Immigration and the Labour Market: Demand, Recruitment and Integration

KEY POINTS

- In conjunction with other policies, migration can play a role in alleviating the adverse consequences of ageing populations in Germany and the United Kingdom (UK). However, it is not realistic to expect migration alone to fully offset the projected rise in old-age dependency ratios.
- The labour-migration systems in Germany and the UK require important adjustments. In both countries there is a need for an informed and transparent management system designed to respond to measured, legitimate needs, and to take domestic labour concerns into account.
- Preference should be given to selective migration policies that are tailored to the labour market so as to meet national political and economic objectives. Such policies also reduce social tensions towards migration and enhance economic performance.
- There is a definite need for immigrant integration policy, beginning with the labour market but extending also to society as a whole. The goals of this policy would benefit from being clearly defined at the outset.
- Further research is required to assess the impact of irregular migration on the labour market, and its causal link with the recruitment of low skilled migrants.

www.igs.bham.ac.uk/searchforsolutions

ippr

COMPAS

BRITISH EMBASSY BERLIN

THE UNIVERSITY OF BIRMINGHAM

Anglo-German Foundation
Deutsch-Britische Stiftung

The Search *for* **Solutions**
Policy Learning in Britain and Germany

Institute for German Studies celebrating 10 years 1994 - 2004

Briefing Paper No.2
October 2004

The Need for New Labour Migration

Germany and the UK's domestic populations are experiencing far-reaching change. On the one hand, they are decreasing and becoming older due to a combination of population aging and very low birth rates. On the other hand, persistent depopulation in regions such as Scotland and the new *Länder* is also creating pressure for new labour migration to meet emerging skills shortages. This decrease in the number of inhabitants and of the working population raises important questions regarding the viability of the welfare state and the functioning of the labour market in both countries. In fact, in its 2000 World Population Survey, the United Nations predicts that by 2050 the Potential Support Ratio (PSR) for Germany and the United Kingdom will decrease to an unsustainable 2.05 and 2.37 respectively (including constant 1998 immigration levels). In light of these predictions, it is fair to conclude that in the medium-to long-term, both countries will be facing severe workforce shortages and increased pressure on their welfare systems.

Immigration is often portrayed as a logical solution to these demographic problems. However, this assumption does not take into account structural problems inherent in the welfare system and the unsustainable levels of immigration that would be required to rectify the situation. In fact, labour migration is a short-term solution to a long-term problem and merely provides an illusion of sustainability. That is, whilst labour migration alleviates the pressures on the labour market and welfare states by introducing much-needed economic dynamism from the outside, immigration is, in reality, not the sole answer to the problem. In fact, additional issues such as discrimination in the work place (gender, ethnic and other), welfare for work policies, the decreasing work/life ratio, and labour market rigidity are matters that also need to be addressed.

All that being said, on the whole, labour migration is a clear and definite necessity for both economies; it is not, as is often argued, a 'problem' that needs to be solved. It is unfortunate that the extent and reach of labour migration has been, and often still is, overestimated and exaggerated by German and British media and activists alike. In both countries, immigration is a political and emotional debate coloured by national self-perception and the condition of the welfare state. In order to start laying out a normative migratory framework, the overall negative perception of migrants must be addressed. In large part, it is the responsibility of the media to reverse that perception, chiefly by highlighting the undeniable ways in which migrants enriched (and enrich) societies in their receiving countries. Moreover, both governments must work to demystify migration. Reliable information on migration and the need to consider the issue from a social perspective – as opposed to the over-used productivity argument – are necessary pre-requisites.

On the other hand, it must be noted that labour migration is gaining ground in terms of political acceptability: recent discourse has been fruitful, and the obvious need for new labour migration has come to the fore. Indeed, it has become self-evident that both economies are in need of foreign workers, especially in certain key sectors such as construction, health care and hospitality. Furthermore, labour migration has increasingly appeared at the top of the political agenda because of its nexus with competitiveness.

Increasing Competitiveness

The international migration of skilled persons has assumed increased importance of late in both Britain and Germany, reflecting the impact of globalisation and the explosive growth in information and communications technology. Both countries have explored liberalising their admission policies for highly-skilled professionals in an attempt to recreate a competitive domestic workforce and transition from industrial to knowledge-based economies.

It is with the goal of competitiveness in mind that the UK's Highly Skilled Migrant Programme (HSMP) was implemented. This Canadian-style 'points-based' recruitment scheme was also considered by the German government, but was ultimately abandoned because of political considerations and difficulties in determining the precise nature and extent of labour shortages. Consideration was also given to the rigidity of the programme, in that high skilled migrants are generally less inclined to move from one sector of the economy to another.

