

**Review of the UK's transitional
measures for nationals of member
states that acceded to the European
Union in 2004**

**Migration Advisory Committee
Report**

April 2009

Contents

Chairman's foreword

Migration Advisory Committee and secretariat

Summary

Chapter 1: Introduction

- 1.1 Our task
- 1.2 Background
- 1.3 What we did
- 1.4 Structure of the report

Chapter 2: The Worker Registration Scheme and A8 immigration since 2004

- 2.1 Introduction
- 2.2 The Treaty of Accession
- 2.3 Purpose of the Worker Registration Scheme
- 2.4 Operation of the Worker Registration Scheme
- 2.5 What entitlements do registered A8 immigrants have?
- 2.6 Data captured by registrations under the scheme
- 2.7 A8 immigration: stocks and flows since accession
- 2.8 The nature of A8 immigration
- 2.9 Concluding remarks

Chapter 3: Approach

- 3.1 Introduction
- 3.2 Scope of the analysis
- 3.3 Definition of a serious market disturbance
- 3.4 Potential labour market impacts of removing the Worker Registration Scheme
- 3.5 Other consequences of removing the Worker Registration Scheme
- 3.6 Concluding remarks

Chapter 4: The condition of the UK labour market and its implications

- 4.1 Introduction
- 4.2 Recent macro-economic developments
- 4.3 Current condition of the UK labour market
- 4.4 Implications for future flows
- 4.5 Labour market impacts
- 4.6 Concluding remarks

Chapter 5: Impact of removing the Worker Registration Scheme

- 5.1 Introduction
- 5.2 Potential changes to stocks and flows of A8 immigrants in response to removal of the Worker Registration Scheme
- 5.3 Potential changes in behaviour of A8 immigrants in response to removal of the Worker Registration Scheme
- 5.4 Likely wider economic impacts
- 5.5 Concluding remarks

Chapter 6: Conclusions

Annex A: Occupation and sector trends in the UK labour market

Chairman's foreword

In February 2009 the Government asked the Migration Advisory Committee (MAC) to: "*consider what the likely labour market impact of relaxing transitional measures [for A8 nationals] would be and whether it would be sensible to do so*". The crux of the issue is whether or not there is a case for retaining the Worker Registration Scheme (WRS) for a further two years.

The UK labour market is seriously disturbed. Employment and vacancies are declining and unemployment and redundancies are rising sharply. The key question for the MAC is whether or not retaining the WRS will help address that disturbance, or avoid it being compounded. This is a difficult question to address because we are dealing with two hypothetical scenarios: a future labour market following either the retention or the axing of the WRS.

We conclude that disbanding the WRS would not have large labour market impacts. On balance, however, we recommend maintaining the WRS on economic grounds. This is because, if the WRS were to be ended, the labour inflow from the A8 countries would probably be a little larger than otherwise. In these disturbed times, some of the inflow of A8 workers may displace UK workers. The WRS also provides useful data for monitoring immigration which would be lost.

We had only one month to complete this report. Our consultations were therefore necessarily limited. The MAC members are again grateful to the secretariat for their professionalism and commitment in helping to produce this report to a tight deadline.



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Summary

- The Government has asked the MAC to “*consider what the likely labour market impact of relaxing transitional measures [for A8 nationals] would be and whether it would be sensible to do so*”. In practice this means examination of the labour market impacts of abolishing the Worker Registration Scheme (WRS) which is the subject of this report.
- The 2003 Treaty of Accession allowed new EU member states to impose transitional restrictions on the free movement of labour from the new member states for a maximum of seven years from 1 May 2004. These measures can, however, only be maintained for the final two years of this period, i.e. beyond 1 May 2009, “*if there are serious disturbances (or a threat thereof) to the labour market*”.
- We conclude that there is currently a serious disturbance to the UK labour market, and that maintaining the WRS would help address that disturbance.

Is the UK labour market seriously disturbed?

- A labour market disturbance, which is not defined in the Treaty of Accession, could be expected to result either from a demand shock in the macro-economic environment or a shock to labour supply which could occur as a result of a sudden change in the inflow of labour. We would expect a labour market disturbance to be reflected in significant adverse changes to labour market indicators such as employment or unemployment rates.
- The UK economy is currently in recession, with the UK having experienced two successive quarters of negative economic growth. Claimant count unemployment in January 2009 was 3.8 per cent of the workforce, up from 2.4 per cent in January 2008. There has also been a one-quarter fall in vacancies and a doubling of redundancies over the same period. Therefore, the UK labour market is seriously disturbed.

