



PRICES NOT POINTS

A Post-Brexit Immigration Solution

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BRIEFING PAPER

EXECUTIVE SUMMARY

- As the UK prepares to leave the European Union in 2019, the government must create a new policy for immigrants from EU-member nations. It should also re-think its policies regarding non-EU immigrants as well.
- In recent years, UK immigration policy toward non-EU migrants has prioritised highly skilled workers. Free-movement migrants from within the EU have generally held low- or semi-skilled jobs and had strong labour force attachment.
- UK immigrants have higher education levels than natives, on average, and while the largest economic gains typically come from highly skilled immigrants, less-skilled immigrant workers make economic contributions as well.
- The empirical evidence indicates that immigration has had a negligible overall effect on natives' employment, unemployment, and wages in the UK. However, a few studies conclude that the labour market prospects of less-skilled native-born workers have been harmed by immigration.
- Reducing immigrant inflows, particularly of highly skilled immigrants, would create considerable economic costs in the short and long run. Admitting more highly skilled immigrants, from inside or outside the EU, is particularly vital to long-run economic growth.
- Auctioning employer permits to hire foreign workers would maximise the economic benefits of immigration and increase government revenue.

In the wake of the stunning British vote in 2016 to leave the European Union, the UK must design an immigration policy that can win popular support. This may prove challenging since many voters who supported exiting the EU did so because of concerns about the influx of “free movement” migrants. Although the nearly 3 million people born elsewhere in the EU who live in the UK account for only 4 percent of the country’s total population (Connor 2017), their number has grown far faster than other immigrant populations since the early 2000s and, unlike other inflows, could not be restricted due to EU freedom-of-movement provisions.

The UK government must now make a number of decisions, including: How many immigrants from the EU should be admitted? What criteria should they meet? How long and under what conditions should they be able to work or stay, and what public benefits should they be able to receive? The UK should use Brexit as an opportunity to rewrite its policies towards non-EU migrants as well in order to attract more skilled migrants.

This briefing paper provides an overview of UK immigration patterns and policy and summarises research findings on the economic effects of immigration in the UK. It then sets forth general principles for designing an immigration policy for the post-Brexit era and explores the possibility of auctioning off permits to hire foreign workers. The goal is to lay out the foundations of a policy that boosts immigration’s contribution to economic growth. An additional benefit of such a policy is that it could increase public support for immigration.

BRIEF HISTORICAL BACKGROUND

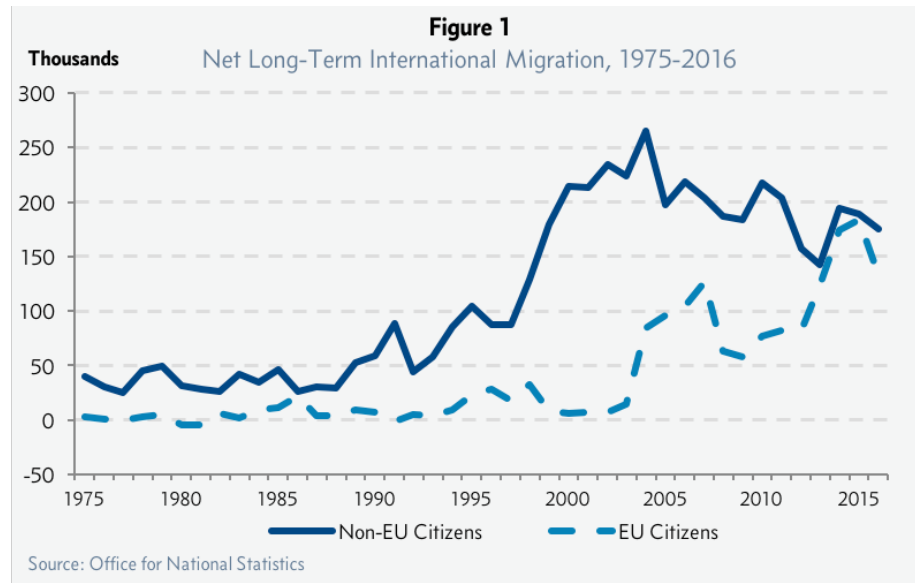
From the end of WWII until the late 1990s, Britain differed from many continental European and other Western countries—most notably Australia, Canada, and the United States—in experiencing near-zero net migration. Beginning in 1997, immigration policy loosened, particularly for economic (or labour) migrants, and the UK became a major immigrant-receiving nation.

During the mid-20th century, UK immigration controls were lax for British subjects but strict for virtually everyone else. Inflows from Commonwealth countries were driven largely by the strength of economic opportunities in the UK compared with elsewhere. The 1962 Commonwealth Immigrants Act and the 1971 Immigration Act began imposing controls on British subjects (Coleman and Rowthorn 2004). The 1971 Act allowed migration only by workers with a job offer and a work permit, and family members (Hansen 2014).