While the points-based system may have been deemed successful in Canada, the same cannot be said for the UK where the scheme has suffered much criticism. The HSMP has been labelled by some as a support framework for the mobility of employees within and between multinational companies. Critics also decry its social inequality given that the system facilitates international mobility in certain priority (elite) sectors of the market, whilst restricting access to equally important, yet less skilled labour. Neither is the HSMP a resounding success in practice: the scheme has proven costly for employers and lacking in accuracy with respect to its selection process. Moreover, the programme is less flexible and less successful (as measured by volume) than Britain's traditional work permit programme.

Notwithstanding all of the above, the key issue that remains for both Germany and the UK is their ability to attract and ultimately retain the highly-skilled migrants required. Both countries have operated on the assumption that skilled migrants strongly endeavour to join national workforces, but is this premise accurate? In a truly global environment, is it not unreasonable to suppose that the American labour market would prove a greater attraction? Furthermore, with respect to retention, is it not a real threat that these markets would be a mere 'stop-over' for migrants on their way to the United States.

Regardless of these assumptions and challenges, Britain can be argued to have a competitive advantage of Germany in its pursuit of highly skilled migrants, if only because of the UK's national language and the attraction of London as a world financial centre. If these comparative advantages actually do exist, it follows that the UK may arguably have a lead vis-à-vis Germany in the competitiveness arena.

Finally, as far as high-skilled migrants are concerned, some further questions should be taken into consideration, including the potential trade-off between the recruitment of the highly skilled versus the enforcement and formalism of migration policies in place. While some migrants may be attracted by the prospect of acquiring a foreign language, the imposition of language classes might not appeal to most 'professionals'. An analogous argument may also resonate with respect to obligatory and formal integration/citizenship classes currently being set up in Germany, and planned in the UK.

Low Skilled and Irregular Migration; Asylum Seekers and Refugees

Perhaps the greatest global concern in the area of international labour migration is the unprecedented rise in irregular forms of migration that has transpired. The number of unauthorised migrant workers is increasing in both Germany and the UK, although precise figures remain unknown. It is estimated that perhaps no less than 15 per cent of unauthorised migrants in each country are working on an irregular basis. This phenomenon may, in part, be attributed to the increasing commercialisation of the private recruitment process and the increasing application of restrictive immigration policies. Moreover, the lack of legal protection for migrant workers makes them attractive as instruments of 'maintaining competitiveness' and positions them outside the reach of government monitoring and enforcement.

Consequently, the impact on the labour market of irregular migration in general, and the recruitment of low skilled migrants in particular, remains uncertain in both countries and requires further research. It is taken as given that irregular migration and low skilled migration have an impact on the competitiveness of certain sectors of the labour market (eg. agriculture), essentially through access to low paid workers. However, little is known about the resulting impact on the national economy or its affect on other parts of the labour market. Also in need of more research is the link between the recruitment of low skilled migrants and the levels of irregular migration. Would the introduction of quotas on the recruitment of the low-skilled alleviate levels of illegal migration? What causal impact does 'cheap labour' have on the national economy?

By and large, the UK has generally had a more liberal approach toward the recruitment of the low skilled, preferring market forces to set demand. For its part, and conceivably as a result of past recruitment schemes, Germany is of the view that sufficient levels of low-skilled migrants are already within its borders. Consequently, Germany has restricted immigration visas for such labour. The German government's decision of late to impose a seven year ban on workers from the European Union accession states also flows from this view.

In contrast to the government's official policy, German industry holds the opposite position and favours a lift on the ban: eastern European workers are seen as the single most important source of seasonal workers to Germany and, from industry's perspective, such workers increase the flexibility of the labour market. Consistent with this standpoint in both Germany and the UK, industrial interests are also in favour of work permits being granted to longer-term settled refugees (that is, those settled for more than six months) to counter the problem of refugees entering the underground workforce. Less onerous access to work permits for recognised refugees – many of them highly skilled – will not only act as a means to add dynamism to national economies, but should also facilitate and promote their speedy integration.

Mechanisms for Managing Labour Migration

Defining Labour Shortage

The economic arguments supporting new labour migration have been generally accepted. However, while there is overall agreement on the need for workers, the nature and extent of these needs require defining. Clear and precise research is needed to delineate labour shortage requirements and accurately outline national recruitment criteria.

In economic terms, labour shortage occurs when demand for particular workers exceeds the supply of those whom are qualified, available and willing to work at existing market conditions, including prevailing wage rates and geographic locations. These shortages are generally measured by economic indicators or employer-based surveys. While economic data clearly provides an objective view of labour market imbalances, they may not be suitable for some regulated labour markets (e.g. nurses or teachers) and may be further constrained by an unavailability of data. On the other hand, while employer-based surveys offer more subjective information, they merely reflect the employer's current availability and/or unavailability of qualified labour; they do not necessarily outline future market trends or needs. Yet, the lack of accurate and clearly identified labour shortages impinges upon efficient and successful labour migration management.