Would retaining the WRS help to address the disturbance?

- A8 immigration has increased rapidly since the date of accession and studies show that its impact on UK employment and unemployment rates to date has been negligible. These studies relate to a period of sustained economic growth prior to the current recession.
- Examination of the potential labour market impacts and review of the evidence available suggests that removing the WRS would not result in substantial increases in flows of A8 immigrants. It is, however, plausible to argue that it would probably result in a small positive impact on immigration flows relative to what would happen otherwise. In the current economic climate, we are concerned that these additional

flows would have a small negative impact on the labour market, thus exacerbating the serious labour market disturbance already occurring.

- We emphasise that any effects of ending the WRS would be small in relation to the overall negative labour market consequences of the economic downturn. Nonetheless, we believe that it would be sensible to retain the WRS for two more years due to the possibility of small but adverse labour market impacts from abolishing it.

Other factors

- Abolition of the scheme would also potentially lead to additional public expenditure in terms of additional A8 immigrants becoming eligible to claim some social security benefits, although the sums involved would be relatively small. There would also be a loss of data. On the other hand, there would be some easing of administrative burdens on employers and the immigrants themselves.

Chapter 1: Introduction

1.1 Our task

1.1 The UK Government is obliged by EU law to notify the European Commission if it intends to maintain beyond 1 May 2009 transitional measures in respect of labour market access for nationals of those member states that joined the EU in 2004. The Government has asked the Migration Advisory Committee (MAC) to advise what the labour market impacts of relaxing the UK's transitional measures would be.

1.2 Specifically, in February 2009, the Government asked the MAC to:

“consider what the likely labour market impact of relaxing transitional measures [for A8 nationals] would be and whether it would be sensible to do so.”

The Government has also asked that we take into consideration any issues specifically relating to Scotland, if appropriate.

1.3 This report sets out our consideration of the available evidence and presents our conclusions to the Government.

1.2 Background

1.4 In 2004, ten countries joined the EU and, as a result, their citizens are, in principle, afforded the same rights as those of other EU member states. The right of free movement of labour permits citizens of EU member states to work as employees anywhere within the EU. The pre-2004 EU member states were permitted to impose transitional measures for up to seven years to restrict the right of the free movement of labour for nationals of eight of the ten new accession states, often collectively referred to as the A8 countries: the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia. As a transitional measure, the UK introduced a Worker Registration Scheme (WRS) for nationals of the A8 member states in order to monitor the impact of these workers on the UK labour market.

1.5 A8 nationals (with some exceptions, detailed in Chapter 2) who are working in the UK are required to register their employment under the WRS when they work for an employer for longer than one month. They do this by making an application for registration to the UK Border Agency (UKBA). Data from the WRS allows the UK to monitor aspects of A8 nationals' impact on the UK labour market, such as the occupation and sector where the employee is beginning work. The WRS also captures data on the status and outcome of the application and demographic characteristics of the employee.

1.6 The period during which transitional measures such as the WRS can apply is divided into three phases according to a '2+3+2' formula. Specifically, employment restrictions can be imposed for the first two years following accession and may be extended for a further three years. However, *“if there*

are serious disturbances (or a threat thereof) to the labour market, [EU member states] may prolong national measures for a further two years after notifying the Commission” (European Commission, 2004).

1.3 What we did

1.7 The Government commissioned the MAC to advise on transitional measures for A8 nationals with a view to providing advice by 20 March 2009.

1.8 We mainly considered two options for this work: retaining the WRS in its current form or abolishing it completely. The only obvious way of relaxing the scheme would involve abolishing or reducing the registration fee and, for reasons this report makes clear, we do not see that as a favourable option. The UK Government did not inform us of any other policy options that it specifically felt we should consider.

1.9 The approach we have taken to produce this report therefore reflects the limited time available. Our review of restrictions for Bulgarian and Romanian nationals (Migration Advisory Committee, 2008) generated much evidence in respect of A8 nationals, which provided a starting point for our work. This report necessarily relies on our previous work and consultations.

1.10 We undertook a number of activities in support of our considerations, including:

- an update of our analysis of the economic situation in the UK;
- an update on recent studies and migration statistics; and
- writing to a limited number of stakeholders informing them of the Government’s request for this advice, and seeking their views and evidence.

