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Greasing the wheels
of the flexible labour market:
East European labour
immigration in the UK*

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Abstract

In May 2004, the UK Government granted workers from the new EU member states in Central and Eastern Europe (“A8 countries”) free access to the British labour market. This paper discusses the rationale and migration policy context of this decision and reviews the scale and economic impacts of the subsequent inflow of East European migrants. Free access for A8 workers was part of the Government’s *Managed Migration* policy, designed to expand migration to fill vacancies in skilled and especially in low-waged occupations where employers found it difficult to legally employ migrants before EU enlargement. The much larger-than-expected increase in the employment of A8 workers since May 2004 has contributed to economic growth and benefited individual employers in the UK. It has, however, also raised new and still relatively under-researched questions about the distributional impacts and potential social costs of large-scale immigration. I argue that without a stronger commitment to the enforcement of labour laws and regulations, the immigration and employment of Central and East European workers in the UK is in danger of becoming an example of the kind of ‘unmanaged’ migration that the Government is so keen to avoid.

Keywords

labour market, East European, immigration, economic impact, A8 countries, managed migration

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I Introduction

Immigration is one of the most contentious and divisive issues of public policy-making in the UK. In August 2006, the Government published the latest official figures on the scale and composition of migration to the UK.¹ This included the most recent numbers of 'A8' workers from the new EU member states² registering for employment since gaining unrestricted access to the UK labour market in May 2004.³ The data showed a significant increase in overall immigration, mainly as a result of the inflow of an estimated 600,000 A8 workers since May 2004. In absolute terms, the population movement since May 2004 has been the biggest single wave of migration in British history.⁴ This prompted a heated debate about the scale and impacts of immigration (which a leading newspaper described as the "hottest political issue of our time"⁵), and especially about the consequences of the continuing inflow of workers from the new EU member states.

The government has admitted its failure to predict the additional immigration that EU enlargement in 2004 would generate - official pre-enlargement predictions suggested a net annual addition of about 15,000 workers only - and the inadequacies of the current official statistics to capture the actual numbers of East European migrants coming to work in the UK. The government also continues to maintain, however, that "migrant workers from the accession states are benefiting the UK, by filling skills and labour gaps that cannot be met from the UK-born population."⁶ This positive assessment has recently come under scrutiny, with critics suggesting that it fails to consider the potential economic and social costs that large-scale immigration from Eastern Europe might generate.

This paper reviews the available evidence on the scale and economic impacts of - as well as the policy and research questions arising from - the recent immigration of East European workers in the UK. The analysis begins with an overview of recent migration flows to the UK, and a review of the government's *Managed Migration* policies before and after EU enlargement in 2004. This is followed by a discussion of the impacts of the immigration of A8 workers on the UK's economy and labour market, as well as on public finances and public services. The third part of the paper explores some of the key themes in current debates about East European labour immigration in the UK.

¹ Home Office (August 2006a)

² The ten states joining the EU in May 2004 include the "A8" countries - Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia - plus Cyprus and Malta.

³ Home Office (August 2006b)

⁴ The Economist, 26 August 2006, p.25

⁵ 'The Independent', 23 August 2006, front page

⁶ Home Office Minister Tony McNulty cited in 'Latest Immigration and Asylum Figures Published', Home Office press release, 22 August 2006

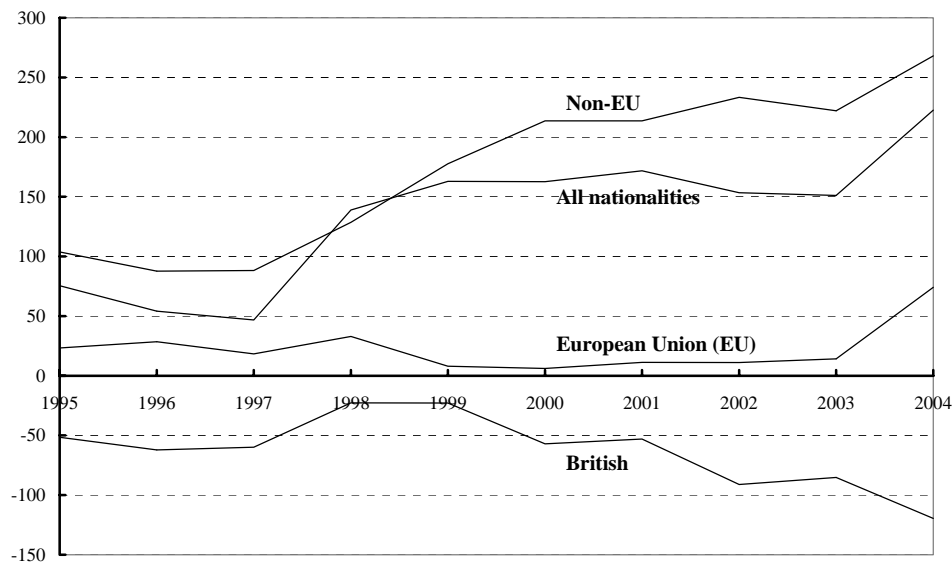
2 Managed Migration and EU enlargement (2004)

This section discusses how the current government's *Managed Migration* policies have shaped the availability of migrant workers for employment in the UK's economy before and after EU enlargement in May 2004.

2.1 Migration flows and major migration policies before EU enlargement

The number of migrants coming to the UK, both from outside and within the European Union (EU) has significantly increased since the mid 1990s.⁷ Total migration to the UK increased from 314,000 in 1994 to 582,000 in 2004.⁸ Out-migration also increased but at a lower rate – from 238,000 in 1994 to 360,000 in 2004 – thus resulting in a significant rise in net migration to the UK.⁹ As shown in Figure 1, until May 2004, the increase in net migration was driven by the immigration of non-EU nationals. Since EU enlargement in May 2004, net migration of EU nationals has grown faster than that of non-EU nationals. Net migration rates of British nationals have remained negative throughout the period.

Figure 1: Net-migration to the UK by major nationality group, 1995-2004 (thousands)



Source: Home Office (August 2005)

⁷ For more comprehensive overviews than given here see, for example, ESRC (2006), Salt (2005) and IPPR (2005).

⁸ The figures for 2004 reported in this paragraph and in Figure 3 include immigration of A10 nationals during May-December 2004.

⁹ ESRC (2006).

In spring 2004, i.e. just before EU enlargement, there were 2.8 million foreign nationals living in the UK constituting just under five percent of the total population. Of these, 1.44 million were working, accounting for approximately 5.2 percent of all people in employment.¹⁰ If one broadens the definition of migrants to consider all those who were foreign *born*, i.e. including foreign-born people with UK citizenship, the numbers are significantly higher. According to the Labour Force Survey 2003/04, ten percent of the working-age population in Britain was foreign-born. Of these, people born outside what is now the EU25 constitute the biggest group of immigrants (seven percent of the working-age population), followed by nationals of the EU15 member states (two percent).¹¹ Of course, all these figures do not take account of migrant workers who have entered and/or worked in the UK “illegally”.

As of May 2004 there were more than 80 different routes of entry for non-EEA nationals¹² to the UK, each governed by specific rules and regulations.¹³ Table I shows the number of annual admissions for the most important channels of entry that are associated with a limited or unlimited right to work in the UK’s labour market.

