

# UK labour shortages and immigration: looking at the evidence

*Can the shortages of workers reported by the food and drink sector be solved by making it easier to hire migrants? How will wages in these sectors change? Is there a conflict between short- and long-term fixes? Alan Manning offers his perspective on these issues.*

Employer lobbying on worker shortages unsurprisingly tries to talk up the seriousness of the consequences, often using emotive images – Christmas [without the turkey](#), fruit and vegetables left to rot in fields (or [given away for free](#)). This week, the Confederation of British Industry (CBI) [has said](#) that the economic recovery is at risk of being undermined without new visas for foreign workers.

These claims may be accurate but could also be exaggerated. Employers are likely to present their case as being in the national interest but, first and foremost, what they are asking for is generally in their interest. In many situations what is 'best for business' is 'best for Britain', but not always. We would never have had the Equal Pay Act or the National Minimum Wage if we had uncritically accepted the arguments of business at the time that they were bad policies.

## **When immigration can be used to address labour shortages ...and when it can't**

Work migration policy cannot be used for generalised labour shortages. Immigration increases the supply of labour but as migrants spend their earnings, it also raises the demand for labour; any gap between the supply and demand for labour is the same. To think that migration is a possible solution to generalised labour shortages is to fall into the lump of labour fallacy, the view that there are a fixed number of jobs in an economy. The fallacy mistake is often made in recessions by those who are generally hostile to immigration when arguing that immigration causes high levels of unemployment. But it is also made by those favourably inclined to immigration in a booming labour market who argue for immigration to solve widespread labour shortages.

However, work migration policy can, and should, be used to address some localised shortages. There are a number of questions to reflect on: how serious is the shortage, what is the cause of the shortage and is it sensible to address shortage through migration policy?

## **How serious is the shortage?**

Not all labour shortages are equally serious. Severe shortages are more serious than mild ones. And the consequence of shortages needs to be considered. More serious are shortages of workers who deliver key products and services, or cause bottlenecks in the economy, so limiting economic activity in other sectors. Shortages of doctors are more serious than shortages of bar staff. And shortages of HGV drivers can cause bottlenecks in the economy when shortages of bar staff don't. Though even where shortages are not of great concern from the perspective of the economy as a whole, they may have serious implications for the affected businesses.

## **The causes of shortage**

Sometimes a shortage occurs because there are not enough people able to do the job. In others it is a shortage of people who want to do the job, almost always because of poor pay and/or conditions.

For some of the sectors currently complaining about shortages – agriculture, food processing, hospitality, the basic problem is poor pay and/or conditions which mean these sectors struggle to compete for local workers with other sectors and look to the government to provide them with a source of migrant labour with fewer options. In the case of HGV drivers, the appropriate licence is needed and there seems to be a shortage of the suitably qualified but there may also be some issues with pay/conditions; a former editor of Trucking Magazine [claims](#) there are 600k people in the UK with the necessary licence who do not drive for a living.

Understandably the sectors prefer to emphasise that the shortage is the result of the lack of necessary skills or an unfair perception of the quality of jobs rather than low pay. These claims need to be evaluated critically. Employers will also point out apparent inconsistencies in eligibility for the skilled worker visa – poultry and fish processors are eligible (though the required salaries probably mean little use is made of them) but meat processors are not.

Many of the affected sectors have long-standing issues with the recruitment and retention of workers but these problems are more acute now. The pandemic is one cause. At the end of June 2021 there were still [1.9 million workers on furlough](#) from 580k employers, some of them in the same sectors that are also reporting shortages.

Brexit has also played a role. Although estimates that the number of migrants in the UK [fell by 1.3m](#) have now been largely discredited, some European workers have returned home. The pandemic has disrupted one of our main data sources (the Labour Force Survey) so there is more uncertainty around the estimates than normal. (Better estimates can probably be found [here](#).) But the [latest ONS figures](#) suggest the employment of EU nationals fell from 2.4m in Jan-Mar 2020 to 2.2m in April-June 2021. The fall is among A8 (944k to 823k) and A2 (399k to 278k) nationals. As workers from these Eastern European countries are known to be more likely to work in the sectors complaining about shortages, these estimates, while subject to more uncertainty than usual, seem plausible.

It is understandable that many of these workers left the UK in the depths of the pandemic to move closer to family and where the cost of living is lower. I suspect much of this would have happened even if the UK had remained in the EU. But now, as the economy reopens, it seems hard to persuade many of these workers back to the UK. Presumably many of these workers have settled or pre-settled status and so are able to return; they don't want to. Their reluctance is perhaps because Brexit has soured their view of life in the UK, or perhaps they believe they now have better options elsewhere. The report [Establishing the labour availability issues of the UK Food and Drink Sector](#) contains several examples of this, e.g., "One horticultural company quoted a loss of 25% of staff since Jan 2021 due to those returning to Europe as pay is now much better in Norway".