1.11 We received 19 responses from stakeholders, and are grateful to those who replied within what was a tight timescale. Information, evidence and opinion from the stakeholder input we received are discussed at appropriate points in this report.

1.12 The stakeholders who responded were:

- Association of Labour Providers
- British Chambers of Commerce
- Confederation of British Industry
- Department for Business, Enterprise and Regulatory Reform
- Department for Work and Pensions
- Embassy of Estonia
- Embassy of the Czech Republic
- Embassy of the Republic of Lithuania
- Embassy of the Republic of Poland

- Equality South West
- Gangmasters Licensing Authority
- HM Treasury
- Law Centre (Northern Ireland)
- Migrationwatch UK
- National Farmers' Union
- Office for National Statistics
- Recruitment and Employment Confederation
- Scottish Executive
- Trades Union Congress

1.4 Structure of the report

1.13 An assessment of whether it would be sensible to retain the WRS needs to be based on a sound understanding of the scheme and the broader context in terms of A8 immigration to the UK. These issues are discussed in Chapter 2. It is also necessary to define a 'seriously disturbed' labour market, and set out the mechanisms by which abolition of the WRS may create or exacerbate a labour market disturbance. This is done in Chapter 3.

1.14 In Chapter 4 we examine whether the UK labour market is currently disturbed by setting out evidence on the current state of the UK economy and labour market. In Chapter 5 we examine the potential labour market impacts of WRS abolition and examine evidence on the impacts of removing the WRS on inflows and the UK labour market.

1.15 Finally, we set out our conclusions in Chapter 6, drawing on the analysis of the costs and benefits of retaining or abolishing the WRS set out in Chapters 4 and 5. This is accompanied by a brief discussion of the associated policy issues.

Chapter 2: The Worker Registration Scheme and A8 immigration since 2004

2.1 Introduction

2.1 This chapter explains the origins of the WRS and the broader context in which it operates. We describe the background of the scheme, in terms of the Treaty of Accession, and the intended purpose of the scheme. We then outline how the scheme operates, the entitlement of A8 nationals to social security benefits resulting from registration, and the data it allows the Government to capture. Finally, the chapter provides a brief overview of A8 immigration since accession.

2.2 The Treaty of Accession

2.2 The Treaty of Accession 2003 was the agreement between the EU and the ten countries (Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia) that joined the EU in 2004, concerning their accession into the EU. It allowed existing EU member states to impose transitional restrictions on the free movement of labour from the new member states, except Cyprus and Malta, for a maximum of seven years from 1 May 2004.

2.3 Ireland, Sweden and the UK were the only EU member states to grant labour market access to nationals of the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia (the so-called A8 nationals) when those countries acceded to the EU on 1 May 2004. Other member states either maintained their existing work permit arrangements, or implemented a modified work permit regime. The UK's Accession (Immigration and Workers Registration) Regulations 2004 established a registration scheme for those nationals of the A8 member states wishing to work in the UK as an employee for longer than one month.

2.4 Transitional measures can be applied over a phased seven-year period according to a '2+3+2' formula. According to this, employment restrictions can be imposed for the first two years following accession and may be extended for a further three years. However, measures can only be maintained for the final two years "*if there are serious disturbances (or a threat thereof) to the labour market*" (European Commission, 2004).

2.5 At the end of the first transitional period in January 2006, a number of existing member states lifted restrictions, including Spain, Portugal, Greece and Finland. Further lifting and relaxation of restrictions occurred in other member states. Currently, only Germany and Austria maintain substantive labour market restrictions. The UK is the only country to maintain transitional measures in the form of a monitoring scheme.

2.6 On 1 May 2009 it will be five years since the Treaty of Accession came into effect. Member states can therefore only maintain transitional measures beyond that date if they can demonstrate that abolition would threaten to generate or somehow exacerbate a serious disturbance to the domestic labour market.

2.7 A 'serious disturbance to a labour market' is not defined in the accession treaty. The European Commission has stated that this is because they intend to consider evidence, if presented, on a case-by-case basis (European Commission, 2008). No member state has yet invoked the concept of 'serious labour market disturbance', and there is therefore no precedent.

2.3 Purpose of the Worker Registration Scheme

2.8 The WRS was introduced in the UK as a transitional measure that monitors A8 nationals' access to the UK labour market. So long as they register their employment with UKBA under the scheme, A8 nationals are free, as are nationals of other EU countries, to work in any occupation or sector and for any employer.