Table I: Major inflows of non-EEA nationals with limited or unlimited right to work in the UK**, 2000-04*

<i>Thousands</i>	2000	2001	2002	2003	2004	2000-04
Students ^a	313.0	339.0	369.0	319.0	294.0	1,634.0
Dependents ^a	74.2	78.0	85.4	87.2	94.3	419.1
Work permit holders ^a	67.1	81.1	85.6	81.4	82.7	397.9
Working holidaymakers ^a	38.4	35.8	41.7	46.5	62.4	224.8
Seasonal Agricultural Workers ^a	10.1	8.4	16.9	20.7	15.0	71.1
Au-pairs ^a	12.9	12.0	12.8	15.3	5.6	58.6
Domestic workers ^a	14.3	10.5	10.1	10.6	10.4	55.9
Sector-based Scheme workers ^b	x	x	x	7.8	16.9	24.7
Highly Skilled Migrant Programme ^c	x	x	1.1	3.6	7.4	12.1

* The figures include EU10 nationals until May 2004, and exclude them afterwards.

** Immigration channels that are not associated with a right to work (such as ‘asylum seekers’ – 318.8 thousand during 2000-04) are excluded from Table I.

Sources: ^aHome Office (August 2005); ^bSalt and Millar (2006), ^cHSMP Services UK (<http://www.hsmp-services.co.uk/>)

¹⁰ Salt (2005)

¹¹ Labour Force Survey December 2003 – February 2004.

¹² The European Economic Area (EEA) includes the EU plus Norway, Iceland and Liechtenstein.

¹³ See Home Office (March 2006)

The government's *Managed Migration* policies are based on the idea that, if managed properly, immigration can generate significant economic benefits for the UK. As the UK's Home Secretary put it in the White Paper that signified a turning point in the country's approach:

Migration is an inevitable reality of the modern world and it brings significant benefits. But to ensure that we sustain the positive contribution of migration to our social well-being and economic prosperity, we need to manage it properly and build firmer foundations on which integration with diversity can be achieved.¹⁴

Under its *Managed Migration* policies, the Government has been relatively liberal with regard to issuing work permits to employers who wish to recruit non-EEA migrants for employment in skilled and highly skilled occupations. Not limited by a quota, the number of work permits issued to skilled migrants increased from fewer than 30,000 in the mid 1990s to an annual average of over 80,000 throughout 2001-04 (see the figure for “work permit holders” in Table 1).¹⁵ In addition to the main work permit scheme for skilled migrants, the Government also introduced the Highly Skilled Migrants Programme (HSMP) in 2002. This points-based labour immigration programme aimed at attracting highly skilled migrants by offering them the opportunity to move to the UK without having a prior job offer. Migrants living and working in the UK on permits issued under the main work permit scheme or the HSMP have the right to apply for permanent residence (“indefinite leave to remain”) after 5 years of residence in the UK.

In contrast, the UK's pre-enlargement policies for the immigration and employment of non-EU15 migrants in low-skilled occupations were relatively small in scale, sector-specific, and much more restrictive in terms of the rights of migrants admitted than the policies toward skilled labour immigration. The low-skilled programmes did not, for example, grant migrants the right to family reunion or the right to permanent settlement in the UK. As of early 2004, the main programmes for admitting migrants for low-skilled employment included:

- the “Seasonal Agricultural Worker Scheme” (SAWS) which admitted a limited number of non-EU students for temporary employment in agriculture and food processing (the quota was 25,000 in 2004);
- the “au-pair scheme” which is officially a cultural exchange scheme rather than a labour immigration programme, allowing nationals of certain countries to help in private households for a maximum of 25 hours per week;

¹⁴ Home Office (2002) cited in Spencer (2003).

¹⁵ For an overview of the UK's main work permit system, see Clarke and Salt (2003).

- the domestic worker scheme, which is for domestic workers who travel to the UK with their employers
- and the Sector Based Scheme (SBS) which allowed UK employers to recruit a limited number of non-EEA workers for employment in selected low-skilled jobs in the hospitality and food processing sectors (the quota was 20,000 in 2003/04).

Given the relatively small scale of the schemes above, students and working holiday-makers constituted the main pool of non-EEA workers that could be legally employed in medium or low-skilled occupations before EU enlargement. However, both types of immigration status are associated with only a restricted right to work. Students –by far the largest category of admission from outside the EEA in recent years¹⁶ (see Table 1) – are allowed to legally work for a maximum of 20 hours per week during term time but full-time during vacations. Under the Working Holidaymaker Scheme, Commonwealth citizens aged 17-30 can visit the UK for an extended holiday of up to two years. During this period, working holidaymakers are allowed to work for up to twelve months.

Some employers also filled their low-skilled vacancies by hiring migrants whose employment may be described as “semi-compliant” or “non-compliant” with the UK’s immigration laws.¹⁷ Semi-compliance indicates a situation where a migrant is legally resident but working in violation of some or all of the conditions attached to the migrant’s immigration status. Students or working holiday-makers working in excess of the hours legally allowed are cases in point, as are non-EEA nationals admitted as au-pairs but taking up part-time hospitality jobs. A recent study of East European migrants in low-wage employment in the UK concluded that semi-compliance is likely to be a major feature in the UK’s migrant labour market in relation to both students working excessive hours and au-pairs doing part-time work outside their host families.¹⁸

“Non-compliant” migrants are those without valid leave to remain in the UK (i.e. those “illegally resident”). The Home Office recently released estimates of the number of migrants illegally resident in the UK in 2001.¹⁹ The estimates ranged from 310,000 at the lower end to 570,000 at the higher end, with a median estimate of 430,000 which is equivalent to about 0.7 percent of the UK population.²⁰ Most illegally resident migrants are thought to be working in

¹⁶ Note that the figures for students in Table 1 include a significant number of English language students many of whom stay in the UK for a few weeks or months only.

¹⁷ Ruhs and Anderson (2006)

¹⁸ See Anderson et al. (2006)

¹⁹ See Woodbridge (2005).

²⁰ Woodbridge (2005) discusses issues to do with estimating the number of “unauthorized” migrants in the UK. For an overview of “irregular” migration in the UK, see IPPR (2006).

low-wage jobs in agriculture and food processing, construction, the care sector, cleaning and in hospitality.

Section 8 of the Asylum and Immigration Act 1996 (as amended by section 147 of the Nationality, Immigration and Asylum Act 2002) makes it a criminal offence to employ an individual over the age of 16 who does not have the entitlement to be in the UK or whose status precludes them from undertaking the employment in question. However, possibly due to the government's emphasis on the "flexible" labour market (see below), enforcement against employers who employ migrants illegally has traditionally been very low. Between 1998-2003, only 9 employers were successfully prosecuted for illegally employing migrants under Section 8.²¹

Since coming to power in the late 1990s, the current government has considered the promotion of a "flexible labour market with minimum standards" a core element of its overall policies for providing "employment opportunities for all", and especially for avoiding the employment fluctuations resulting from the two severe recessions the UK economy faced in the late 20th century.²² Labour market flexibility can be given various meanings but it generally includes flexibility in: real wages; working practices (i.e. availability of part-time work and flexible employment arrangements; and recruitment practices (e.g. a relative ease for employers to hire and fire staff).²³ International comparisons generally find that the UK's labour markets – and product markets – are more flexible than those of many other high-income countries.²⁴ In an effort to avoid labour market flexibility resulting in exploitation of low-wage workers, the government introduced a minimum wage in 1998. A Low Pay Commission was established to advise the government about the national minimum wage.²⁵

2.2 EU enlargement: impact on labour immigration and labour immigration policies

Along with Ireland and Sweden, Britain was in a minority among the member states of the pre-enlarged EU (EU15) to grant workers from the A8 countries free access to their labour market immediately upon EU enlargement on 1st May 2004. Since that date "A8" workers have been free to migrate and take up employment in the UK without requiring work permits. This decision was clearly part of the Government's strategy for migration management, expanding migration to fill vacancies in skilled and especially in low-waged occupations, where employers found it difficult to legally employ migrants before EU enlargement. For all those A8 workers residing in the UK illegally, 1st May 2004 was, in effect, an amnesty.

