than for Wales-specific approaches. It therefore seems more likely to gain traction. But this will not in itself avoid significant negative impacts. It will also be important to ensure that the visa process for those over the salary threshold is speedy, efficient and affordable.

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