

## A micro-economic approach of the labour market and migrations; benchmarking migration policies in France/Germany/the UK compared with Australia and the United States

I will start looking into the question of population ageing and the role migrations may have, but I will go very quickly because that has been touched upon already. I guess my point will be from a slightly different angle, trying to argue that this question is, at least in the short run, largely overestimated, and that the real issue, still in the short run, is not labour shortages, but is global mismatch. What role can migration play in this context? How can labour migration policies be efficient in helping address this global mismatch, and what can we do – and the ‘we’ is important, as you shall see in the end? Before I do that, I want to give you a brief overview of labour market trends, and labour migration trends in the OECD. The first thing is that, in December 2013, unemployment was affecting almost 11% of the workforce in the EU, and the rate reached more than 23% for young people. In addition to that, there is a risk of increasing structural unemployment in several EU countries. Already half of the unemployed are looking for a job for more than one year. So long-term unemployment is reaching 50%. Obviously there are huge differences. But before I do that, I just want to talk about a graph showing the evolution of unemployment rates for native-born and foreign-born, what I would call immigrants. In both cases, the impact of the crisis has been very quick and very strong with rising unemployment for both groups. But what happens next is very different. There is a continuing gap between native-born and foreign-born, and a continuing increase for both groups. So that obviously calls into question the law that further migration can have in the short run. Besides, public opinion is not ready to accept more migration in the current context in Europe. So I’ll come back to this question later on. But my second point was that there are large discrepancies between European countries, with unemployment around 5-6% in Germany and above 25% in Spain or Greece, and very high in Portugal as well. Even within countries, there are huge discrepancies between regions. If you compare with the US, variation in unemployment by counties after and before the crisis, the shock has been much more diverse in Europe, which obviously had a strong impact on migration flows. What are the recent trends regarding migration flows? These are long-term flows for selected OECD countries. What appears from this graph is the fact that migration increased, in some case very rapidly, around the year 2000, or between 2000 and 2007. The total stock of migrants in Spain has tripled over that period. It has double in Ireland. Other countries have also witnessed huge increases. But there was a big drop after the crisis, in Spain for example, in stark contrast with Germany, where migration has been increasing very rapidly over the recent years. Between 2011 and 2012, it has actually increased by 38%. We haven’t seen that in any country for many years. In contrast, migration has been decreasing in the UK for example by 11%. This is both the result of the economy but also of change in policies. Obviously huge variation in the way migration over the crisis and changes in the economic conditions has affected migration by country. It’s a total reorganization of the European migration map that we are seeing. Sometimes, what the media are also conveying is not entirely relevant, or is a bit misleading. Another graph shows for Germany the entrance of people coming from Italy, Greece, Spain and Portugal compared to the entry of people from Poland, Romania and Bulgaria, between January 2010 and June 2013. Clearly there is a big increase in migration from Southern Europe to Germany. It has tripled. But the figures are still much lower than what is recorded for Poland. Actually if you compare to the increase from Romania and Bulgaria, it’s also very steep and very rapid. So yes, South-North migration in Europe is

4th European HRD Forum - Human globalization: Will European companies win or lose?

*Session 2 - Will the European labor market provide the necessary human resources for the economy?*

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increasing. But it's, in the case of Germany, mostly people from Greece and it's mostly temporary migration. Many people, between a third and half of the people, are actually not in Germany anymore after one year. So it's temporary migration people looking for a job and not necessarily finding jobs there. Just to compare again what is happening in the UK and Germany for example. In the UK as well the figure for Spain is increasing very rapidly, actually even more rapidly. In total numbers, it's close to 45,000 people going from Spain to the UK. That's about three times the number from Spain to Germany. So Spanish people are actually going much more to the UK than they are going to Germany. Why? Because of the language problem, obviously, because of a question of recognition of qualification, or of a mismatch of qualification between what the German labour market requires and what Spanish people have in terms of qualification. Again, we are going to a question of a skill mismatch. So, as I said, the crisis has impacted migration significantly. Migration decreased in 2009. Migration to the OECD in total has decreased by 16% – 9% in 2010, that is a 25% decrease in two years, which is very quick. But still migration stocks in almost all OECD countries continue to increase. Why? Because fewer people are coming – with the exception of Germany, as we've mentioned – but fewer people are leaving because the prospect in terms of being able to come back or the prospect to find work in their country of origin has also deteriorated. So, migrant stocks continue to increase. If we look at the total period between 2000 and 2010, total migration stocks to the OECD went from 70 million to 100 million, rising by a third. But the big news is not there. The big news is that highly skilled migration, or to be more precise the number of people born abroad who have a tertiary diploma, has also increased very rapidly – more than 30%. So you say what? 40? 50? 60? 70%. 70% increase in the stock of tertiary educated migrants between 2000 and 2010. This is the mega trend. Why? For a number of obvious reasons. First, migration policies are selective. Second, the labour market requires skills. And third, the level of education in the countries of origin is increasing. Fourth maybe, only those who have sufficient financial means and capital are able to afford migration, because migration is costly. So in total, migration of tertiary educated people is increasing very rapidly. So maybe we don't have a problem.