A further related question that remains is why native workers are not filling the labour gaps. One potential answer could be the incongruence between the educational backgrounds possessed by the domestic workforce and the skill sets sought by employers. However, it is more likely that low wages in certain sectors tend to act as a disincentive for the native population. In other words, the low wages in sectors where labour is abundant may be unintentionally restricting that sector to foreign workers. The reality of the international labour market is such that, generally speaking, immigrant workers are usually more prepared to accept positions that domestic workers consider to be 'low paid'. This increased willingness to assume such positions on the part of immigrant workers arguably stems from their exposure to what are often much lower remunerated jobs in their country of origin.

Managing Labour Migration

There is a general view in both Germany and the UK that the current systems of migration recruitment are unsatisfactory in addressing labour market needs in that they are primarily employment-based systems failing to answer essential structural considerations. Moreover, they do not facilitate flexibility in the labour market and are not forward-looking; they are geared towards filling immediate labour shortages rather than future market needs. At its core, efficient labour migration management should address labour market flexibility, take into account long-term considerations (rather than short term 'fixes'), and focus on policies rather than political acceptability.

Given this perspective, clear priorities should, among other things, include access to jobs with safe working conditions, secure legal status including equal rights, and accompanying social services for the migrants. One means of establishing a normative framework for migration is to remove it from the political decision-making process and respond to the challenge it poses in an independent objective manner. In other words,

the management of labour migration would gain by being addressed as a policy in its own right rather than a mere political issue.

The Challenge of Integration

In the UK, in those cases where immigrant integration has been successful, it has arguably been so by chance. There was a strong reliance on the combined effects of the labour market as an integrative agent and a pragmatic approach to equal treatment through anti-discrimination legislation. The unintended outcome of this laissez-faire approach has been that different levels of integration exist for different ethnic communities. The question, however, as to why these inequalities arose has yet to be fully researched. In recent years, integration and social cohesion have been in the limelight, with the consequence that the UK now has an official integration policy, with a renewed focus on citizenship and the meaning of being British.

In Germany, given its past self-perception of not being a country of immigration, no official integration policy was in place. A certain level of integration has however come about, mostly through secondary and non-intended means. The 1999 citizenship law reform marked a shift in the government's policy towards immigrants and has had a great impact on their potential level of integration. Moreover, under EU law, Germany is required to introduce formal anti-discrimination legislation in the near future. Hence, both the UK and Germany are now strongly focusing their official integration policies on citizenship, both formal and substantive, and on pragmatic integration through the labour market and public services (including language classes).

A further question also remains as to how much active integration policy is actually needed: indeed, despite the UK's (and to some extent Germany's) cavalier approach to integration, there has been a certain level of success in integrating immigrants. Could it be that a pragmatic integration policy would prove a more efficient and less costly means of integration?

The End Goal of Integration

It is important to note here that economic and labour market integration is only the starting point of integration. While pursuing the effective economic incorporation of newcomers, hosts and official institutions must also undertake the much harder task of shaping the new common space. Achieving this will be the ultimate gauge of the success of British/German integration policies, and will, in turn, spill-over into both governments' social cohesion agendas. Simply put, the process of understanding and devising appropriate responses to immigrant integration is an essential element of sound immigration management. It is in the receiving society's interest to prepare the foundation, not only for the immigrants' economic and labour market contributions, but also for their social and political incorporation.

In pursuit of this goal, a better definition of what integration is meant to achieve is a crucial point. Could it be that, in British and German government jargon, integration is a substitute for assimilation? Understanding the meaning of integration is also made more complex in that it is not apparent what, exactly, migrants are expected to integrate into. In Britain for example, 'Britishness' is slowly eroding and is being replaced by a more restrictive regional identity (eg. English, Welsh, Irish and/or Scottish). This shift has strong implications for the integration of immigrants.

Finally, in both Germany and the UK, immigrants continue to experience difficulty entering the labour market. The absence of effective credential assessment and recognition processes, as well as insufficient supports for work-related language training, contribute to the gap between immigrant earnings and employment rates, and those of domestic workforce. In order to take effective advantage and realise the full benefits offered by immigration, successful economic and social integration is essential; the impeding challenges outlined here must be overcome.

This briefing paper is the result of the seminar "Migration and the Labour Market", part of the Search for Solutions series, held at the British Embassy, Berlin on 2 June 2004, convened by Dr. Simon Green. It was written by Chantal Lacroix of the University of Birmingham. We are grateful to the British Embassy in Berlin, the IPPR, and the Centre on Migration Policy and Society, University of Oxford, for their generous support.

Further Information

For more information on the Search for Solutions series, please see:

www.igs.bham.ac.uk/searchforsolutions

or contact Ed Turner on +44 (0)121-414 8045, fax +44 (0)121-414 7329, email E.O.Turner@bham.ac.uk

4049