

Migration Advisory Committee - August 2015

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17<sup>th</sup> August 2015

***Call for evidence: Tier 2 route***

Dear Sir/Madam,

Thank you for giving the Institute of Directors (IoD) the opportunity to participate in this Call for evidence review of the Tier 2 route, published by the Migration Advisory Committee, on the 2<sup>nd</sup> of July 2015. The topic of skilled migration has been a consistent concern for IoD members for many years, and we are very pleased to contribute to the current consultation. This paper presents the IoD's comments on some of the key issues raised by this review and presents the views of the IoD's members on the future of skilled inward migration to the UK.

***About the IoD***

The IoD was founded in 1903 and obtained a Royal Charter in 1906. It is an independent, non-party political organisation of approximately 35,000 individual members. Its aim is to serve, support, represent and set standards for directors to enable them to fulfil their leadership responsibilities in creating wealth for the benefit of business and society as a whole. The membership is drawn from right across the business spectrum. 71% of FTSE 100 companies and 51% of FTSE 350 companies have IoD members on their boards, but the majority of members, some 70%, comprise directors of small and medium-sized enterprises (SMEs), ranging from long-established businesses to start-up companies. IoD members' organisations are entrepreneurial and growth-orientated, and more than half (57%) export goods and services internationally.

***The IoD's position: The views of our members***

In 2011 the coalition Government introduced an annual immigration cap of 20,700 visas for all new employer-sponsored skilled workers through the Tier 2 General route. The monthly allocation of Tier

2 General Certificates of Sponsorship for newly hired skilled workers is 1,650 per month, with any surplus allocation being carried over to the following month.

In June 2015, for the first time, the monthly immigration cap was reached, with at least 400 applications consequently rejected and the applicants forced to re-submit. It is worth noting that a significant part of the surge in Tier 2 General requests for June 2015 came as a result of the seasonal accretion of new graduate workers. We have now entered the annual period when British businesses try to recruit and retain the best graduates, in so helping to ensure they can continue to stimulate growth in our economy. With the UK economy now well on the way to recovery reaching this cap will likely become a more frequent occurrence. The refusal of so many applications has left many British companies short of vital skills at a crucial time of year for their businesses. The refusal has also undermined the Conservative Party's pre-election proclamation that "Britain is open for business".

The IoD considers the proposal to further increase the minimum salary thresholds for Tier 2 to be an unnecessary constraint on employing skilled workers from abroad. This seems particularly inappropriate given how dependent the UK economy is on international skills and expertise. The prime minister is absolutely right to focus on providing opportunities for British workers, but there is no quick fix, and the current Tier 2 proposal is not the answer. The proposed approach appears misguided and risks harming the economy today in the hope of seeing results a decade down the line.

There is agreement amongst almost all business leaders that migrant workers provide a vital boost to the UK economy. Barriers to employing the right labour and the best talent are detrimental to the UK economy and hurt British businesses whose expansion plans are already hampered by a lack of suitably qualified domestic workers. Our members have serious doubts about the Government's performance over immigration policy. Just 5% of IoD members are happy with the current 'ease of filling out forms' for the UK visa system, and less than 5% are happy with the 'Amount of information required (bank account records/official documents etc.)', or the 'speed' of processing visa applications. A mere 3% of our members are happy with the current 'cost of obtaining/extending a visa'.

While IoD members, and UK businesses more generally, cannot have a deaf ear to the public's concerns on immigration, focusing on the supposedly lower cost of migrant labour is a red herring. Among the 50% of IoD members who hire from abroad, just 4% say that the cost of labour has anything to do with it.<sup>1</sup> The fundamental concern is about finding people with the skills needed by employers.

These IoD survey results come at the same time as UK unemployment has fallen to its lowest level since the global financial crisis while wages are growing at their fastest rate in four years. The employment rate for women is at an all-time high and the actual employment rate is also at its highest level since records began. Despite minor setbacks on recent Office for National Statistics (ONS) Labour Market Statistics, the UK is now approaching full employment. At 792,400, the claimant count (the number of people claiming unemployment-related benefits or Universal Credit) is also at its lowest rate since 1975. Given this, the Tier 2 proposals are likely to lead to a far less business-friendly immigration policy at a time when the strength of the UK economy means British

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<sup>1</sup> Institute of Directors: Policy Voice Surveys October 2014 and May 2015:  
<http://www.iod.com/influencing/policy-voice>.

businesses are in an unprecedented period of growth and expansion and when the supply of suitable domestic workers is reaching its limit.<sup>2</sup>

No employer sets out to favour migrant labour. 65% of IoD members surveyed agree that 'It would be better to invest more in the UK skills system than to employ migrants'. Nevertheless, our members report that their non-UK workers are hired overwhelmingly because their qualifications, experience, and productivity levels meant they were 'the best person for the job'.