EQF is tertiary diploma, university diploma. In the international classification of education, it is 5 and 6. So that's the point I've made. So let's go back now to the question that was posed about future needs and how can migration respond to that. I don't want to back to the discussion. I mean that was very well presented before. Population is aging very rapidly. The previous century was the century of population growth. World population increased from 1.6 billion to 6 billion. And this century is the century of population aging, and it's not only for OECD, China is aging even more rapidly. So that's a clear trend. And actually 2014 for the European Union is a very particular year, a turning point. It's the first year where the total working age population, 15 to 64, starts to decline. So that's in a way very relevant to speak now about this issue. The statistical element is when the numbers were clearly illustrated before: without migration, by 2035, the European population would decline by 42 million. So you can say yes, this is a big problem, but it might not be – at least in the short term. Why? Because what is important is not the working age population, it's the active population, the workers. So if in the next few years – let's take the horizon 2020 which is already a long horizon for politicians – if you look at that short-term horizon, with the trends that we have for participation rates, actually the labour force will not decrease in Europe. On average, without accounting for change in labour force participation, in the year 2017, the working age population is decreasing. It has decreased by 1.5%. But if you account for increasing participation rates, it will actually increase by 1.2%. Why? Because younger cohorts are more active, more educated. Women

are more active. Moreover, older cohorts tend to be more active than they were before. So all that combined leads us to think that probably – I would say if we have the right policy in place, if the activation policies are sufficiently efficient, and if the labour market provides incentives to stay active in the labour market, if there are opportunities – it's not obvious but at least in the next 5, 6, 7, maybe 10 years, it will be so much an acute problem. At least at the EU level as a whole. So it doesn't mean that migration has no role to play. But maybe the role that migration may have to play is of a different nature that only supplying additional workers. Again we are back to the question of skills mismatch rather than labour shortages or mismatches. Actually we are already in a situation where unemployment coexists with unfilled vacancies, as you know. That's your job to find people, and it's not easy. Probably it's you who have responded to this questionnaire from the European Commission in 2013. Almost 40% of all companies in the EU were reporting difficulties in finding staff with the right skills. 40%, that's not small. If you look at figures from Manpower survey, also in the 17 EU countries where they surveyed, 25% of employers report recruitment difficulties. That's a bit less. I don't know why there is this gap but clearly we can have both labour market slack and recruitment difficulties. Obviously this varies a lot from one country to the next. I'm talking about EU now. We should be very careful because between Germany, the Southern part of Germany and the Southern part of Spain, the gap is bigger than between the Northern and the Southern shore of the Mediterranean. So there are huge discrepancies within the EU. It's nice to talk about skills mismatch but what does it mean exactly? There is data from Cedefop – the European Institution that looks at future skills. When they look at the 25 to 64 age group, they make the distinction between the percentage of people who have highly educated job, and highly educated employees. You have to go back to the definition here to be very precise. I will assume this is also tertiary educated. There is no big gap between these job distributions and the employee distribution. There is another supply of low educated workers. We are not in short supply of low educated workers, that's for sure. Whether we can bring them to the job is another question. It doesn't seem at macro level that there is a shortage of highly educated workers either. Probably the question is within that group, do we have the people with the right diploma and skills to match the jobs? But the big point is in the middle, the medium educated. I'm sure that my German colleagues will not contradict me. Those who have professional skills, traders, workers, all sorts of workers who do not necessarily have a tertiary diploma, a university degree. But less and less young people are going there, and the need on the labour market is still there. That's where the gap is growing and growing. The question is, again, whether migration policies were designed to address that. Obviously they can only complement other policies, training and skills development, and the education system. That's always the bottom line. But migration policy was designed to help us to address this problem. Migration, if you look at the past, has played a significant role in filling all sorts of needs. Between 2000 and 2010, approximately 40% of labour force growth in the OECD was associated with migration. In certain occupations, it was particularly important. For occupations where employment rates are growing, 15% of the new entries in the occupation was due to immigrants, to the new immigrants, people arriving recently to take these jobs. This is higher than the percentage of immigrants in the total population. So immigrants were over-represented in these growing occupations, which is good news: they go where the jobs are and they help address some of the shortages. What is even more interesting is to see that, for occupations where employment was decreasing over that period are still recruiting. Recruitment has not stopped but there are less recruitments than there are people exiting these occupations. For these occupations losing employment, 25% of entries were actually immigrants. So immigrants are playing a big role in these occupations that are not very attractive, where there are not

