

The role of migration in the UK labour market - ALP response to government strategy on migration

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Introduction

In February 2005, the government published “Controlling our borders: making migration work for Britain”, described as a five year strategy for asylum and immigration.

Although the paper is a White Paper rather than a consultation document, it is appropriate that the major stakeholders make their views known on the government’s proposals.

The Association of Labour Providers (ALP) represents labour providers to the agriculture and fresh produce industry. In round terms, labour providers supply upwards of 400,000 workers to the agriculture and fresh produce trade, the majority of them from outside the UK. The Association, therefore, has a particular interest on policy on migration and also in the way in which policy is implemented.

Executive summary

- The agriculture and fresh produce industry is heavily dependent on the supply of workers from outside the UK as British workers are not prepared to undertake the work for the wages that the industry is able to pay.
- Migrant workers bring huge benefits to the UK economy making minimal calls on the State while contributing tax revenue and also enabling food prices to be held down.
- The Accession States of the European Union can provide the workers necessary to meet the demand from the agriculture and fresh produce trade for a few years at least, but in the longer term this will be less possible.
- There is probably a huge amount of illegal working in the economy. The government has failed to provide a joined-up approach to enforcement.
- The Accession States Workers Registration Scheme is an unnecessary, ineffective bureaucracy and should be abolished immediately.
- The phasing out of special schemes for workers outside the EU is supported.

The government’s proposals

In summary, the government’s proposals are –

- The European Union, in particular the Accession States, are seen as being able to supply the need for low cost labour for the UK economy in the foreseeable future.
- For workers outside the European Union, a transparent points system will be introduced. For all but highly skilled workers a sponsor will be required and bonds may be required for specific categories.
- The current low skilled migration schemes will be phased out in the light of the new labour available from the European Union.

- From outside the European Union, only skilled workers will be allowed to settle long term in the UK.
- Finger printing will be introduced for all visa applicants.
- Fixed penalty fines will be levied on employers for each illegal worker they employ.

Migrant workers and the food industry

The White Paper accepts the importance of migrant workers to the UK economy. It is stated that without migration the rate of economic growth would be lower. It is argued that migrants have brought dynamism to the economy.

These points are certainly true of the food and fresh produce industry. While no detailed statistics are currently available, it is estimated that about half of the workers in the farming and fresh produce industry come from outside the UK, mostly from the Accession States of the European Union, but also from Portugal and from a number of countries outside the European Union.

Most of the workers earn the minimum wage or a little above, as this is all that labour providers are able to afford. This in turn reflects the downward pressure on prices exerted by the supermarkets.

Economic impact of migrant workers

Broadly speaking, migrant workers do jobs that British workers do not want to do. This is not to say that British workers are work shy or benefit scroungers. Rather, in a fairly affluent society when given a choice between working for about £5 an hour or not working, many people will elect not to work. This is their choice.

It may be argued that the effect of bringing in cheap foreign labour is to hold wages down and to take jobs from British workers. To some extent this must be true. If there were no migrant workers in the farming and food industries then British farmers and food producers would need to pay more in order to obtain the necessary labour, quite possibly substantially more. This would have a significant upward effect on the costs of these organisations. This in turn would have two effects, the balance between them depending on market circumstances –

- An increase in the cost of food with the resultant decrease in living standards generally.
- Retailers and food producers would find it more economical to buy food from abroad rather than Britain. Put at its crudest, instead of, for example, potatoes being grown in Lincolnshire and harvested and packed by Polish workers in Lincolnshire, they would be grown in Poland and harvested and packed by Polish workers in Poland. The effect would therefore be an increase in food imports and a reduction in the supply of food by and therefore employment in the food industry in the United Kingdom.

Provided the migrants are in the formal economy (and many of them are not) then they make a significant contribution to the economy through their income tax and National Insurance payments. By contrast, they make little call on the State. They arrive in Britain already having been educated. They are keen to work and in any case generally not eligible for benefits and therefore are unlikely to receive income support. They are most unlikely to qualify for public sector housing. Because they are young they make a minimal call on the health service. Many such workers seek to earn what they can in Britain and then to return home, perhaps to set up their own small business or to buy a house. Most do not bring their family with them and most have no intention of settling in the UK long term, although naturally a number do so.

Some government research suggests that migrants generally have a significant beneficial effect on the UK economy. If research were conducted specifically on migrant workers in the agriculture and fresh produce industry, this would certainly be the conclusion with the effect perhaps being quite substantial.

Can Europe provide low paid workers?

A central theme of the government's proposals is that the need for low paid workers will be met in future from Europe, in particular the Accession States. Consequently, schemes for workers from outside the European Union are being phased out. The ALP supports this proposal, in particular the abolition of the Seasonal Agricultural Workers Scheme, the rationale for which has disappeared, but which also is, in practice, a form of bonded labour as workers are tied to the company that employs them initially.

In a paper submitted to the Home Office on 24 January 2005 arguing the case for the abolition of SAWS, the Association said that the Accession States would be sufficient to supply the necessary labour in the immediate future. While this is the case now some thought needs to be given to the longer term. Over time, the differential between wages in the Accession States and the United Kingdom will narrow as the Accession States become wealthier. Spain and Portugal provide a good analogy. Workers will therefore find it comparatively less attractive to come to the UK and the quality of those workers who do may well deteriorate.