Despite popular misconceptions, concerns about the impact of immigration on jobs and wages are not borne out by the evidence. Since the 1980s numerous academic studies have found essentially no association between immigration and employment rates or wage depreciation for native born workers.<sup>3</sup> This evidence is supported by the IoD's own survey results.

Migrant workers are also proportionately more entrepreneurial than native born people. ONS figures show that 17.2% of non-UK nationals have started their own business, compared to just 10.4% of UK nationals. There are 456,073 migrant entrepreneurs in the UK today who, together, are founder directors of 464,527 businesses. 215,000 of these entrepreneurs come from outside the EU, EEA and Switzerland<sup>4</sup> and, as such, many would be subject to the proposed Tier 2 reforms.<sup>5</sup> Migrant founded companies account for 14.5%, or one in seven, of all companies in the UK and employ at least 1.16 million people around the country.<sup>6</sup>

The chief logical mistake of the Tier 2 policy is what economists call the *Lump of Labour Fallacy*. That is, the erroneous belief that there are only so many jobs to go around and that no immigrant can get a job without taking that job from someone else. This appears an understandable assumption. After all, with other types of market transactions when the supply goes up, the price goes down. If there were suddenly a lot more widgets for sale, we would expect the price of widgets to fall. It might seem intuitive, therefore, that when there is an increase in the supply of workers, workers who were already in the UK will make less money or lose their jobs. Yet that is not the case. For starters, newcomers are often not like-for-like substitutes – migrants have different skills and aptitudes. More to the point, migrant workers don't just increase the supply of labour, they simultaneously increase demand for it as well by using the wages they earn to, for example, rent apartments, eat food, go to the cinema, and buy cars. That creates more jobs building apartments, cooking food, selling cinema tickets, and making cars etc. Migrant workers increase the size of the overall population, which means they increase the size of the economy. Logically, if migrant workers were 'stealing' jobs so too would every school leaver or graduate entering the job market. In reality, of course, the opposite is the case. As the Prime Minister has rightly said, "it's crude and wrong to say immigrants come to Britain to take all our jobs."<sup>7</sup> The idea that migrant workers reduce opportunities or wages for native workers is wrong. Government policy should not be based on it.

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<sup>2</sup> "Office of National Statistics: Part of Labour Market Statistics, June 2015 Release," Date accessed 24<sup>th</sup> June 2015, <http://ons.gov.uk/ons/rel/lms/labour-market-statistics/june-2015/sty-labour-market-statistics--june-2015.html>.

<sup>3</sup> "The Impact of the Mariel Boatlift on the Miami Labor Market," *Industrial and Labor Relations Review* 43, January 1990: <http://davidcard.berkeley.edu/papers/mariel-impact.pdf>; "LSE Centre for Economic Performance: Immigration and the UK labour market," Date accessed 23<sup>rd</sup> June 2015, <http://cep.lse.ac.uk/pubs/download/ea019.pdf>.

<sup>4</sup> These figures do not include immigrants who have taken British citizenship since moving to the UK so the actual numbers of entrepreneurs and businesses may well be significantly higher than stated.

<sup>5</sup> "Centre for Entrepreneurs: Migrant Entrepreneurs: Building our Businesses, Creating our Jobs," Date accessed 24<sup>th</sup> June 2015, <http://www.creatingourjobs.org/data/MigrantEntrepreneursWEB.pdf>.

<sup>6</sup> Of the overall 10,697 migrant-founded companies only the 8,230 companies that have filed employee numbers have been counted so the actual number is probably greater.

<sup>7</sup> "Gov.UK: Prime Minister's speech on immigration," Date accessed 25<sup>th</sup> June 2015, <http://www.number10.gov.uk/news/prime-ministers-speech-on-immigration/>.

Furthermore, as Madeleine Sumption, director of the University of Oxford's Migration Observatory has pointed out, while the current proposals will have a big impact on businesses, the impact on net immigration figures is likely to be small. In 2014, non-EU work migration comprised only about 13% of total non-British immigration.<sup>8</sup> This view is reflected by the IoD's members, just 5.5% of whom believe 'The government is right to implement a firm cap on the number of immigrants entering the United Kingdom'.