enough young workers, or prime age workers to take the jobs. Why? Obviously these occupations are losing employment. People don't want work in an occupation where maybe in five years they will lose their job. The gap is such that immigrants are filling the gap as well. Some of these occupations are exactly what we were talking about: production, installation, maintenance, repair, and so on. This is not people without any skills. You need people with some sort of skill to do these jobs. So this is actually where we believe the gap is the most important.

I will now talk about labour migration policy. I will not talk about other sorts of policy, about humanitarian migration, about family migration policy. Labour migration policy has followed a common trend in the OECD, which is to be more open for highly skilled or, to put it differently, more selective. So all OECD countries have changed their migration policy to make it easier for people with diploma to come and stay. The most obvious example is with students. In all countries, except the UK, it is possible to shift from a student status to a work status. This was not the case five years down the line, so this is the big change. The question is: is it sufficient to address the needs or is this policy sufficient to meeting their objectives? Obviously there is going to be a very short cut to this answer. But I want to look at the paradox. The first one is that I said there are more and more highly educated immigrants in the OECD. At the same time, we have a large underuse of their skills. There is a gap between employment of foreign-born and native-born by education level, which means that, for some countries, low educated immigrants have better market outcomes, better employment rates than native-born low educated. This is the case for example in the US. The gap is always bigger for the highly educated. So, the more educated you are as an immigrant, the higher the gap between your employment rate on average and that of a native-born. Your employment rate is increasing, hopefully, but the gap with the native-born is also increasing, due to a number of good and bad reasons. Good reasons might be that the skills are not exactly the same. The qualification are not the same. They don't necessarily have the language skills that are necessary to complement their professional skills to operate at their level of qualification. But there are other issues, such as the recognition of foreign qualification. 36%, if I exclude China and India, of immigrants in the OECD with a tertiary diploma are not employed at their level of education, compared to 23% for the native-born, which is a 13% gap. This is huge. There is a clear underuse of these people. So we are selecting highly skilled people, they come, and they don't work or they do jobs that don't correspond to their level of qualification. This is a problem. We need better recognition of foreign qualification systems, and we also need employers to be involved in that process because it's clearly not paper, certificates, that make the difference. It's the fact that the employers recognize the qualification as equivalent in the end and decide to recruit the people. So where the qualifications are not equivalent, we need to provide the bridging elements to make these qualifications fit labour market needs, or find the processes through which we can make better use of these skills before even thinking about bringing new high-skill immigrants. Second paradox is what I call the labour market paradox. The first one was the integration paradox. Basically, the focus of the policies is on highly skilled and the brightest. We want people from top universities. The Netherlands, for example, give special stream for those coming from the 50 best universities according to the Shanghai criteria. But labour market needs are not mostly there. We did a survey of employers in Germany, together with the German Chamber of Commerce and the ministry of employment, and one of the findings is that, among the German employers that reported unfilled vacancies, most of these vacancies were at medium skill level, and mostly from medium-sizes enterprises. For highly skilled people, big companies may have problems but they do not compare with the problems a smaller company can have to find highly skilled, but



also medium skilled people. This is where we don't have a migration policy to respond to that in almost every country – maybe now with the exception of Germany, which has understood the problem and tackled it very efficiently.