2.9 Monitoring is achieved through the collection of information about A8 immigrants' initial employment in the UK. Subsequent changes must also be registered, until 12 months of continuous employment have elapsed. The data collected are discussed in more detail in section 2.6.

2.4 Operation of the Worker Registration Scheme

2.10 An employee has one month from the start of his or her employment to complete a registration form and submit it to UKBA together with his or her passport or ID card, photographs and a letter from his or her employer confirming employment. The employee must also pay a one-off fee. This was initially set at £50. On 1 October 2005 the fee was increased from £50 to £70, and on 2 April 2007 the fee was increased to its current level of £90.

2.11 On receipt of the registration form, UKBA will carry out checks to ensure that an employee is a genuine A8 national and that the employer is also genuine. Once the employee is accepted onto the scheme he or she receives a registration card that includes his or her name, date of birth, nationality, photograph and unique reference number. The card remains valid for as long as the employee is registered on the scheme. UKBA also issues a registration certificate in the form of a letter authorising the employee to work for the employer named in his or her registration. This letter goes to both the employee and the employer and the authorisation remains valid for as long as he or she continues to work there.

2.12 An employee does not have to obtain a new registration card if he or she changes employer but will have to obtain a new registration certificate, for which there is no fee. If the employee has more than one job at the same time, he or she is required to obtain a separate registration certificate for each

employer, but not a separate registration card and, again, there is no additional fee.

2.13 Not all A8 workers in the UK are required to register on the scheme. Registration is not required in the first month of employment with an employer. A8 workers are permitted to work in the UK without registration if:

- they are self-employed;
- on 30 April 2004 they had valid leave giving unrestricted employment rights;
- they have undertaken 12 months' continuous legal employment in the UK (and, if that employment was after 1 April 2004, it was registered on the WRS);
- they are also a national of another country within the European Economic Area (EEA), including the UK but excluding other A8 states and Bulgaria and Romania;
- they are also a Swiss national;
- they are a family member of a Swiss or EEA national, including nationals of the UK but excluding those of other A8 states and Bulgaria and Romania, and that person is either working in the UK or is living in the UK as a student or a retired or self-sufficient person;
- they are a member of a diplomatic mission, the family member of such a person, or a person otherwise entitled to diplomatic immunity;
- they are a posted worker, i.e. a person who, for a limited period of time, carries out his or her work in the territory of an EU member state other than the state in which he or she normally works; or
- they are employed as an au pair.

2.14 In practice, not all of those who are required to register on the scheme do so. The extent of non-registration (i.e. those who are not in compliance with the regulations) is difficult to measure and registration is difficult to enforce.

2.15 There is no employee offence in respect of A8 workers, which means that immigrants are not penalised for non-compliance. It is therefore not possible to assess the level of non-compliance of immigrants with the scheme through enforcement actions. If an employer of an A8 national who has been working for more than one month cannot provide evidence (for example copies of letters) demonstrating an attempt to register, they may be committing a criminal offence (and could face a fine of up to £5,000). UKBA told us that there are no powers that allow active enforcement of employers' compliance with the scheme, although offences could be picked up through

other immigration enforcement activity. No prosecutions are recorded for employer offences specifically relating to employing immigrants who are not registered on the WRS.

2.16 It is worth noting that there are some incentives for an immigrant to register. Firstly, registration provides A8 immigrants with the same access to employment and social security rights as EU15 nationals once the A8 national has completed 12 months of continuous employment. Secondly, registration entitles an A8 national to some means-tested income-related social security benefits. Any claim by an A8 national for such benefits needs to be supported by the individual's WRS registration card and certificate, and the claim will fail if these are not provided. Entitlements to social security benefits for registered A8 immigrants are set out in more detail in section 2.5.

2.17 In principle, an A8 immigrant without registration would be entitled to receive the contribution-based Jobseeker's Allowance for six months, but only if they had made sufficient National Insurance contributions. Contribution-based Jobseeker's Allowance is a flat-rate allowance, paid for up to six months, based on National Insurance contributions.

2.5 What entitlements do registered A8 immigrants have?

2.18 Like other EU nationals, A8 nationals are entitled to enter and leave the UK on production of a valid passport or ID card. A8 nationals do not need to declare a reason for travel and have the same entitlements as nationals of other EU15 member states to reside in the UK if they are students, self-sufficient or self-employed.