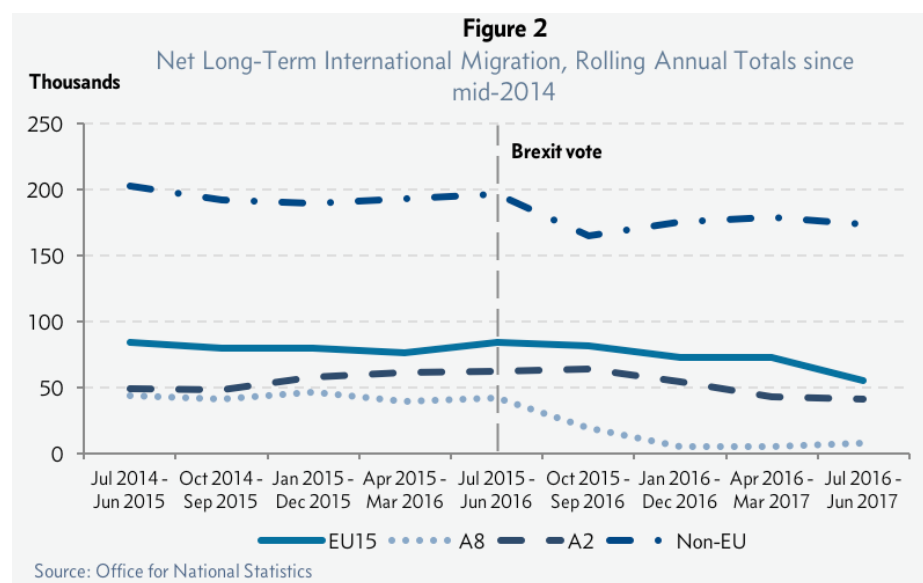
When the UK joined the EU in 1973, the principle of freedom of movement gave many European workers ready access to UK labour markets.¹ Nonetheless, net im-

¹ All citizens from European Economic Area (EEA) countries (the EU plus Iceland, Liechtenstein, and Norway) and Switzerland have free movement rights within the EU. This report uses “EU” as shorthand for this group.

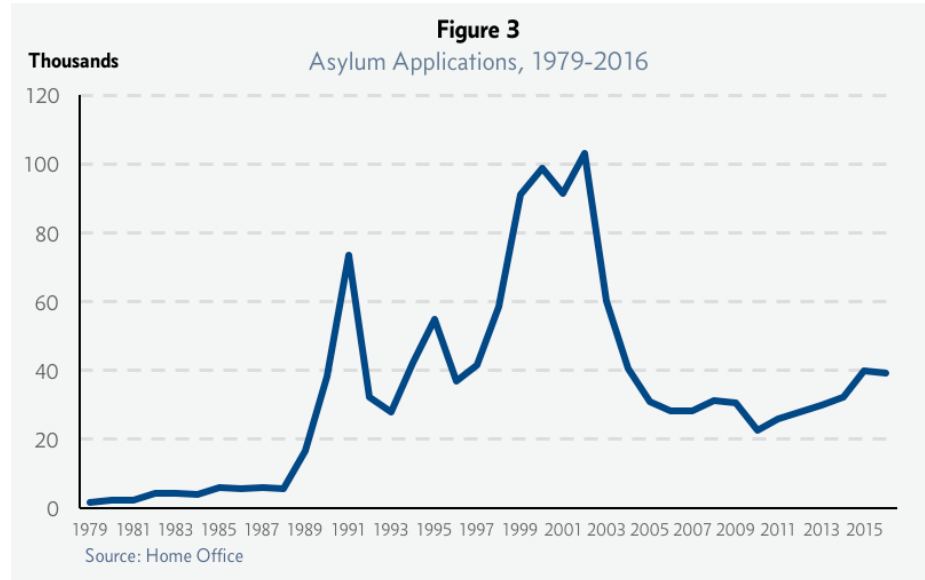
migrant inflows from the EU were small, in part because the earning gaps between the UK and other EU members at the time were not large enough to motivate many workers to move. Under tight immigration policies by the Thatcher government, inflows from non-EU nations were small as well (Hansen 2014).