²¹ See Home Office (June 2005a).

²² See HM Treasury and DWP (1997; and 2003).

²³ For a comprehensive discussion and assessment of the flexibility of the UK's labour market, see HM Treasury (2003).

²⁴ See, for example, OECD (2002)

Inflows of A8 workers: Data from the Worker Registration Scheme (WRS)

In February 2004 a special “Workers Registration Scheme” (WRS) was put into place for A8 workers taking up employment in the UK after 1st May 2004. Unless officially exempted from doing so, A8 workers are required to *register* their employment with the Home Office within one month of taking up employment in the UK.²⁶ To register, workers must pay a one-off fee which in May 2004 was £50 (and has subsequently increased to £70). The WRS was not intended to limit A8 nationals’ access to the labour market. Its stated policy objectives are to control A8 workers’ access to certain welfare benefits and services (to be discussed in section 3.2 of this paper); to encourage participation in the formal economy; and to provide empirical data to facilitate monitoring of inflows and the formulation of evidence based policy. Arguably, the Worker Registration Scheme was a political concession to all those who were concerned before EU enlargement about the prospect of A8 migrants ‘flooding’ Britain to claim benefits rather than work.

The government publishes quarterly “Accession Monitoring Reports” with data obtained from the registration of A8 nationals.²⁷ According to the latest report²⁸, there were 447,000 applications for registration between May 2004 and June 2006.²⁹ As shown in Figure 2, more than two years after EU enlargement, there is no sign yet of a significant decline in the numbers of workers registering.

²⁵ For its latest annual report, see Low Pay Commission (2006).

²⁶ The groups exempted from the registration requirement include: self-employed people; those working legally in the UK for 12 months or more in the job they held on 1 May 2004; those working legally and remaining in the same job after 1 May 2004; those working and intending to work for less than one month with a particular employer; and au-pairs.

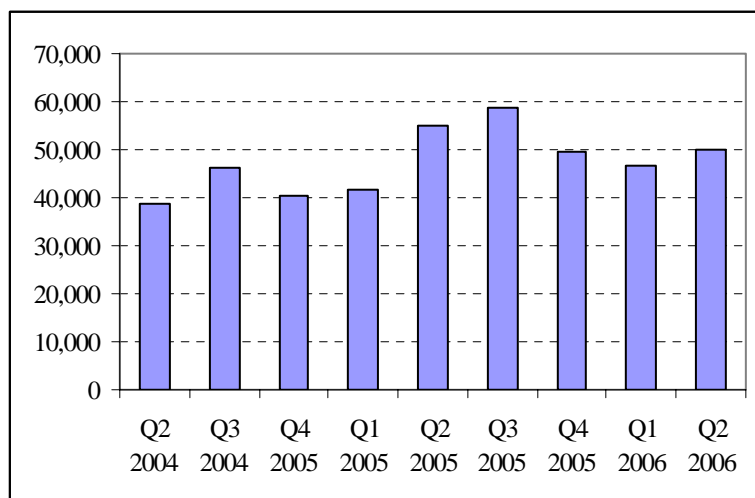
²⁷ The reports are available at

http://www.ind.homeoffice.gov.uk/ind/en/home/0/reports/accession_monitoring.html

²⁸ Home Office (August 2006b)

²⁹ Up to 30 percent of A8 workers who registered between May 2004 and September 2005 were from applicants who had already been in the UK before 1st May 2004. See Gilpin et al. (2006)

Figure 2: Quarterly numbers of East European migrants registering in the Worker Registration Scheme (WRS)



Source: Home Office (2006), Accession Monitoring Report May 2004 – June 2006

There has been significant debate about the extent to which the official registration data reflect the number of A8 nationals coming to work in the UK in practice. It is clear, for example, that the various exemptions from the registration requirements mean that the registration data underestimate the inflow of A8 workers. The exemption of self-employed A8 nationals is particularly important in this regard. Self-employment is known to be particularly prevalent in the construction sector where a large number of A8 nationals are known to be working. The Government has recently estimated that if self-employed A8 workers are taken into account, the total figure may be closer to 600,000 rather than the 447,000 suggested by the WRS data. This is still likely to be an underestimate as research has shown that some A8 workers fail to register when they are required to do so.³⁰

Whatever the true numbers, it is undisputed that the scale of labour immigration from the new EU member states since May 2004 has been significantly larger than that predicted by the government before EU enlargement. A study commissioned by the Home Office predicted that EU enlargement would lead to an average annual net migration (i.e. inflows minus outflows) of 5,000-13,000 A8 nationals for the period up to 2010.³¹ There are a number of reasons to do with the methodological limitations of the study – many of which were explicitly mentioned in the study itself – that help explain its gross underestimate. The key reason, however, may have been the fact that, due to a lack of data on migration from A8 countries to the UK, the predictions for post-enlargement immigration from the A8 countries were based

³⁰ See Anderson et al. (2006)

on a model whose parameters had to be estimated using historical data for a different set of countries. Another explanation for the gross underestimate of most official predictions was the assumption that all 15 member states of the pre-enlarged EU would open their labour markets to workers from the new EU member states at the same time. In the end, only three countries granted A8 workers the unrestricted right to work in May 2004 (the UK, Ireland and Sweden) creating significant ‘diversion effects’ in the post-enlargement migration flows of A8 workers.³²

However incomplete and inadequate for reflecting the actual scale of inflows, the data from the WRS are still very useful as they enable us to better understand the characteristics and types of employment of A8 workers in the UK. The majority of workers who have registered since May 2004 are Polish (62 percent), male (58 percent), young (82 percent aged between 18-34) and without dependents in the UK (93 percent).³³ They are employed across all occupations but most are working in relatively low-skilled jobs. Table 2 shows the top five occupations groups and occupations. Importantly, workers from the new EU member states are employed throughout the UK and not just in London. According to the latest data, East Anglia had the greatest number of workers registering during May 2004-June 2006 (15 percent of the total), followed by London (14 percent) and the Midland regions (12 percent).

Table 2: Top five occupations groups and occupations of East European workers registered in the Worker Registration Scheme (WRS) during May 2004 - June 2006.

Top five occupation groups		Top five occupations	
Admin., Business and Management	34 %	Process operatives	37%
Hospitality and Catering	21 %	Warehouse operatives	10%
Agriculture	12%	Packers	9%
Manufacturing	7%	Kitchen and catering assistants	9%
Food, fish and meat processing	5%	Cleaner, domestic staff	8%

Source: Home Office (2006b), Accession Monitoring Report May 2004 – June 2006

³¹ Dustmann et al. (2003)

³² See the discussion in Tamas and Münz (2006).

³³ Home Office (August 2006b)

A8 worker stocks: Data from the Labour Force Survey

It is important to emphasise that the figures from the Worker Registration Scheme are not a measure of the stock of A8 workers in the UK. The registration data do not record how long A8 workers stay and it is not known how many have already left the UK, as there is no requirement for workers to de-register upon leaving. Although the existing data are insufficient to assess the extent to which the recent inflows of East European workers will result in their long-term immigration and/or permanent settlement in the UK, it is clear that a significant number of A8 workers registering have been temporary migrants who came to do time-limited (e.g. seasonal) jobs. At the same time, the share of long-term immigrants may not be as low as commonly suggested.