2.19 A8 and EU15 nationals also have the right to reside in the UK if they are working as employees. For EU15 nationals, like UK citizens, there is no requirement to register employment with the authorities. A8 nationals are free to take any job, but must register with UKBA if they intend to continue such employment for more than one month, unless they are exempt from registration for reasons described in section 2.4.

2.20 Some benefits, such as child benefit and tax credits, are not dependent on registration. Entitlement to income-related benefits for A8 workers are restricted while they are required to register on the scheme (i.e. before 12 months of continuous registered employment have elapsed). The primary restriction is that benefits such as income-based Jobseeker's Allowance cannot be claimed if the A8 national loses their job within the first 12 months. Income-based Jobseeker's Allowance is a means-tested benefit for people in households with no income or a low income, and with savings of less than £16,000.

2.21 In practice, this means that a Polish citizen coming to the UK for the first time to seek work cannot claim Jobseeker's Allowance. By comparison, French citizens may qualify for such benefits, once they can demonstrate that they are habitually resident. Demonstrating habitual residence in the UK

usually requires an individual to have lived in the UK for, typically, between one and three months.

2.22 The requirement for A8 nationals to register employment expires following 12 months of continuous registered employment. Once the one-year period has ceased, entitlement to income-based social security benefits becomes the same as EU nationals. For example, if a Lithuanian national who has worked continuously as a registered worker becomes unemployed, he or she is entitled to claim income-related Jobseeker's Allowance in the same way as a UK or EU15 citizen. Table 2.1 below sets out some key entitlements.

Table 2.1: A8 benefit entitlements		
	EEA nationals (except A8, Bulgaria and Romania) and A8 nationals who have completed 12 months of continuous legal employment*	A8 nationals who have not completed 12 months of continuous legal employment
Right to claim income-related social security benefits if job-seeking	EEA work-seekers who are job-seeking have a right to reside in the UK and can qualify for income-based Jobseeker's Allowance on passing the habitual residence test and subject to other eligibility restrictions. EEA work-seekers usually pass the test within 1 to 3 months of their arrival in the UK	No right to reside as a jobseeker. No right to income-based Jobseeker's Allowance
Right to claim income-related social security benefits if not working or not job-seeking	Not entitled to income-related benefits (must be self-sufficient)	Not entitled to income-related benefits (must be self-sufficient)
Right to claim income-related social security benefits if working	Workers are treated as exempt from the habitual residence test and have immediate access to income-related benefits	If registered under the WRS, A8 workers are treated as exempt from the habitual residence test. They then have immediate access to income-related benefits
Note: *If an A8 national arrived after 1 April 2004, continuous legal employment must be demonstrated by registration on the WRS. Source: MAC analysis based upon advice from the Department for Work and Pensions		

2.6 Data captured by registrations under the scheme

2.23 UKBA collects data about registrations made under the WRS. For each application to the scheme (which may be a new application, or registering a change of employer), the following details are collected:

- the status and outcome of the application (whether registered, refused, withdrawn or re-registered);
- the age, gender and nationality of the person making the application;
- the occupation and sector in which the employee registered is beginning work (these data are not coded to the Standard Industrial Classification or the Standard Occupational Classification);
- the number of dependants of the employee;
- the employee's self-reported hours and wages;
- the employee's self-reported intended length of stay; and
- the geographical location of the employer (available at local authority level and below, allowing fine-grained spatial analysis).

2.24 These data are published quarterly in the UKBA Accession Monitoring Reports, together with data on benefits and tax credits claimed by A8 nationals (see UK Border Agency, 2009). Because of exemptions and non-registration, the record of WRS registrations does not provide a complete picture of the flows of A8 nationals into the UK. Nor does it indicate the stock of those nationals remaining in the UK.