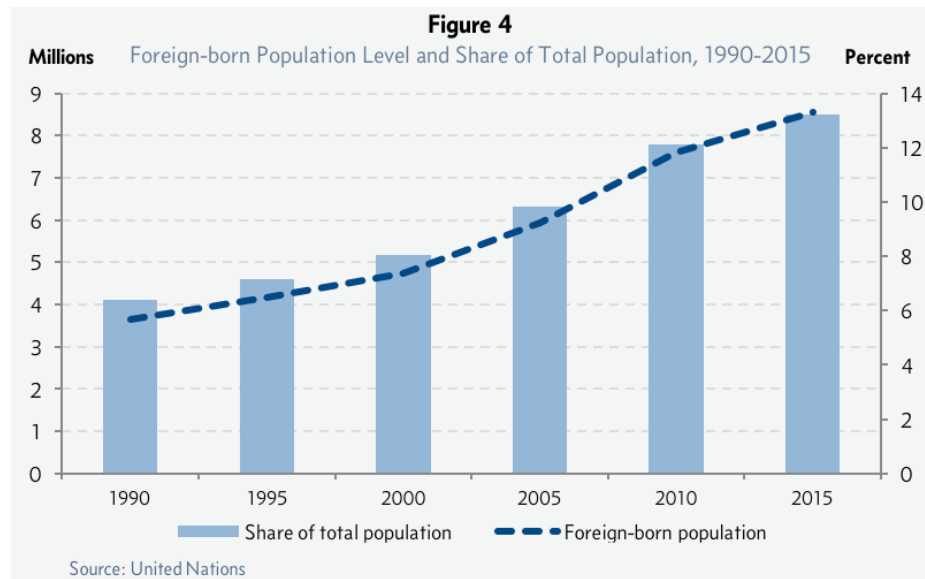
The Labour Party implemented major changes to immigration policy after taking over in 1997. These changes included dramatically expanding the number of work permits available for migrants and relaxing the terms of those permits starting in 1997; opening its doors to citizens of eight states that joined the EU in 2004 (the “A8”); and creating a points-based system in 2008. Net migration skyrocketed. As shown in Figure 1, net long-term international migration by non-EU citizens began rising in the early to mid-1990s and then accelerated sharply after 1997. Migration by EU citizens rose dramatically in 2004. Net inflows from within the EU fell with the economic downturn in 2008 but then largely rebounded. Net inflows from EU countries have fallen sharply since the Brexit vote, particularly from A8 countries as Figure 2 shows.



After receiving few asylum seekers during the 1970s and 1980s, the UK saw asylum flows rise starting in 1989, as shown in Figure 3. The increase was due mainly to the Balkans crisis and a tightening of asylum policies in several other Northern European countries. The UK eventually enacted measures to make the country less accessible or attractive to asylum seekers, which dramatically reduced the number of asylum applications by the mid-2000s (Hatton 2016). Compared with other European nations, the UK has been on the low end of asylum applications per capita in recent years (Hatton 2016).

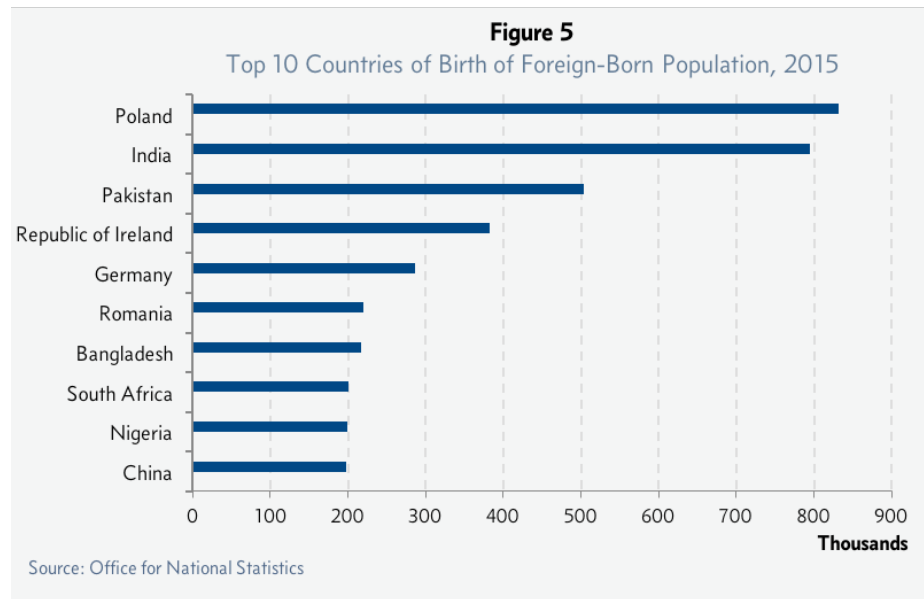


The rise in migrant inflows resulted in a doubling of the foreign-born population over the last twenty years (Figure 4). The foreign-born population in the UK totals almost 9 million, or more than 13 percent of the population (Rienzo and Vargas-Silva 2017).² Good labour market prospects, as well as looser immigration policies as discussed above, attracted large numbers of workers from elsewhere in the EU and around the world. Increases at the top end of the income distribution in the UK played a particularly important role in attracting relatively skilled migrants (Hatton 2005). Asylum seekers added to the growth in the foreign-born population.



² The foreign-born population includes people born abroad as UK citizens and people who have acquired UK citizenship since migrating to the UK.