Data taken from the UK's labour force survey suggest that the stock of A8 migrants in employment in the UK increased from about 43,000 in the spring of 2003 to 247,000 in the spring of 2006 (see Table A3). The increase in the stock of employed A8 workers suggested by these figures seems rather low compared to the flow data (estimated at around 600,000 since May 2004) and, if true, would suggest a relatively high incidence of short-term stays in the UK among A8 migrants. Nevertheless, although a significant share of the recent A8 immigration is likely to be temporary and short-term, it is important to keep in mind that the labour force figures for A8 workers are most likely underestimates due to well known problems with undercounting and capturing minority groups in labour force surveys.³⁴

Table 3: Estimates of A8 migrants aged 16+ and in employment, 2003-2006 (April-June)

	A8 migrants aged 16+ (thousands)	A8 migrants in employment (thousands)	A8 migrants' share in total migrant employment	A8 migrants' share in total employment
Apr-Jun 2003	118.4	43.2	1.7%	0.15%
Apr-Jun 2004	133.7	75.1	2.9%	0.27%
Apr-Jun 2005	222.3	150.3	5.4%	0.53%
Apr-Jun 2006	330.9	246.9	7.9%	0.87%

Source: Labour Force Survey, ONS

³⁴ See ONS (2003)

Policy changes since EU enlargement

At the same time as opening the labour market to A8 workers, the government also introduced measures to strengthen the enforcement of Section 8 of the Asylum and Immigration Act 1996. On 1st May 2004, the Government introduced the Immigration (Restrictions on Employment) Order 2004 which, among other things, revised the list of specified documents which may be taken to provide evidence of entitlement to work. Although enforcement efforts in relation to illegal migrant working increased – according to the Home Office the number of “successful operations” increased from 390 in 2003 to 1,098 in 2004 – prosecution rates and fines imposed on employers following section 8 convictions remained very low. In 2004-05, 21 employers were successfully prosecuted for illegally employing migrants under Section 8 (compared to a total of 3 during 2001-03).³⁵ More than half of section 8 convictions in 2004-05 resulted in fines of less than £700, with four employers fined the maximum of £5,000.³⁶

A second and more consequential policy change following EU enlargement was the termination of the Sector Based Scheme for the hospitality sector. This decision came after a review of the SBS which was published in June 2005.³⁷ The two major reasons given for the closure included: (i) the expectation that workers from the new EU member countries are now able and willing to fill all vacancies in low-skill hospitality jobs, thus making the need for non-EEA workers redundant; and (ii) concerns about misuse of the SBS in the hospitality sector. The elements of – or potential for - misuse that the Home Office review of the SBS identified included, for example, the selling of SBS permits in migrant workers’ countries of origin; the danger that some SBS workers remain in the UK after their SBS permits expire; and the practices of some third party agencies in facilitating entry into the UK under falsified pretences.

Following EU enlargement, the Government also launched a public consultation³⁸ about reforming the UK’s overall immigration system and in March 2006 gave details of a new “points-system” framework for managing labour and other types of migration of non-EEA nationals to the UK.³⁹ Among other things, the new points-based system aims to facilitate and simplify policies regulating the immigration and employment of skilled and highly skilled non-EEA workers and to strictly limit low-skilled immigration from outside the EEA. Any remaining low-skilled immigration programmes would be “quota based, operator-led, and time-limited”. Again, the rationale provided for restricting low-skilled immigration of non-EEA workers following EU enlargement is that local employers should now be able to source all the workers required for low-skilled jobs from within the enlarged EU.

³⁵ Home Office (August 2006a)

³⁶ See Home Office (June 2005a)

³⁷ See Home Office (June 2005b)

³⁸ See Home Office (July 2005)

Finally, the Government has recently announced that it will not allow nationals of Romania and Bulgaria free access to the British labour market when their countries join the EU in January 2007.⁴⁰ Romanians and Bulgarians will be free to travel to the UK but their employment will continue to be regulated by the UK's work permit system. Under this system, food processing and agriculture will be the only sectors open to the legal employment of low-skilled workers from Romania and Bulgaria (with a cap of 20,000 per year). There are, however, two major exceptions: Romanians and Bulgarians will be allowed to legally work in the UK without a work permit if they are self-employed or students working part-time (for a maximum of 20 hours per week during term time, and full time during vacations). Critics point out – and the Government has admitted – the significant challenge of enforcing these rules in practice. To encourage compliance, the government has proposed to parliament the introduction of on-the-spot fines for migrants and their employers who break the rules. The Government intends to annually review these transitional arrangements for Romanian and Bulgarian migrants. According to the Home Secretary, the opening of the UK labour market to Rumanian and Bulgarian workers will be “gradual” and “take account of the needs of our labour market, the impact of the A10 expansion and the positions adopted by other member states”.⁴¹

The reasons for the Government's decision to continue to restrict the access of Romanian and Bulgarian workers to the British labour market mainly stem from the significant and larger-than-expected inflow of workers from the ten countries that joined the EU in 2004, and from concerns that free access for Romanians and Bulgarians could further increase the inflow of East European migrants. The Institute for Public Policy Research (IPPR), a leading left-leaning think-tank, recently estimated that free access would result in an additional inflow of about 55,000 Romanian and Bulgarian migrants in the first year after the two countries join the EU. However, others put the migration potential from Romania and Bulgaria much higher, mainly because the average wage levels in Romania and Bulgaria are even lower than those prevailing in most of the ten countries that became EU member states in 2004.

The Government has, this time, not made any predictions about the likely future immigration flow from Rumania and Bulgaria but concerns about a further significant inflow of East European labour appear to be widespread. The Conservatives, some Labour MPs and, interestingly, even the Confederation of British Industry (CBI) have all argued against free labour market access for Rumanians and Bulgarians when their countries join the EU in order to “pause for reflection”.

³⁹ See Home Office (March 2006)

⁴⁰ See the Home Secretary's statement to parliament on 24 October 2006, http://news.bbc.co.uk/1/hi/uk_politics/6081042.stm

⁴¹ Home Secretary's statement to parliament on 24 October 2006

3 Economic impacts

This section reviews the available evidence on the economic impacts of recent labour immigration in the UK. I first discuss effects on the economy and labour market, and then turn to fiscal impacts and consequences for public services.

3.1 Impacts on the economy and labour market

For most of the past five years, economic growth rates in the UK have been consistently higher than the EU average. Rising levels of immigration have contributed to that growth, mainly by expanding total employment (see Figure 3). The extent of the contribution of immigration to growth is, however, unclear.⁴² Mervyn King, the Governor of the Bank of England, observed in a speech in 2005 that immigration benefited the UK economy by lowering wage growth and inflation, and thereby keeping interest rates low.⁴³ The Ernst & Young ITEM club estimated that East European immigration kept interest rates half a percent lower than they would otherwise have been.⁴⁴

In theory, immigration can also have some negative effects on the overall economy. For example, an important but so far unexplored research question is whether and to what extent the increased supply of cheap labour in the UK has discouraged employers from modernizing production processes and led to a situation where inefficient companies and industries remain viable only because they are subsidized by a cheap immigrant workforce.⁴⁵

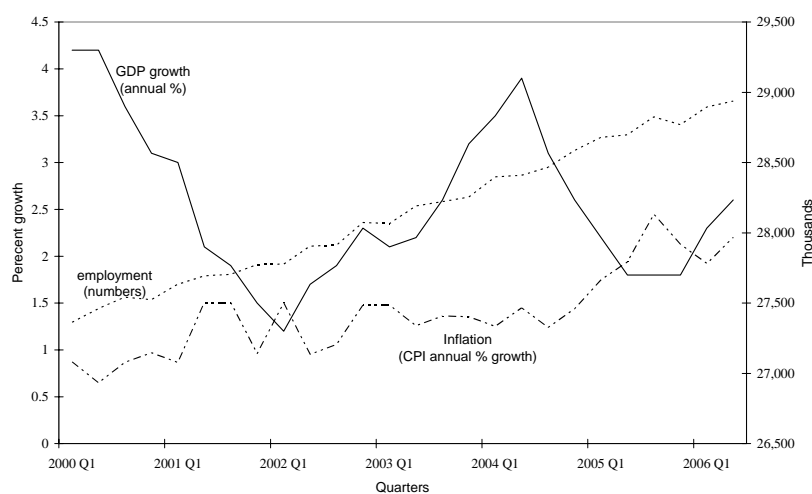
⁴² Most international studies find that immigration generates only fairly modest economic benefits for the economy of the host country. See, for example, Smith and Edmonston (1997) for the US; and Productivity Commission (2006) for Australia.