The last paradox is what I call the migration policy paradox. Countries are competing for talents. We are all competing for talents, trying to get the same people. So what happens is that all countries are looking at what the others are doing, and actually they are more or less all doing the same. Benchmarking provides some sort of convergence. In a way, public policies, have a smaller impact, and there is more scope for employers to play a role. But employers do not necessarily use migration channel the way policies are designed. More than half of the highly skilled people are recruited onshore. People who came first to the country for whatever reasons: family reasons, humanitarian reasons, study, whatever... are recruited here. Very few people are recruited from abroad. So the matching process – a process that enables recruiters to identify people abroad and bring them to the country – doesn't seem to work very well. 50% of permanent visas in Australia are currently for highly-skilled people, people who have entered before (70% in New Zealand). 60-70% of work permits in France are given to students. These are all people who were there before, not people identified on the world labour market. Obviously there is the case of intra-company transfers, but this is a different situation. But except for that case, it is very difficult for companies, it seems, to identify people on the world market, at a large scale, obviously. I'm not talking about people with specific skills. So with that, what can we do? There is no way to get a more efficient labour migration policy without a better link between the employers' needs – not to say that all these needs should be addressed – and the way the policies are designed. I have four proposals briefly. The first question is about attractiveness. When you try to recruit someone who is bright, you know that you need to offer them a good salary, but this is not enough. You should offer a good package. The same goes for migrants. They need that migration package, particularly if you think about the most highly skilled. And you don't necessarily have the capacity to offer that, because the package would include the ability to bring the spouses and children, and the possibility for the spouses to work. That would include portability of some rights – pension rights, social rights, and the possibility to remain in the territory – not a short-term permit with the risk that it might not be renewed. So, that's a migration package. That's the offer that makes a country attractive and obviously there is a lot to do here. That may be what the German call the welcoming culture. This is one of the questions, at least for the more highly skilled. The second, again a result from the German employer survey, when we ask German employers what they can see as unfilled vacancies, why they didn't hire people from abroad, the first response is difficult to interpret. But the second one is clear: too complicated to hire. The administrative procedure – more than the cost probably but you tell me – the fact that you don't know the outcome of that procedure, the length of that procedure with certainty, all the uncertainties which are associated, and the difficult particularly for the small firms, which are not used to doing it or do it maybe once every five years. There is also the question of language skills. It is obviously not the same for countries with a large pool of people speaking their own language abroad, but for Swedish employers – and for Germany – this is obviously a big issue. The third question is about shifting from education to skills, because the migration policy is based on criteria associated to education. How to shift these criteria from skills because we have a huge variety of different skill levels? Not only language skills but also different type of skills. We see increasing diversity within that group. The last question is about the need to engage with employers. Basically there are different ways to manage migration. We tend to make the distinction between permanent-driven systems –

systems where you need a job offer to be able to have a work permit. Most the European countries have that model. There is the supply-driven system where the government decides who is entitled to come, even without a job offer, because these people are highly selected. They think they have a better chance to find their way in the labour market. What is emerging now is a mixed model. It's interesting because these mixed models are based on the idea that it's an association between the public authorities, those who are the gatekeepers in a way, those who are controlling the borders, and the employers, those who have the needs to make that decision. Three countries in the OECD are developing a very smart system, called the expression of interest model, in which people make an expression of interest to migrate. These countries are New Zealand, Australia and, as of January next year, Canada. People make an expression of interest. They preselect them based on their age, education, and a certain number of other criteria. These people are entering into a pool but they are not immigrants yet. Then several people can pick in the pool: the government, and even employers in some cases. They know these are people who are going to get their visa if they select them. They've been preselected in a way, but someone else makes the final decision. Employers can make the decision. Regions can make the decision. Government can make it. This is a way to mix the responsibility between the two systems. And we are far from seeing that in Europe and I think one of the reasons is because we don't listen to employers. I just want to finish on an 'anecdote': in 2012, the French government launched a consultation about labour migration policy. All the social partners were invited to provide their comments. The trade unions did. The CGPME union said, "I think it's time, nothing to change". And the MEDEF employers' organization didn't answer. So you need to have a louder voice.