The top origin countries of UK migrants reflect several typical determinants of international migration: economic opportunities, geographic proximity, and historical ties. Poland accounts for almost 10 percent of the foreign-born population living in the UK, or some 830,000 people. India and Pakistan are the next most common origin countries, with Bangladesh also among the top 10 (Figure 5).



CURRENT POLICY

The UK essentially has two immigration systems, one for EU citizens and one for everyone else. EU citizens have the right to reside in the UK for three months, and to remain there after that if they are working, looking for work, a student, or financially self-sufficient. After five years of residence, they have the right to permanent residence.

The admissions system for non-EU migrants has five tiers for work- and study-based migrants in addition to channels for family reunification migrants and humanitarian migrants. The tiers are:

Tier 1	Investors, entrepreneurs and exceptionally talented (postgraduate/ PhD) workers who need not have a job offer. These migrants are eventually eligible for permanent residence. The cap on this tier was sharply reduced in 2010.
Tier 2	Intra-company transfers plus skilled workers with a confirmed job offer in a sector of labour market shortage, as determined by the Migration Advisory Committee. These migrants are also eventually eligible for permanent residence. The number is capped except for intra-company transfers and workers earning more than £150,000 per year.
Tier 3	Low-skilled workers. This tier was never opened.

Tier 4	Students.
Tier 5	Exchange programs, including temporary workers and youth mobility schemes.

The tier system has evolved over time. It was initially part of a points-based system with no fixed numerical limits. The Conservative-Liberal Democratic coalition government added caps on Tier 2 in 2011, although the caps have rarely been reached.³ In an additional attempt to curb immigration, the qualifications required for Tier 1 were raised in 2009. The system as a whole stopped being points-based when the Tier 1 general visa program closed in 2015, although points-like criteria are still used to allocate Tier 2 visas when the cap is reached.

The UK differs from many other countries with regard to immigration in at least two notable ways: Its immigrants are relatively well educated, on balance, and they are relatively likely to be working. In 2015, almost one-half of the foreign-born population aged 15-64 living in the UK had a university education, versus an EU average of 30 percent (Alfano, Dustmann, and Frattini 2016). Only about 36 percent of the UK-born adult population has a university education, in contrast, according to Eurostat data. A high share of A8 migrants report an “other” qualification, not a university degree.⁴

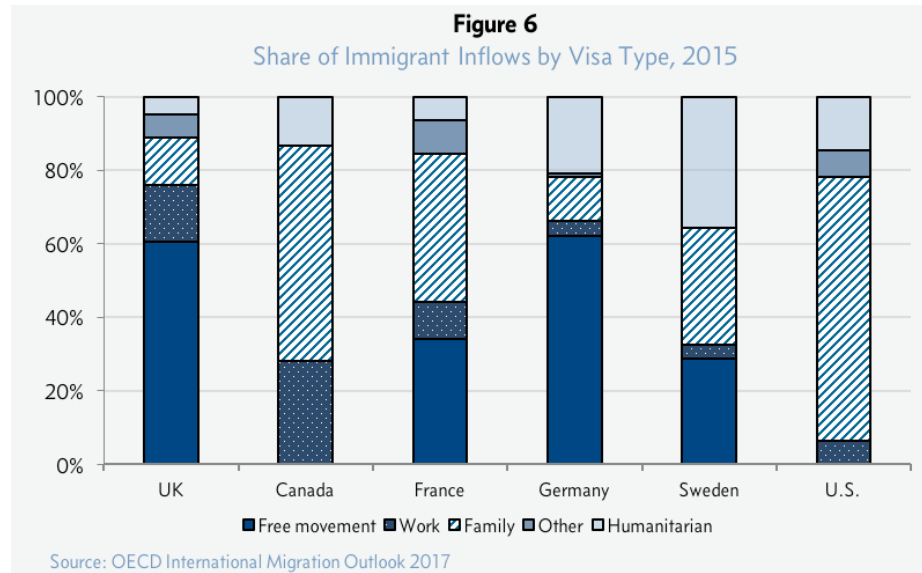
UK immigrants tend to work. In the UK, almost three-quarters of foreign-born adults were employed as of 2015, versus an EU average of 64 percent (Alfano, Dustmann, and Frattini 2016). Employment rates were particularly high among UK immigrants from EU accession countries. Compared with their UK-born counterparts, foreign-born working-age men were slightly more likely to be employed, a pattern since 2010.⁵ Foreign-born women were less likely to work than their UK-born counterparts, however.

The UK stands out in the large share of its immigrants who are admitted under work-based categories. As Figure 6 shows, the UK admitted a considerably larger share of immigrants via work-type visas than France, Germany, Sweden, or the United States did in 2015. It was behind Canada, however, and also Australia and New Zealand (not shown). The UK and Germany received a similar share of immigrants via free movement.