⁴³ King (2005)

⁴⁴ Ernst & Young ITEM Club (2006)

⁴⁵ Recent research by Lewis (2005, 2004) shows that the growth in less-skilled labour supply has slowed the adoption of automation technology in selected plants in US manufacturing. For another example, see Martin and Olmstead's (1985) discussion of the mechanization controversy in US agriculture.

Figure 3: GDP growth, inflation (CPI) and employment since 2000 (quarterly figures)



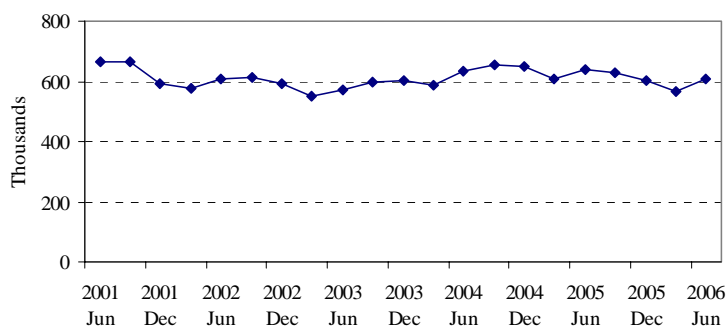
Source: Office for National Statistics (ONS)

Migrant workers have also played an important role in helping meet skills and labour shortages across a wide range of occupations at both the high and low skill end of the labour market. However, because immigration has expanded the economy and the number of workforce jobs overall, the total number of vacancies has not significantly declined since 2001, remaining at around 600,000 (see Figure 4). The incidence of hard-to-fill vacancies has slightly fallen recently, from 1.1 percent in 2004 to 0.9 percent in 2005. Vacancies persist throughout the economy, but they are currently highest for elementary occupations, associate professional occupations and sales and customer service occupations.⁴⁶ Of course, it is important to keep in mind that these aggregate figures for the overall economy could conceal potentially important regional and sectoral differences.⁴⁷

⁴⁶ Learning and Skills Council (2006, 2005)

⁴⁷ For example, in the hotels and restaurants sector the number of vacancies has fallen from 59 thousand in May 2004 to 47 thousand in June 2006, which is a more significant decline than that observed in the aggregate figures for the overall economy during that period (ONS).

Figure 4: Vacancies in the UK economy



Source: ONS

The biggest beneficiaries from the increase in the availability of migrant labour have undoubtedly been individual employers, especially those with a demand for low-waged labour. Before EU enlargement employers had only very limited access to migrant labour that could be legally employed in low-skilled jobs. Since EU enlargement, employers in the UK have had access to an almost unlimited supply of East European migrants willing to take up employment at or close to the minimum wage. Data from the Worker Registration Scheme suggest that more than three quarters of the workers who registered since May 2004 were earning £4.50-£5.99 per hour.⁴⁸ During October 2004-05, the minimum wage was £4.85 for workers aged 22 or over, and £4.10 per hour for workers aged 18-21. The corresponding rates for October 2005-06 were £5.05 and £4.25, respectively.⁴⁹

The findings of a recent research project that explored the employment experiences of East European migrants working in low-skilled jobs in the UK⁵⁰ suggest that, in addition to working at low wages, A8 workers also tend to work longer basic hours and longer total hours than average for their occupation. Furthermore, many of the more than 500 migrants interviewed in the project were found to be significantly overqualified for the work they were doing in the UK. For example, of 120 East European interviewees doing basic jobs in the UK's hospitality sector, more than half had post-secondary education and more than a third had tertiary education.

Many of the East European migrants interviewed described their situation in terms of trade-offs. Most suggested they tolerated low-skilled work and poor conditions because the

⁴⁸ Home Office (August 2006b)

⁴⁹ On 1st October 2006, the minimum wage increased to £5.35 for workers aged 22 or over, and £4.45 per hour for workers aged 18-21. See Low Pay Commission www.lowpay.gov.uk

⁵⁰ Anderson et al. (2006). Sachdev and Harries (2006) discuss the learning and skills issues arising from the employment of many highly qualified migrants in low skilled jobs in the UK.

pay was significantly better than at home. But the trade-offs were not just economic; many were motivated by the desire to learn English, or gain experience. Importantly, whatever the motivation, East European migrants were typically prepared to put up with poor conditions because the job was perceived as temporary. Most of the migrants interviewed had a clear expectation to eventually move on to better jobs in or outside the UK.

The study also surveyed UK employers who valued and praised A8 migrants as “high-quality workers” for low-skilled and low-waged work. Employers repeatedly compared the “work ethic” and reliability of migrants to the negative attitudes of British workers. Employers blamed their difficulties with recruiting British workers on long anti-social hours, high physical demands, low status and low pay of the jobs they were offering.

Employers of A8 workers were clearly aware of the economic trade-offs that well-qualified migrants were making by taking up low-waged employment in the UK. As one construction employer interviewed in the study said: “I’ve had doctors ... bit of a sad waste really, doing laddering work because it paid better than being a doctor back home.”⁵¹

The question arises, then, whether the economic benefits that labour immigration has generated for employers and the economy overall have come at the cost of reduced wage and employment prospects for British workers. A recent assessment of the growth of earnings in the UK labour market by the Office of National Statistics concluded that “the overall picture is of steady earnings growth, though any underlying wage pressure in the economy remains subdued”.⁵² Earnings figures show a slight decline in the annual growth rate of earnings including bonuses, which was down from 4.4 percent in the three months to April 2006 to 4.1 percent in the three months to May 2006.