While the general business climate in the UK is good, problems filling skills gaps pose a threat to the continued success of UK businesses. Despite this, the UK's immigration policy has, in recent years, become much less welcoming to the high-skilled migrant workers that our economy needs. The Institute of Directors has consistently raised concerns that the general thrust of policies and rhetoric coming from some corners of the British media and political establishment are damaging this country's reputation as a place for skilled migrants to come and work, and as an economy that is open for business. There is also a danger that the crude catch-all term 'immigration' fails to distinguish between the very different categories of unskilled and undocumented 'illegal' migrants; and the, skilled, documented, and talented migrants that our business and our economy needs.

The UK has a dynamic, globalised and world leading economy. One of the astounding features of the UK job market is the way in which immigrants have boosted productivity. The UK has been fortunate enough to receive large numbers of young, highly motivated and well qualified migrant workers who rather than being a drain on the UK's finances, have made substantial net contributions. As a recent study by the Department for Business, Innovation & Skills has shown, through their foreign learned skills and experience migrant workers enable the cross-fertilisation of ideas, bringing new approaches and innovative practices which improve the competitiveness of British businesses. They bring knowledge of, and connections with, the markets of their home countries, reducing communication and trade costs, and thus increasing export opportunities for British firms, and, by filling gaps in the workforce that would otherwise remain empty foreign born workers help drive up labour productivity (and hence prosperity and GDP per capita),<sup>9</sup> a point recently repeated by the Bank of England's Governor Mark Carney.<sup>10</sup>

Penalising employers who, because skills shortages are rife, need to look to the global talent pool to find the employees they need, is not the answer to gaining more home-grown talent. It should also be recognised that efforts to reduce migration in this manner will not only affect those businesses and organisations that rely on skilled migration they will affect the general population who rely on those businesses and organisations to provide vital services. The government should instead focus its efforts on boosting our education system, not burdening businesses.

Improving the skills of British workers is the right goal for business and the government but it won't happen overnight. It takes time to train school-leavers and graduates in the skills for which the UK economy is currently experiencing a shortage. British employers who seek to recruit non-EU skilled employees do so because the skills are not available locally. The bar for the Tier 2 visa system is already very high – would-be migrants need to have a degree level qualification and a definite job offer, and the company that wants to hire them need to achieve accredited sponsors status, advertise (non-shortage) roles for 28 days in the UK first, and meet salary thresholds for the role. For

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<sup>8</sup> Richard Ford & Sam Coates, "Business leaders attack skilled migrant pay curbs," The Times, 11<sup>th</sup> June 2015: <http://www.thetimes.co.uk/tto/news/politics/article4466578.ece>.

<sup>9</sup> "Gov.UK: Migrant workers bring improvements to British business performance and productivity says new study," Date accessed 25<sup>th</sup> June 2015, <https://www.gov.uk/government/news/migrant-workers-bring-improvements-to-british-business-performance-and-productivity-says-new-study>.

<sup>10</sup> "BBC News: EU referendum should be held 'as soon as necessary', says Mark Carney," Date accessed 25th June 2015, <http://www.bbc.co.uk/news/business-32733033>.

all these reasons, cutting off the supply of global talent is short-sighted and will fail to get British people into jobs.

***The IoD's response to specific questions posed in this consultation:***

**Q1. Options to re-focus the route on areas where there are genuine skills shortages**

The underlying assumption of this proposal is that employers have an alternative when recruiting Tier 2 workers. That is not the case. The suggestion that employers are abusing the UK visa system by using supposed or fictitious skills shortages as an excuse to hire higher non-UK workers at a lower cost is not based on the existing evidence. Among the 50% of IoD members who hire from abroad, just 4% say that the cost of labour is in any way a factor. The fundamental and overriding concern is about finding people with the skills needed for a given job. It would be wrong for the UK government to pander to populist scaremongering instead of basing policy on the available evidence. There is no evidence that employers are hiring Tier 2 workers for any reason other than to fill genuine and real skills shortages. This proposal should be dropped.