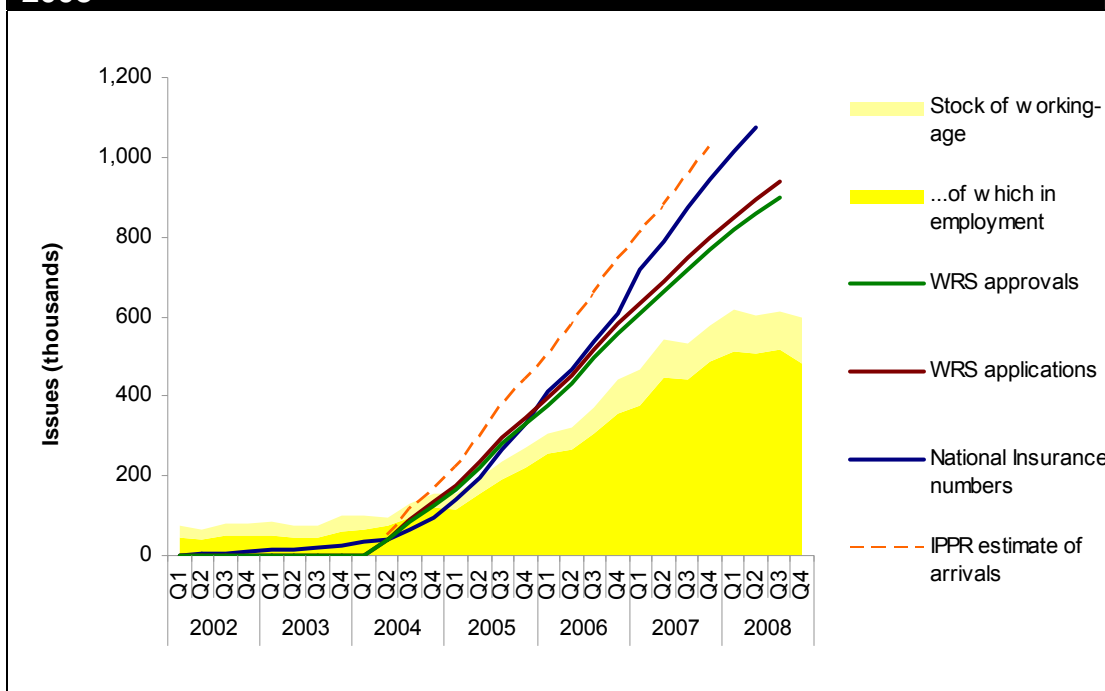
2.7 A8 immigration: stocks and flows since accession

2.25 It is difficult to accurately gauge the number of A8 national workers in the UK who should be registered on the WRS but are not. Survey evidence is probably the best currently available and is indicative rather than representative as it has been based upon non-random samples. In a survey of Polish immigrants, Drinkwater (2006) found that 64 per cent had registered on the WRS. A study by Anderson *et al.* (2006) found that 139 of 217 A8 respondents had not registered on the scheme. Of those, 53 either definitely should have registered or were probably not self-employed by the author's assessment of relevant survey questions. Pollard *et al.* (2008) make use of a range of survey findings to estimate that flows of A8 nationals may be a third higher than WRS registrations (although the number that should have registered is not assessed).

2.26 The Pollard *et al.* study was also cited by the Association of Labour Providers in their response to the MAC's request for evidence as illustrating the inefficacy of the WRS as a means of fully recording A8 flows.

2.27 Figure 2.1 provides an overview of the cumulative gross inflows of A8 nationals recorded in administrative data, and the stock of A8-born people of working age in the UK. A total of 965,000 applications were made under the WRS up to December 2008, of which 926,000 were approved. A cumulative total of 1.24 million National Insurance numbers were allocated to A8 nationals between April 2004 and September 2008. These administrative data are likely to under-represent inflows because of various exemptions to WRS registration requirements and the failure of some non-exempt workers to register.

Figure 2.1: Overview of stocks and cumulative gross inflows, 2002-2008



Sources: DWP, 2009; UK Border Agency, 2009 (and previous Accession Monitoring Reports); ONS, 2009a; Pollard *et al.*, 2008

2.28 Anecdotal and some empirical evidence (see for example Budnik, 2007, for analysis of return migration to Poland) suggests that A8 immigration is characterised by substantial flows of short-term and return migration, which are not covered by estimates of outflow from the International Passenger Survey. Due to a lack of data, gross outflows can only be inferred from comparisons of the gross inflow to the stock. The latter can be obtained from the Labour Force Survey.

2.29 Figure 2.1 shows that the stock of working-age A8 immigrants who have been in the UK for 12 months or more has increased substantially since accession: from around 100,000 in the first quarter of 2004 to around 610,000 in the third quarter of 2008. It is important to bear in mind that the Labour Force Survey will to some extent underestimate stocks of immigrants (particularly new arrivals) for a number of reasons including the panel design of the survey and the requirement that respondents regard the surveyed address as their main address, or they have lived there for six months or

more. Nevertheless, the increment to the stock recorded in each quarter is considerably less than the gross inflows recorded in administrative data, which themselves are likely to be underestimates. Using their estimate of total gross inflows, Pollard *et al.* (2008) infer that around half of those that have arrived have left the UK.