³ See <http://www.migrationobservatory.ox.ac.uk/resources/commentaries/skilled-migrants-and-a-tight-cap/>. For the number of Tier 2 general visas available each month and carried over from the previous month, see <https://www.gov.uk/government/publications/employer-sponsorship-restricted-certificate-allocation/allocations-of-restricted-certificates-of-sponsorship>. The fact that the cap has recently been reached suggests that employers may be turning to non-EU migrants as inflows from the EU have eased in the wake of the Brexit vote.

⁴ See <https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/internationalmigration/articles/migrationandthelabourmarketuk/2016#how-skilled-were-non-uk-nationals-living-in-the-uk>.

⁵ See <http://www.migrationobservatory.ox.ac.uk/resources/briefings/characteristics-and-outcomes-of-migrants-in-the-uk-labour-market/>.



These stylised facts suggest that UK immigration policy has been successful at attracting immigrants who directly contribute to the economy. Nonetheless, the large number of immigrants in recent years combined with their possible negative effects on less-skilled UK natives has given rise to concerns, as manifested in the Brexit vote and in the oft-repeated pledge by the Conservative party to reduce net migration to less than 100,000 per year (a goal they have thus far been unable to achieve).

ECONOMIC EFFECTS OF IMMIGRANTS IN THE UK

Policy makers should consider the effects of immigration on the UK when setting a post-Brexit course of action. Fortunately, there has been much high-quality research on the economic effects of immigration to the UK. This research indicates that the overall labour market impact of immigration on natives has been negligible, although a few studies find evidence that immigration has worsened labour market opportunities for some groups of UK natives. Short-run fiscal estimates are quite positive overall, particularly for A8 migrants.

A number of studies conclude that immigration has had little effect, either positive or negative, on employment, unemployment, or earnings of UK natives overall (e.g., Dustmann, Fabbri, and Preston 2005; Lucchino, Rosazza-Bondibene, and Portes 2012; Dustmann, Frattini, and Preston 2013; Tunali, Fidrmuc, and Campos 2017). Research focused on A8 migration finds little effect as well (e.g., Gilpin et al. 2006; Lemos and Portes 2014).⁶ A few studies indicate a small but measurable negative effect during the 1980s and 1990s on the employment of natives in the middle of the education distribution (Dustmann, Fabbri, and Preston 2005) and more recently on the earnings of natives at or near the bottom of the wage or occupation distribution (Dustmann, Frattini, and Preston, 2013; Nickell and Saleheen 2017). Estimates suggest those negative effects have been about 1 percent, a small

⁶ However, Blanchflower and Shadforth (2009) conclude that wage growth was slower among UK natives who compete the most directly with migrants from accession countries, and fears of unemployment rose among those natives.

impact.⁷ It bears noting that the most-negative effects are felt among immigrants themselves, not among natives (Manacorda, Manning, and Wadsworth 2012).⁸

Why hasn't immigration led to worse labour market opportunities for many UK natives? One potential reason is that immigrant inflows tend to be higher when the economy is growing and can readily absorb more workers. Immigration both responds to and generates more economic activity. But there is relatively little evidence of adverse effects on most natives even after accounting for this pattern. Some immigrants create jobs by starting businesses or stimulating international trade. Immigration can lead to dynamic effects, like more innovation, knowledge transfer, and productivity gains (Home Office, 2014). It can help ease bottlenecks, such as short-term labour shortages, that would otherwise slow economic growth. Changes in businesses' use of capital versus labour or in the industry and output mix can help economies accommodate an influx of workers (Dustmann, Glitz, and Frattini 2008). And some natives respond to more intense labour market competition by moving to other sectors of the economy, particularly to jobs that exploit their comparative advantages, and to other geographic regions within the country.⁹

On the fiscal side, immigration has generally contributed to UK government coffers, on net. The direct fiscal impact of immigrants is the difference between the taxes they pay versus the publicly funded benefits and services they receive.¹⁰ A8 immigrants have made a positive fiscal contribution because they are likely to work and less likely to receive publicly funded benefits and services than UK natives, on average (Dustmann, Frattini, and Halls 2010). Non-EU immigrants who arrived before 2000 have tended to make a negative contribution, although those who have arrived since then have made a positive contribution (Dustmann and Frattini 2014).¹¹ Despite popular concerns, there is little evidence that immigration from A8 countries is driven by the desire to collect welfare benefits (Drinkwater and Robinson 2013) or that immigration has worsened average wait times for health care (Giuntella, Nicodemo, and Vargas Silva 2015).¹² It bears noting that immi-

⁷ However, Wadsworth et al. (2016) argue that EU immigration has had no effect on job prospects or earnings of UK nationals, including the less skilled, in recent years.

⁸ An extensive body of research on the United States similarly concludes that immigration has had little effect on natives' labour market outcomes overall, adverse effects are concentrated among the least-educated natives, and earlier immigrants experience the largest adverse effects. See Blau and Mackie (2016) for a summary of the literature.