The Channel Island of Jersey also gives a useful analogy. For many years, it obtained temporary workers for the agriculture industry from France and for the hospitality industry from Portugal, in particular Madeira. Now, of course, French workers are not going to seek to work in low paid jobs in other countries and accordingly Jersey farmers have increasingly employed Portuguese workers. However, as living standards in Portugal have risen in relation to those in the UK, so Jersey employers have had to look further afield. Farmers are increasingly recruiting from Poland while the hospitality industry has turned to Africa.

This is simply making the point that the value of the Accession States as a supply of cheap labour is bound to deteriorate over time and the government needs to have a strategy to deal with this. Of course, if the European Union continues to expand, for example taking in Turkey and perhaps the Ukraine, then the supply of cheap labour from the European Union may last rather longer than might now seem to be the case.

Illegal working

Although there is little evidence to support this, the Association believes that there remains a huge amount of illegal working in the UK economy. The agriculture and food supply industry lends itself to illegal working because of the significant fluctuations in the demand for labour, the small scale of many of the businesses and also the physical remoteness of them which means that they are less likely to attract the attention of the authorities.

The purpose of illegal working is to make money. Workers benefit predominantly through tax evasion. Those who employ or provide the workers also share some of the benefits of tax evasion on the part of their workers and benefit financially by not making National Insurance contributions or paying VAT that is due. There is a huge financial benefit from operating illegally. Those who operate outside the legal system can undercut legal operators by at least 30% simply through tax and National Insurance evasion.

Some evidence of the extent of illegal working has been given by the operation of the Accession States Worker Registration Scheme. Home Office estimates are that of the 123,000 workers who registered between May and December 2004, 40% (49,000) were already in the UK and therefore probably working illegally. The Association believes that many workers from the Accession States have not registered under the Scheme and therefore continue to work illegally.

The Association believes that the government's efforts to deal with illegal working have been inadequate. In particular, they have not been joined-up and have largely concentrated on the formal part of the economy. Labour providers report detailed discussions with IND officials arguing the toss about marginal cases while close by wholesale illegal working continues. There appears to be little joint working between the Home Office, the Police and the tax authorities

The Association believes that illegal working can best be tackled through the economic route, that is tax evasion. The system is already in place to enable this to be done in the agriculture and fresh produce industry. Labour users are required to complete ACU2 forms on a weekly basis and send them to the Inland Revenue. This should give a complete audit trail enabling Inland Revenue officials to track back from labour users to individual labour providers. Where the records are inadequate, then the labour user can be required to put their house in order which almost certainly will mean them ceasing to use illegal labour providers. However, the evidence suggests that the ACU2 forms are not used at all.

The Association believes that illegal working must be tackled through the combined efforts of government departments, in particular HMCR, the Police and the Home Office. Each has their own agendas and targets which are not well suited to joined-up government.

The Association notes the proposed substantial fine for employing illegal workers. Past evidence suggests that this is likely to be used against those trying to operate legally who have made some minor failing which has resulted in them employing an illegal worker. It would be far better if the attention of the authorities was concentrated on those operating wholly outside the law.

Accession States Worker Registration Scheme

Shortly before the Accession States joined the European Union in May 2004, the government introduced the Registration Scheme. It was introduced with no consultation, virtually no notice, with no explanation as to why it was being introduced and no regulatory impact assessment. Rather, it was introduced as a response to media pressure with concerns that the country would be overrun by foreigners.

Broadly speaking, the scheme requires workers from the Accession States to register with the Home Office within one month of starting work in the UK. They have to pay £50 as a registration fee and also provide their passport or identity document.

The scheme is now running relatively smoothly although in the past there have been major problems with delays of up to 12 weeks, during which time workers have not had access to their passports.

The Association believes that this scheme should never have been introduced and now believes that there is an unarguable case for its abolition. What the scheme purports to show is that 123,000 from the Accession States registered between May and September 2004, 40% of those already having been in the country working illegally. What the statistics do not say is how many workers from the Accession States are currently working in the UK. There is no method of recording those who leave the UK and to this extent the figures are a gross exaggeration of the number actually working at present.

On the other hand, there are a number of reasons why workers fail to register so the number of registrations is also an understatement. The first is that by registering they become part of the formal economy and therefore cannot benefit from tax evasion. Those that are given the option of working for £4.85 an hour cash or £4.85 an hour less tax and National Insurance may well be tempted to take the former. Secondly, workers have to send off their passports when registering and some are naturally nervous about doing this. The scheme seems to imply that people come to Britain to do one job and stay there for a long time. In reality, many workers change jobs quickly. A number change jobs within a month and there is some anecdotal evidence that some workers

move jobs every month, not difficult in some parts of the country, simply to avoid registering and paying the £50 fee.

The number registering under the scheme is about ten times what the government had initially predicted but there have not been the adverse consequences that many were expecting. Public debate on the value of workers from the Accession States has changed markedly in tone with there being a general recognition that such workers contribute to the economy rather than take from it.

The statistics on the scheme are implausible, indicating at the very least that the form filling burden could be reduced and probably also that the scheme is simply not accurately recording what is going on. They suggest that just 1,535 of the registered workers were employed in packing and processing fruit and vegetables. This is clearly below way below the true figure.

The scheme may have served some purpose but it is difficult to see what public policy objective it is currently achieving. It also needs to be born in mind that the £50 fee is equivalent to over two days' pay after tax to some of the workers who are being subject to it.

Accordingly, the Association urges that the scheme should be abolished.