Figure 5 shows that, following years of relatively steady decline, unemployment and the claimant count (the number of people claiming Jobseeker’s Allowance) have risen since 2004. The claimant count figure increased from 819,000 in February 2005 to 957,000 in July 2006.⁵³ During the same period the number of unemployed workers rose from about 1.4 million to almost 1.7 million. Analysis by the Office for National Statistics suggests that at least part of the reason for the ongoing increase in unemployment is an increase in labour market participation - the inactivity rate of the working-age population fell by about 0.5 percentage points during Jan-Sep 2006, to 20.9 percent in Sep 2006 - rather than a slowdown in the labour market.⁵⁴

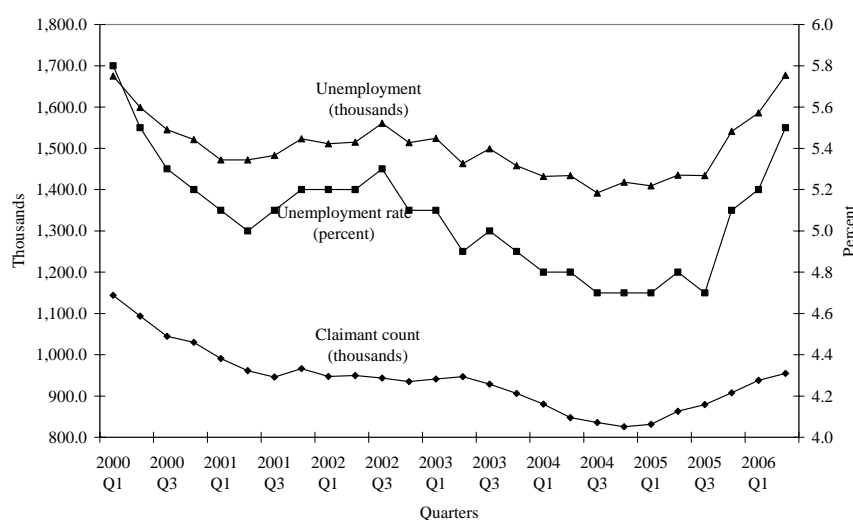
⁵¹ Anderson et al. (2006), p.70.

⁵² Lindsay (2006), p.247

⁵³ In August 2007, the claimant count fell slightly to 950 thousand in August 2007. See ONS (Sep 2006)

⁵⁴ Goodridge (Sep 2006)

Figure 5: Unemployment and claimant counts, 2000 - 2006Q2



Source: ONS

Is there a link between immigration and the recent rise in unemployment? The currently available research evidence does not offer a clear answer to this question. There has so far only been one study of the impacts of the recent migration flows from the new EU member states on the UK labour market.⁵⁵ This study, carried out by a research team led by the Department of Work and Pensions (DWP), used statistical analysis to explore the impact of labour immigration of A8 workers, measured by the number of workers registered in the Worker Registration Scheme, on the claimant count rate of citizens, i.e. on the proportion of the working age population in receipt of Jobseeker's Allowance. Using data up to November 2005, the DWP study found no statistically significant impact of the inflow of A8 workers on claimant unemployment. The authors thus conclude that "the economic impact of migration from the new EU member states has been modest, but broadly positive, reflecting the flexibility and speed of adjustment of the UK labour market".⁵⁶

The conclusion of the DWP study is in line with the findings of an earlier, pre-enlargement analysis of the local labour market impacts of immigration.⁵⁷ Based on labour force survey data, that earlier analysis concluded that immigration has no significant (long-run) effects on regional unemployment levels or wage levels in the UK. The authors explained their results by arguing that the long-run effects of immigration are reflected in a change in the output mix – i.e. an increase in the production (or provision) of labour-intensive commodities (or services), which leads to an increase in the demand for labour – rather than in a change in

⁵⁵ See Gilpin et al. (2006).

⁵⁶ Gilpin et al. (2006), p.1

wages or unemployment levels.⁵⁸ The more recent DWP study has essentially given the same explanation for its conclusion that immigration has only very minor and insignificant impacts on the labour market. The argument that immigration has increased the demand for labour – as well as increased its supply – is certainly in line with the economy-wide vacancy figures which have so far shown no sign of a decline.

Since they constitute most of the systematic research evidence about the impacts of immigration on the UK labour market to date, the conclusions of these two studies need to be taken seriously. They certainly dispel the popular myth that labour immigration inevitably harms native-born workers. However, it also needs to be acknowledged that studies of the labour market impacts of immigration face a number of methodological difficulties and there is still a debate in the international literature about the best methodological approach to the analysis.⁵⁹ For example, a key limitation of the DWP study stems from the poor quality of the data used to measure the number of A8 workers. As discussed above, the number of workers registering in the Worker Registration Scheme is a significant underestimate of the actual number of East European migrants taking up employment in the UK since EU enlargement. The two main reasons for this are the exemption of self-employed workers from registration requirements and the failure of some workers from the new EU member states to register.

An important issue that has so far received relatively little attention is the impact of increased immigration on immigrants (i.e. foreign-born persons) already in the UK. A very recent study concluded that the main reason why existing studies of the impacts of immigration on the wages of native-born workers failed to find any significant effects is that natives and immigrants are imperfect substitutes. As a result, the study finds that the only sizable effect of increased immigration is on the wages of those immigrants who are already in the UK.⁶⁰

Another issue that requires more attention from researchers is the impact of A8 immigration on activity rates, and especially on the labour market participation of certain ethnic minority groups with low participation rates such women of Pakistani and Bangladeshi origin. The current government is keen on increasing activity rates throughout the economy, and especially among ethnic minorities whose rates lag behind those of other groups. It is important to find out how the current immigration of A8 workers is affecting these efforts.

⁵⁷ See Dustmann et al. (2005).

⁵⁸ There are several ways in which the receiving country's economy may adjust to immigration, including, for example, through a change in capital accumulation (investment), a change in production technology, a change in the output mix (i.e. in the mix of products produced or services provided) etc.

⁵⁹ For a discussion of these difficulties and alternative approaches to the analysis, see, for example, Borjas (2003), Card (2005) and Dustmann et al. (2005).

⁶⁰ Manacorda et al. (2006)

Given the paucity and limitations of existing research, the labour market impacts of recent immigration flows remain contested. On the one hand, it is clear that the UK's growing economy and flexible labour market have done extremely well in absorbing a large number of migrant workers over the past few years without the huge rises in unemployment or declines in wage levels predicted before EU enlargement by parts of the tabloid press. On the other hand, the continuing inflow of East European migrants and the recent increase in unemployment suggest the possibility that the impact of immigration on the labour market may not always be as insignificant as most of the existing studies suggest.

3.2 Impacts on public finances and public services

The fiscal impacts of labour immigration in the UK remain disputed. The three existing studies of this issue were all carried out before EU enlargement and came up with different conclusions. Carried out in 2002, the first analysis estimated that the overall net contribution of immigrants (defined as foreign-born persons) was £2.5 billion in 1999/2000.⁶¹ A separate study in 2004 argued that this estimate failed to take account of a number of important additional items of expenditure, including the costs of administering immigration programmes. Its revised estimate of the overall net fiscal contribution of immigrants in 1999/2000 was in the range of £-0.4 – £2.6 billion.⁶² The most recent study of the fiscal impact of immigration concluded that, in 2001-02, the average foreign-born person made a net contribution to the fiscal balance of £331 (compared to £222 for UK-born persons).⁶³

Any assessment of the fiscal impacts of immigration is, in the end, critically dependent on the underlying methodology, especially on whether the fiscal accounting is static or dynamic. The static approach calculates the fiscal contribution of immigrants as the difference between the taxes they pay and the public expenditure they absorb in a given period (e.g. in a certain year). In contrast, the dynamic approach considers the entire stream of future taxes and expenditures associated with the immigrants and their descendants.⁶⁴ All of the three UK studies cited above were of the static type.

In theory, the fiscal impacts of labour immigration largely depend on migrants' age, their wages and their eligibility for and take-up of government benefits and public services. Migrants with lower-than-average incomes tend to pay lower-than-average taxes and may also be eligible for more government-funded services, especially if their families are with them.⁶⁵ As discussed earlier in the paper, the majority of A8 nationals taking up employment in the UK

⁶¹ Gott and Johnston (2002)

⁶² Coleman and Rowthorn (2004)

⁶³ Srisandarajah et al. (2005)

⁶⁴ See the discussion in Coleman and Rowthorn (2004)

⁶⁵ Martin (2006)

since EU enlargement have been employed in low-waged work, which suggests that they pay lower-than-average taxes. At the same time, however, the great majority of A8 workers are young and without dependents. Furthermore, A8 nationals' access to means-tested benefits is more restricted than that of other EU and British nationals.