**Q3. The implementation of a levy on Tier 2 visas, to fund apprenticeships**

The IoD actively promotes the benefits of apprenticeships. We have a long history of supporting vocational education and believe it is vital to help nurture people at the beginning of their careers, so that we can build up the business leaders of the future. Nevertheless, switching the focus of this policy from Tier 2 recruits to apprentices will not fill the current skill gap. Tier 2 recruits and apprentices are not like-for-like. Tier 2 migrants are of a much higher skill level than apprentices so the supposed purpose of this proposal does not stand up to scrutiny. A Tier 2 levy will only increase the financial burden on British business but will not help solve the skills shortage. The proposal should be dropped.

**Q4. Restrictions on the automatic right of Tier 2 dependants to work**

Removing the right for dependents of visa holders to be able to work in the UK is a very worrying proposal. It is highly unlikely that any worker who has a job offer to move to the UK will want to do so if their family cannot also work here. Removing the right for dependents of visa holders to work in the UK, combined with the concurrent proposals to restrict migrants' access to UK social welfare payments,<sup>11</sup> will inevitably drive up the wage demands of Tier 2 visa recipients in order to compensate for the loss of alternative sources of family income or will outright dissuade the Tier 2 worker from accepting a UK job offer in the first place. Restricting the rights of dependents will therefore nullify the ability of British businesses to bring in necessary skills and talent. The proposal should be dropped.

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<sup>11</sup> "BBC News: EU migrant benefit plan 'could hit thousands of young Britons'," Date accessed 12th August 2015, <http://www.bbc.co.uk/news/uk-33850247>.

**Q5. Tightening up on the intra-company transfer (ICT) route, including applying the immigration health surcharge to ICTs**

Intra-company transfers – where existing employees of a firm are moved to the UK to work on specific time-limited projects – are a vital part of modern business. These employees tend to be highly-skilled individuals whose expertise and institutional knowledge makes them uniquely qualified for the position. Increasingly, intra-company transfers are short-term and time-limited as they are used to address a specific skills shortage within that company. Any policies that inhibit the capacity for businesses to avail of or utilise intra-company transfers risks harming business growth. The proposal should be dropped.

**Q6. Raising the minimum salary levels that migrants have to be paid**

Raising the minimum salary levels that migrants must be paid is perhaps the most alarming of the current proposals. The minimum salary threshold is a *de facto* tax on recruiting overseas expertise. Currently employers need to offer a salary higher than the 25th percentile in the income distribution for that role. A further salary surcharge will restrict the ability of start-ups and SMEs to expand and prosper. Many of these companies are in sectors of the economy, such as IT, engineering, and science, which will form the backbone of the future global economy. They are, therefore, the companies most likely to create jobs and provide high-value added growth for the UK. Inhibiting their potential to recruit by increasing the required salary levels will reduce the competitiveness of UK businesses and would consequently be very detrimental to the UK's long-term economic interests. A higher salary requirement could also make recruitment prohibitive for UK start-ups and SMEs who, due to their lack of available capital, prefer to compensate their employees via equity or non-salaried benefits/incentives rather than a larger salary. These vacancies may therefore be left unfilled, reducing HMRC's income and payroll tax take. Focusing on high wages as a metric to restrict inward migration also has the potential to lead to the monthly migration quota being filled by, for example, high-earning lawyers and bankers, rather than the typically lower-paid scientists, doctors, and engineers the UK needs. In that regard this proposal runs counter to the UK governments own efforts to tackle the productivity challenge. The proposal risks inflicting enormous damage on our economy and should be dropped.

**Conclusion**

We need to keep up-skilling the UK population, but given the prime importance of having a diverse workforce with a global outlook, we must also continue attracting the best and brightest global labour. Foreign workers bring their skills and ideas to this country, pay taxes here, and in so doing help boost growth – that must be allowed to continue. IoD members are very supportive of encouraging immigration into the UK in order to alleviate skills shortages for employers. Our members understand the public's concerns around immigration, but limiting highly-skilled workers from coming to the UK is not a solution. Migrant workers make a significant positive contribution to the UK economy. Discriminating against them would damage Britain's growth prospects just as the economy is starting to take off. What is needed is continuing urgent reform to Britain's education system, not barriers to employing the right labour and people with the skills the UK economy needs to succeed.

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Thank you once again for giving the IoD the opportunity to participate in this call for evidence. We hope you find our comments useful and look forward to seeing the MAC's final report and to further engagement on ensuing policy changes. If we can provide further information on any of the issues discussed, please do not hesitate to contact me.

Yours faithfully,

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