⁹ Evidence for the U.S. indicates that both high- and low-education natives tend to move to communications-intensive jobs, which are their comparative advantage, in response to immigrant inflows (Peri and Sparber 2009, 2011). In the UK, immigration has enabled natives to move into less physically strenuous jobs (Giuntella et al. 2016). Hatton and Tani (2005) show that internal migration has occurred within Britain in response to immigrant inflows.

¹⁰ There are also indirect fiscal effects if immigrant inflows lead to changes in taxes paid and government benefits or services received by other residents. .

¹¹ Relatively low levels of educational attainment among pre-2000 non-EEA immigrants likely underlie the negative fiscal effects. Changes in immigration policy and reason for immigrating (refugees and asylum seekers versus employment-based immigrants) may have contributed to the rise in non-EEA immigrants' education levels over time. For a critique of Dustmann and Frattini's (2014) analysis, see https://www.migrationwatchuk.org/pdfs/BP1_37.pdf. For a discussion of fiscal estimates, see <http://www.migrationobservatory.ox.ac.uk/resources/briefings/the-fiscal-impact-of-immigration-in-the-uk/>

¹² However, immigration does appear to have led to longer wait times in economically deprived areas outside London in the short run and in areas where natives moved in response to immigrant inflows (Giuntella, Nicodemo, and Vargas Silva 2015). Immigrants appear to use healthcare services at about the

grants' fiscal impact may worsen in the long run if large numbers of them stay in the UK after they retire.

Although there are many studies of immigration's labour market and fiscal impact in the UK, less is known about how immigration has affected innovation, productivity, and economic growth there. The biggest economic gains from immigration typically come from these effects. Evidence from the United States indicates that inflows of highly skilled immigrants have boosted patent activity and total factor productivity there (Hunt 2011; Hunt and Gauthier-Loiselle 2010; Kerr and Lincoln 2010; Peri 2012; Peri, Shih, and Sparber 2015). In the UK, highly skilled immigrants have played a vital role in the growth of the lucrative financial services sector. Research on UK immigrants' contribution to innovation and productivity growth could help make the case for pro-immigration policy in the post-Brexit era.

POLICY OPTIONS

Aside from humanitarian goals, policy makers should design immigration policies that pursue three main objectives: boosting economic growth, supporting foreign policy aims, and ensuring national security. The first objective is our focus here.

Adam Smith did not explicitly address the issue of immigration, but he argued for the free movement of labour. Correspondingly, many economists would argue that the best immigration policy is no policy—open borders maximise global social welfare (Hunt 2016). Of course, that is only true in a model where markets are truly free and government interventions are limited, hardly the case in today's advanced economies. Hence, since completely open borders are politically infeasible and possibly undesirable, economists turn to second-best policies.

Economists agree that there are net economic gains from migration and that these are larger when immigrants have different skills than natives, allowing both groups to pursue their comparative advantages. Highly skilled immigrants offer additional benefits. These immigrants are the most likely to contribute to innovation and productivity growth, and they typically make the largest fiscal contribution. The dynamic effects and positive externalities are good reasons to prioritise high-skilled immigrants.

However, less-skilled immigrant workers make an economic contribution as well. The goods and services they provide increase gross domestic product, or national income and make natives better off on average. Their labour can spur investment and help ease labour market shortages that are a bottleneck to growth; moreover, the UK experience with A8 immigrant workers indicates that they can have a net positive fiscal impact. The distributional effects of less-skilled migrants create more concerns than those of highly skilled migrants, however, since the former may compete with some of the least-well-off natives for jobs and housing while

providing goods and services that disproportionately benefit well-off natives.¹³ It therefore makes sense to impose more restrictions on less-skilled immigration flows than on highly skilled immigration flows. “Skill” can be based on education, experience, occupation, or earnings or a combination of these factors.

What form should immigration restrictions take? There are two key interrelated decisions: how many immigrants to admit, and who to admit.¹⁴ The fact that most research has found negligible labour market effects of immigration to date in the UK suggests that any quota on how many immigrants to admit could exceed the number who have entered in recent years. Indeed, there is little economic reason to impose any quota on admissions of highly skilled immigrants who have a job offer. Regarding less-skilled immigrant workers, any quota should vary with the business cycle since the economy can better absorb an influx of workers during an expansion. Overly limiting the number of less-skilled immigrants is likely to lead to more irregular immigration and impede growth.

There are several ways to choose who to admit when a quota is binding, or when more people want to enter than are allowed to. These ways include a point system, a first-come, first-served queue, and a lottery. A point system requires that some agency or commission determine how many points to award for characteristics like age, education, and occupation, etc., and then set the point threshold for entry. Countries that relied on point systems in the past, such as Australia and Canada, have been moving away from them in recent years because of concerns that they admit immigrants who look good “on paper” but are not necessarily the ones employers most want.¹⁵ A first-come, first-served system fails to allocate scarce visas to immigrants or employers who value them the most. And a long queue discourages potential immigrants who have other options—often the ones who will make the biggest economic contribution. A lottery among immigrants who meet some criteria makes perhaps the least economic sense since it randomly allocates visas on the basis of luck.