Just before EU enlargement, the Government changed the law regulating access to means-tested benefits, largely in response to concerns about nationals of the new EU member states burdening the UK welfare system. The Social Security (Habitual Residence) Amendment Regulations 2004⁶⁶ introduced a new requirement that a claimant must be able to demonstrate a 'right to reside' in the UK, in addition to the habitual residency test⁶⁷. Under the new rules, A8 workers can only have a 'right to reside' (for benefit purposes) if they are working and registered under the Workers' Registration Scheme or if they have already completed a 12 month period of continuous and registered employment. During the first 12 month of registered employment, A8 workers are entitled to Child Benefits and in-work benefits such as tax credits. Those with a low income may also be entitled to Housing Benefit, Council Tax Benefit and become eligible for assistance under the Homelessness legislation. A8 workers who are not registered do not have access to any of these benefits. After 12 months of registration, A8 workers gain the right to be treated the same way as other EU nationals.

The quarterly Accession Monitoring reports include information about A8 workers' applications for national insurance numbers and employment-related and welfare benefits. The latest figures suggest that 98.4 percent of National Insurance Numbers for A8 workers were allocated for employment purposes. The numbers of A8 nationals applying for tax-funded, income related benefits (including Jobseeker's Allowance, Income Support and State Pension Credit) have been low (5,943 applications since May 2004) and rejection rates have been high (87 percent), mainly on the basis of the Habitual Residency Test and the Right to Reside requirement. Applications for child benefits have been higher (44,995 since May 2004) and rejection rates lower (18 percent).⁶⁸ The government argues that these figures show that pre-enlargement concerns about "welfare-shopping", i.e. about A8 workers coming to the UK in order to claim benefits rather than work, have been unfounded.

It has also been suggested that the Government's decision to grant A8 workers free access to the UK labour market since May 2004 has increased tax revenues by encouraging East European workers who had been working illegally in the UK before May 2004 to register and start paying taxes. This may be a likely but by no means certain effect. Recent research has

⁶⁶ See 'The Social Security (Habitual Residence) Amendment Regulations 2004', available at <http://www.opsi.gov.uk/si/si2004/20041232.htm>

⁶⁷ The term 'habitually resident' is not defined in legislation. The most important factors for habitual residence are generally the length, continuity and general nature of actual residence rather than intention.

⁶⁸ Home Office (August 2006b)

shown that one cannot assume a straightforward relationship between immigration status and informal working.⁶⁹ Some illegally resident migrants do pay national insurance (e.g. by using an expired or somebody else's national insurance number). At the same time, legal residents (including British workers) sometimes work in the informal economy without paying taxes.

Overall, the Government has argued that A8 workers are making few demands on the UK's welfare system. Although there is not any systematic evidence to refute this claim, there have been recent concerns that the much larger than anticipated number of A8 workers coming to the UK are beginning to make greater demands on public services including housing, health care and schools than suggested by the Government. A recent study found that one in seven people using London homelessness services are from Eastern Europe.⁷⁰ The Local Government Association recently wrote to the Home Secretary suggesting that local councils do not get enough money to fund the services for A8 nationals because the official figures underestimate the actual levels of immigration.⁷¹

Based on the available evidence reviewed above, it is clear that many of the economic effects of the recent labour immigration from Eastern Europe remain poorly understood. Although we can say with confidence that immigration has created some benefits for the overall economy and individual employers, the impacts on wages and especially unemployment are less clear. The recent rise in unemployment necessitates more research into whether and to what extent this increase has been related to immigration. Similarly, although workers from the new EU member states are clearly making an important contribution to the perceived needs of the UK's flexible labour market, relatively little is known about the employment conditions of A8 workers in practice and the extent to which the increased competition for low-waged jobs is driving down employment conditions at the low skill end of the labour market. Finally, although the officially available figures do not suggest that A8 workers are creating disproportionate costs for the UK's welfare state, too little is known about the impacts of immigration on public services to draw any firm conclusions.

⁶⁹ Anderson et al. (2006)

⁷⁰ Homeless Link (2006)

⁷¹ See http://news.bbc.co.uk/1/hi/uk_politics/5255038.stm

4 Current debates

This section briefly reviews the major themes in the current debate about A8 workers in the UK.

4.1 Numbers and impacts

Unsurprisingly, much of the current debate about A8 workers in the UK has focused on their high numbers and uncertain impacts on the UK economy and society. The Government has been criticised for the gross inaccuracy of its pre-enlargement predictions about the likely number of A8 migrants coming to the UK after May 2004; and for the apparent failure of the currently available official data to adequately measure the true number of East European migrants coming and working in the UK. There is now widespread agreement that better data are needed urgently and the Government has promised major efforts to improve the quality and accuracy of the official migration figures.

With regard to the economic impacts of recent labour immigration, the Government maintains that labour immigration from the new EU member states has generated significant economic benefits by filling vacancies that cannot be met by UK-born workers. The recent rise in unemployment and complaints by local councils about a lack of money necessary for the provision of public services for A8 workers have, however, opened up a debate about whether the benefits for individual employers and the UK economy as a whole are generated at the expense of local workers and the taxpayer. As the discussion in the previous section has shown, there is, unfortunately, still very little research evidence on the labour market impacts and fiscal effects of the recent labour immigration from Eastern and Central Europe. As a result, the public debate on these issues is frequently based on anecdotes and opinion rather than systematic evidence.

4.2 Temporary or permanent?

A key question that is emerging in current debates is whether East European migrants are likely to be temporary migrants or permanent settlers. Until recently, the assumption was that the vast majority of A8 workers would seek a temporary stay and employment in the UK. As the numbers coming have remained high, this assumption is now being scrutinized more carefully. The latest data from the Worker Registration Scheme suggest that almost half of the workers who registered for employment since May 2004 have taken up temporary jobs. The share of temporary employment is particularly high in agriculture (69 percent), and in Administration, Business and Management (82 percent).⁷² The implications of these data for A8

⁷² Home Office (August 2006b)

nationals' length of stay are unclear. In some cases temporary employment will imply a temporary stay, especially in seasonal jobs in agriculture. In other cases migrants may simply take up a succession of temporary jobs in the UK. This is likely to be the case, for example, for migrants working for employment businesses⁷³ which are included under the category of Administration, Business and Management.

Although the majority of A8 migrants appear to be coming to the UK with the intention of a temporary stay, there are some indications from interviews with migrants that some workers' intentions and expectations change over time resulting in a longer-term stay than initially anticipated.⁷⁴ Given that the differences between wages and unemployment rates in the UK and the new EU member states are still significant (unemployment in Poland still stands at 16 percent), the desirability of an early return migration may not seem as desirable as some A8 migrants may have thought at the time of moving to the UK.

The duration of A10 workers' employment and stay in the UK also raises important, but so far little discussed, questions for the UK's overall integration policies. All migrant workers need at least a minimum of information and assistance to help them have a positive experience in the UK. It is, however, also clear that migrants who settle permanently raise different integration issues than those coming for a short time period only. East European migrants have so far been almost completely missing from integration debates in the UK. This is perhaps because of the common assumption that their stay is likely to be temporary and short-term. Another reason may be the, in my view, mistaken assumption that because A8 migrants are white, they will inevitably not have any difficulties integrating in the UK economy and society. Research from other immigration countries suggests that there is significant diversity in different migrant groups' experiences of upward mobility in the host country's labour market. While some migrants do get better jobs over time, others sometimes get stuck in low-wage "poverty traps". It is still too early to assess what share of A8 migrants in the UK will stay long-term or permanently, and how well they will integrate in the UK, but it is clear that one cannot simply assume the answers to these questions before exploring and discussing them in a systematic fashion.