The post-Brexit immigration rules do make it more difficult, impossible sometimes, to recruit new workers from the EU. If EU workers with settled or pre-settled status who can return to the UK do not want to, it is not clear why large numbers of others would want to come even if free movement had continued. Even before the Brexit vote, the business model that relied on a steady stream of new migrants from Eastern Europe was probably running out of road; the EU was not expanding, and options at home and elsewhere in Europe were improving.

For HGV drivers one other important factor seems to be [HMRCs IR35 rule](#) that has forced many drivers to swap (bogus) self-employment for employee status resulting in falls in income of up to 25%.

### Solutions to shortages

Solutions work best if they are well-targeted on the causes of the problem.

If the shortage is caused by a lack of people with the necessary skills, then a best long-term solution is to increase training. But, if the shortage is acute and it takes time to train workers, migration is a very tempting stopgap. The CBI director general has called for temporary interventions to give other strategies [time to work](#). The risk, however, is that allowing migration removes the pressure to train more and a temporary policy becomes a permanent one. To give one example among many, in 2016 the MAC considered whether nurses should be placed on the shortage occupation list (SOL) to receive priority in the [allocation of work permits](#). The Department of Health (as then was) argued this was needed as a short-term measure before their ambitious plans to train more nurses came to fruition. To nobody's great surprise this did not happen, and nurses remain on the SOL to this day.

For the shortages in the food and drink sector, HGV drivers stand out as the job where there might be a shortage of people with the necessary licence. But getting an HGV licence takes much less time than training to be a nurse or doctor; in normal times [about 8-10 weeks](#). The pandemic has led to a bottleneck in obtaining new licences. But the long-standing shortages in this sector are probably the result of a training model where workers have to find the time and money themselves and feel the pay and conditions are not worth it.

Where the shortage is caused by poor pay and/or conditions the obvious solution is to improve them. That should increase the supply of people who want to work in the sector, but may also raise prices and reduce the demand for workers. There is a long-standing academic debate about the link between immigration and wages; the many current reports linking a lack of migrants to [labour shortages and rising wages](#) probably shifts the balance of evidence a bit towards the view that migration can sometimes affect pay. But the economics leads us to expect bigger impacts in the short-run than the long-run. Over time business models adjust, leading to a smaller rise in wages. Workers in these sectors currently being offered higher wages might be well-advised to take advantage of the current situation as it may not last forever.

If shortages are caused by poor pay/conditions, migration can nonetheless be a solution to shortage because there are many people in the world (mostly in lower-income countries) who would happily take these jobs that the UK labour force does not want. Most of these people are outside rather than inside the EU.

For these reasons the affected sectors are probably (their exact ask is quite vague) looking to recruit migrants from outside the EU. They would like an expanded seasonal workers' scheme but would also like some more permanent workers. Some of the jobs reported to be in shortage (e.g., chefs, poultry and fish processors) are eligible for the skilled worker visa but the minimum salary requirements and visa costs mean few employers are likely to use this route. They are lobbying for these jobs to be on the SOL which (for mysterious reasons) the government decided should reduce the salary threshold. Other jobs reported to be in shortage (eg. HGV drivers) are not currently eligible for the skilled worker visa and the sector would like to widen eligibility.

#### Precedents

The food and drink sector would probably like to go back to something like the sector-based schemes that operated from 2003-2013. These were introduced to help employers in the hospitality and food processing sectors fill vacancies with qualified workers from [countries outside the European Union](#).

Many other countries have some type of visa for 'lower-skilled workers' used to alleviate shortages caused by poor pay and/or conditions. They often:

- \* restrict the labour mobility of migrants.
- \* are temporary, offering no path to settlement.
- \* restrict access to welfare benefits.
- \* do not allow accompanying dependents.

There is some debate about why these schemes are common. One view is that they are the outcome of intensive industry lobbying primarily serving the interests of business (but also, importantly, the migrants who are offered better jobs than they could find at home). Another view is that business is not the main beneficiary; rather it is consumers in the form of lower prices. The academic literature on the impact of immigration on profits and prices is surprisingly small so there is not a lot of evidence to go on here.

One group of losers may be the locals who remain working in the sectors where pay and conditions remain poor, because of access to migrant labour. And there may also be implications for the public finances if these low-paid migrants have access to welfare benefits. They often don't but then this creates a part of society that is much poorer than the rest. Visa details matter but are largely absent from current discussion.

It is important to be pragmatic and to keep work migration rules under review. That review needs to be evidence-based and evidence to be evaluated critically and calmly which is hard when the pandemic changes the labour market in unpredictable ways. Of the shortages being reported currently, it is the driver shortage that strikes me as the most serious immediate concern (other serious shortages such as in social care are long-standing) but I do not have access to all the information I would like before being comfortable making a recommendation.



*Notes:*

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