The best way to allocate visas when quotas are binding is via a price mechanism that involves using an auction market for employers to buy a permit to hire a foreign worker.¹⁶ Employers who hold permits can hire whatever foreign workers they want (subject to security checks), who then receive visas. Employers are key play-

13 Empirical evidence does not indicate that immigration increases house prices in the UK, likely because natives move away from immigrant-intensive areas (Sá 2015). Immigrants are slightly more likely than UK natives as a whole to live in social housing, but less likely than similar UK natives (Battiston et al. 2014). The increase in immigration can account for about one-third of the drop in the share of natives in social housing (Battiston et al. 2014).

14 For a more detailed discussion of general principles of immigration policy, including a discussion of the UK, see Ruhs (2008).

15 See Hunt (2016) and Tani (2014). For a discussion of the relative merits of point- and employer-based systems, see Papademetriou and Sumption (2011), who argue for a hybrid of the two. Czaika and Parsons (2017) argue that point-based systems are more effective than employer-based ones at attracting and selecting highly skilled immigrants, but they only examine newly arriving immigrants, not those adjusting status from temporary visas. Facchini and Lodigiani (2014) also argue in favor of migrant-driven streams over employer-driven streams.

16 For a more detailed discussion of visa auctions, see, for example, Orrenius and Zavodny (2010) and Zavodny (2015).

ers because firms, not a government agency or a commission, can best determine a particular immigrant's economic contribution. Setting a quota on the number of permits to hire a foreign worker and then allowing employers to bid for those permits means that visas would go to the immigrants who make the biggest economic contributions.

AUCTION DETAILS

An auction system would involve first determining the number of permits available for sale. The Migration Advisory Committee (MAC) seems ideally positioned as an independent group of experts who can provide advice to the government on this number or, perhaps even better, set it. It is important that the number of permits available not be set in stone for years to come; the number should change in response to changes in UK economic conditions and the demand for foreign workers. Permit prices should be allowed to vary in order to reflect those changes rather than being pre-determined by the government or an independent commission as is the case in a typical fixed-fee system. In the auction system, changes in permit prices serve as a signal whether to increase or reduce the number of permits available in subsequent auctions. Changes in prices also serve as a signal to potential employers—as permit prices rise, the economic contribution of foreign workers must rise as well in order for it to be profitable for employers to bring them in instead of hiring a UK worker.

Selling permits in an auction market also has the potential to generate significantly more revenue for the government than a fixed-fee system.¹⁷ It is impossible to estimate how much revenue permit auctions could generate, but the revenue could be substantial, particularly if high-skilled foreign workers must go through the auction permit system.¹⁸ The revenue would certainly far exceed the amount the UK currently receives in visa fees, particularly when considering that EU citizens do not pay any visa fees under the free-movement system. Currently, a typical Tier 1 exceptional talent applicant pays only £585 to apply, while a typical Tier 2 general applicant for a three-year visa pays between £587 and £1267, and less if in a shortage occupation.¹⁹ Sponsoring employers of Tier 2 and Tier 5 workers also pay an Immigration Skills Charge of up to £1476.²⁰ The value to employers of foreign workers, even low-skilled ones, exceeds these fees, and vastly so for highly skilled workers. Immigrants and employers often spend significant sums on lawyers that

¹⁷ If there are concerns that employers are unwilling to participate because of uncertainty, particularly at the outset of the auctions, permits could be auctioned on a uniform-price basis. In a uniform-price auction, all winners pay the lowest accepted bid. This method assuages concerns about the “winner’s curse,” but it also may reduce government revenue. The U.S. government uses uniform-price auctions for Treasury bonds. The UK government auctions index-linked gilts on a uniform-price basis.

¹⁸ In a 2014 report, the MAC discussed the possibility of auctioning a certain number of investor visas with a reserve price, or a minimum bid, that would exceed the minimum threshold for receiving an investor visa via existing channels. It recommended auctioning a limited number of visas, perhaps 100—with a reserve price of £2.5 million each. See https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/285220/Tier1investmentRoute.pdf

¹⁹ Fees based on <https://visa-fees.homeoffice.gov.uk/y/usa/usd/work/points-based-system-tier-1/all> and <https://visa-fees.homeoffice.gov.uk/y/usa/usd/work/points-based-system-tier-2/all>

²⁰ <https://www.gov.uk/uk-visa-sponsorship-employers/apply-for-your-licence>.

help them navigate the complex current system. Replacing it with a streamlined auction system might allow the government to capture some of those funds.²¹

There would likely need to be more than one auction system if the aim is to admit both high- and low-skilled foreign workers. Since high-skilled workers are more productive than low-skilled workers, high-skilled permits will cost far more. Few employers of low-skilled workers would be willing to pay the high-skilled premium to win a permit in an auction. Hence, it makes sense to have separate auctions for high- and low-skilled permits, with low-skilled permits reserved for foreign workers who will earn less than a certain amount or work in certain occupations or industries. Creating another separate auction of short-term permits for seasonal foreign workers, such as those working in agricultural jobs or at holiday resorts, might also be advisable.