4.3 Immigration and the flexible labour market

The larger-than-anticipated inflow of A8 workers since EU enlargement, and their employment in predominantly low-wage occupations, has highlighted the central role of the UK's flexible labour market in shaping both the numbers and impacts of migrant workers. Since the Government can no longer control the admission of A8 nationals to the UK, the scale and skill

⁷³ An employment business is a type of employment agency that employs workers directly but sends them out to work for other businesses on a temporary basis.

composition of the recent East European immigration has essentially been employer-led. Employers' demand for labour depends, in part, on labour costs which, in turn, depend on wages and employment conditions offered. Clearly, the lower the wages and employment conditions that employers can offer and migrants are willing to accept, the greater employer demand for migrant labour will be. This point is well-illustrated by the experience of Sweden, which has seen very limited inflows of East European migrants despite joining the UK and Ireland in allowing A8 workers unrestricted access to the labour market since May 2004. One of the reasons for this is the high level of regulation within Sweden's labour market which makes it almost impossible for employers to hire migrants at conditions that are different from those collectively agreed - and effectively enforced - for all workers.

In Ireland, the large inflow of A8 workers has led to widespread agreement on the need for effective enforcement of existing employment laws and regulations. The argument made in the Irish case is that, in addition to helping protect the rights of all workers, improved enforcement of minimum standards would also reduce employer demand for migrant labour compared to what it would be in the absence of enforcement. Under the latest Social Partnership Agreement, the number of labour inspectors will be tripled in Ireland.⁷⁵

In the UK, the better enforcement of minimum labour standards has not yet featured as a major theme in the current debate on immigration, perhaps because the flexible labour market has been at the core of government policy and is often credited with being one of the cornerstones of the recent success of the British economy. There are, however, signs that the importance of enforcing minimum standards in a high-immigration environment is beginning to be more widely recognized. For example, in its most recent annual report, the Low Pay Commission recommended that the Government take action to prioritise targeted enforcement of the minimum wage in those sectors that employ significant numbers of migrant workers.⁷⁶ This recommendation stems from growing concerns about some employers taking advantage of the greatly increased supply of workers by offering migrants wages and employment conditions that do not meet minimum standards.⁷⁷ In a recent opinion piece on illegal immigration in the UK, John Denham, the Head of the Home Affairs Select Committee argued that "a drive to enforce all employment and tax laws across the tough bottom end of the labour market will benefit millions of low-paid workers. It will also cut the financial premium from illegal labour and reduce the pull on new migration."⁷⁸

⁷⁴ Spencer et al. (2006, forthcoming)

⁷⁵ See Department of the Taoiseach (2006)

⁷⁶ Low Pay Commission (2006)

⁷⁷ See, for example, Trades Union Congress (2005).

⁷⁸ Denham (2006)

4.4 Reforming migration policies toward non-EEA nationals

A fifth key issue in the UK's current immigration debate concerns the Government's planned reform of its overall policy framework for managing the immigration of non-EEA nationals. As discussed earlier in this paper, the points-based system proposed by the Government in early 2006 would, for the foreseeable future, not admit any non-EEA nationals for the purpose of filling low-skilled vacancies in the UK. This is because the Government expects employers to fill, at least in the short to medium term, all of their low-skilled vacancies with workers from the new member states. This position has recently been re-iterated when the Government announced its decisions about continuing restrictions on the labour market access of Rumanian and Bulgarian workers.⁷⁹

Some employers in agriculture and the food processing sector have raised concerns that this policy change may make it more difficult for them to recruit and especially to *retain* workers. Although the new EU nationals are taking up employment in these sectors, some employers have suggested that they find it difficult to retain East European workers, mainly because as EU nationals they are now free to choose their employment in the UK and may prefer to take up jobs in the hospitality sector rather than do hard work on farms. However, given the current debates about high numbers and uncertain impacts of A8 workers, it is questionable whether (and probably quite unlikely that) such concerns about continuing retention difficulties after EU enlargement in 2004, and especially after the future enlargement in 2007, will encourage the Government to create new guest worker programmes for employing non-EU nationals in low-skilled jobs any time soon.

Some critics of the Government's immigration policies argue that labour immigration from outside the EU should be even further restricted. For example, *Migration Watch*, a migration think tank and pressure group, has recently suggested that only highly-skilled workers, defined as those earning more than £27,000 per year, from outside the EEA should be allowed to settle permanently in the UK, with skilled non-EEA workers only admitted on a strictly temporary basis.⁸⁰ Others have gone further and called for quotas on non-EU migrants. The Government has no plans for quotas although the Home Secretary has recently proposed the establishment of an independent committee to "advise on the optimum level of immigration".⁸¹

⁷⁹ See the Home Secretary's statement to parliament on 24 October 2006, http://news.bbc.co.uk/1/hi/uk_politics/6081042.stm

⁸⁰ Migration Watch (2006)

⁸¹ "Reid calls for migration debate", see http://news.bbc.co.uk/1/hi/uk_politics/5250396.stm

5 Conclusion

The decision to grant nationals of the eight new EU member states in Central and Eastern Europe (“A8 countries”) free access to the UK labour market in May 2004 was an integral part of the Government’s *Managed Migration* policies. The rationale was to provide employers with the migrant workers they said were needed to help fill more than 600,000 vacancies throughout the economy, and especially in low-skilled occupations where the opportunities for legally employing migrants had been limited before EU enlargement. To allay the fears of some parties and part of the public about an imminent ‘flood’ of East European migrants coming to claim benefits rather than work, the Government restricted A8 workers’ access to means-tested benefits. It also introduced the Worker Registration Scheme, which requires most A8 migrants to register within a month of taking up employment in the UK. This requirement was meant to help monitor the number of East European workers coming to work in the UK following EU enlargement.

In the first two and a half years after EU enlargement, more than 600,000 A8 workers came to work in the UK, significantly more than the Government predicted before May 2004. This increase in labour immigration has undoubtedly contributed to economic growth and benefited individual employers in the UK. It has, however, also raised new questions about the *distributional impacts* and potential social costs of large-scale immigration. Although there is currently no systematic evidence to link the recent rise in unemployment to the increase in immigration, there is growing concern among the public that labour immigration from Eastern Europe may reduce the employment and wage prospects of some British workers and increase the tax burden for UK residents. Largely as a result of the current debates about these issues, the Government recently announced that Romanian and Bulgarian workers will not be given immediate free access to the UK labour market when their countries join the EU in 2007. Given that Romanians and Bulgarians will be free to travel to the UK and legally work outside the work permit system as self-employed persons or as students, it remains unclear, however, how effective these restrictions will be in practice.

A key issue that has been coming to the fore only very slowly in recent debates about labour immigration in the UK pertains to the importance of enforcing minimum employment standards. A benign assessment of the role of the UK’s flexible labour market would suggest that it has been of critical importance in helping the economy absorb a large number of migrant workers without causing, it seems, significant unemployment among local workers. A more realistic evaluation would add that, in a flexible labour market with weak mechanisms for enforcing minimum standards, employers can easily develop an almost insatiable demand for migrant workers, especially at the low skill end of the labour market. Without a stronger

commitment to the enforcement of labour laws, the immigration and employment of Central and East European workers in the UK is in danger of becoming an example of the kind of 'unmanaged' migration that the Government is so keen to avoid.

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