For a given level of demand for permits, prices would, of course, be higher when fewer permits are made available. However, the government should not try to manipulate the number of permits with the primary goal of maximizing government revenue. The primary goal is to admit the number and type of immigrants who contribute the most to economic growth. Again, high-skilled immigrants typically make the greatest economic contribution and there is little economic reason to limit their entry. But if a country does want to limit the number of foreign workers it admits, it makes sense to prioritise those who contribute the most to the economy. Auctions offer a way to determine who those workers are.

An auction system would work best when employers can resell their permits, foreign workers can move across employers who hold permits, and workers' rights are protected. It also would require fines or other sanctions on employers who hire unauthorised, or irregular, immigrants outside of the permit system.²²

OTHER POLICY CONSIDERATIONS

The UK has essentially had two immigration policies, one for non-EU nationals and another for EU nationals. Policy has largely limited immigration from outside the EU to high-skilled workers in recent decades. With its emphasis on skill and labour-shortage occupations, the tier system has likely mitigated any potential adverse effects on competing natives. That said, caps on the number of skilled migrants admitted have surely acted as a brake on economic growth.

Meanwhile, free movement migration from within the EU, mainly from accession countries, has ensured a steady stream of workers to fill less-skilled jobs. Most of these workers would not have been admissible under the tier system. Some evi-

²¹ The government already captures some of those funds via its premium customer service option, which employers can purchase at a cost of up to £25,000 per year. See <https://www.gov.uk/guidance/employer-sponsorship-join-the-premium-customer-service-scheme>.

²² A 2009 estimate puts the UK irregular immigrant population at a central estimate of 618,000 with a range of 417,000 to 863,000 (https://www.london.gov.uk/sites/default/files/gla_migrate_files_destination/irregular-migrants-report.pdf). The UK has relatively little irregular immigration compared with most other Western countries. This is partly because its isolated geography but also likely a result of not participating in the Schengen Agreement, which effectively removes border controls over intra-European migration. Most unauthorised immigration in the UK presumably occurs through visa overstays, including denied asylum seekers who do not leave, not illegal entries.

dence suggests that immigration has harmed the labour market prospects of low-education UK natives, but any adverse effects appear to have been small and at least partially counterbalanced by the positive fiscal impact of immigration overall. Social and cultural challenges from integrating large numbers of immigrants have arisen as well. Backlash against immigration and membership in the EU more generally culminated in the Brexit vote in June 2016.

It would be easy for the UK government to simply fold the EU into the existing tier system. Doing so might enable Conservatives to hit their goal of reducing annual net inflows to the tens of thousands. There would be a considerable cost to the economy, however. In the short run, there would be dislocations in sectors that have come to depend on influxes of new workers from within the EU. Consumers would face higher prices for the goods and services that immigrants help provide. In the longer run, limits on the number of immigrants admitted slow investment, hurt innovation, productivity, and economic growth and ultimately lead to smaller increases in the standard of living.²³ Instead of using Brexit as a means toward reducing immigration from the EU, the UK government should seize it as an opportunity to design an immigration system that strengthens the country's economy. Creating an auction system would be a bold move that would maximise the economic benefits from immigration while possibly bolstering public support for immigration.

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APPENDIX

Figure 1: Office for National Statistics (<https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/internationalmigration/bulletins/migrationstatisticsquarterlyreport/may2017>).

Figure 2: Office for National Statistics (<https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/internationalmigration/datasets/migrationstatisticsquarterlyreportprovisionallongterminternationalmigrationltimestimates>).

Figure 3: Source: Home Office (Table 7.1_as_02 at <https://www.gov.uk/government/publications/immigration-statistics-july-to-september-2017/list-of-tables>).

Figure 4: United Nations (<http://www.un.org/en/development/desa/population/migration/data/estimates2/estimates15.shtml> and <https://esa.un.org/unpd/wpp/DataQuery/>).

Figure 5: Office for National Statistics (<https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/internationalmigration/datasets/populationoftheunitedkingdombycountryofbirthandnationalityunderlyingdatasheets>).

Figure 6: OECD International Migration Outlook 2017 (DOI:http://dx.doi.org/10.1787/migr_outlook-2017-en). Family category includes accompany dependents of immigrants in other categories. Data are OECD's permit based statistics (standardised) and do not include temporary migrants.