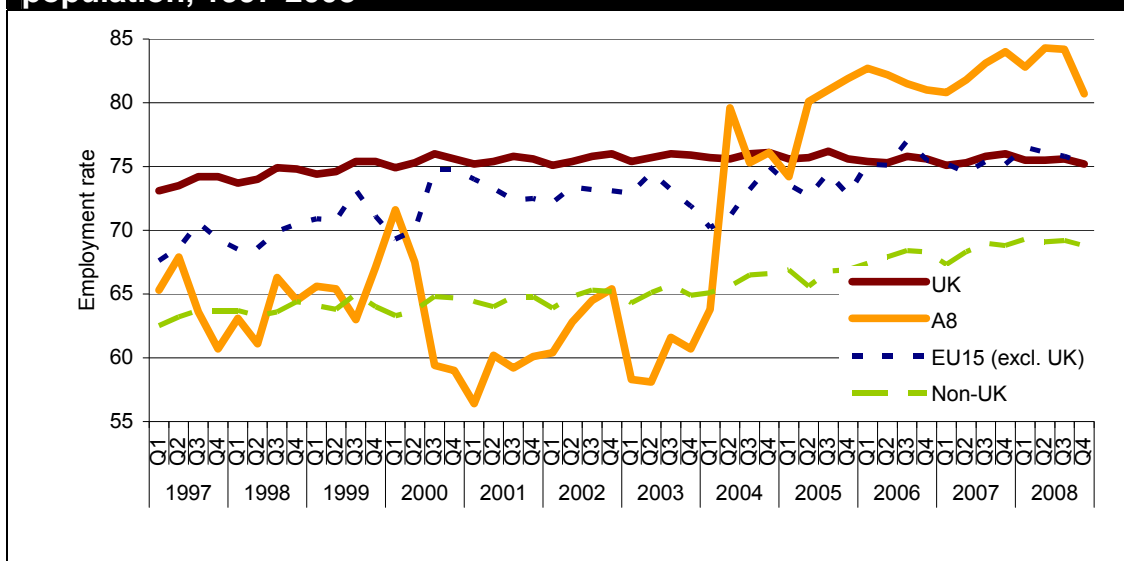
2.30 As discussed earlier in this chapter, the WRS registration fee increased in October 2005 and again in April 2007. Figure 2.1 shows no observable impact of these fee increases.

2.31 Most recent data show that the rate of growth in stocks has diminished rapidly which is reflected by stocks of A8 immigrants remaining fairly constant between quarters 1 and 3 of 2008. Rates of growth of stocks had previously remained constant and at higher levels from the date of accession until 2008 indicating no observable response to the increases in the registration fee. This appears to be consistent with anecdotal evidence that immigrants are increasingly returning home in response to current economic conditions, although it is important to emphasise that the stock appears to be levelling out rather than falling dramatically. These changes are also reflected in evidence received from the National Farmers' Union and Equality South West.

2.8 The nature of A8 immigration

2.32 The available evidence suggests that A8 immigrants in the UK are predominantly young, reasonably well educated and in employment. Analysis of the Labour Force Survey shows that since 2004, A8 immigrants are more likely to be in employment than UK-born workers or other immigrants (see Figure 2.2). Conversely, A8 immigrants are less likely to be unemployed (Migration Advisory Committee, 2008).

Figure 2.2: Employment rate of immigrants and UK working-age population, 1997-2008



Note: A8 could only work in UK on work permits prior to May 2004.

Source: Labour Force Survey (1997-2008), published in Office for National Statistics, 2009a

2.33 A8 immigrants are disproportionately employed in low-skill occupations despite their relatively high level of qualifications. Analysis of the Labour Force Survey suggests that while less than half of UK-born workers and other immigrants are in occupations classified as lower skill, over three quarters of A8 immigrants are in these occupations (Migration Advisory Committee, 2008). A8 immigrants are particularly concentrated in elementary occupations and process, plant and machine operative occupations. This is supported by data acquired from the WRS, where the largest occupations recorded in 2008 were process operatives (i.e. factory workers), warehouse operatives and packers. These groups accounted for the majority of registered workers who specified an occupation (UKBA, 2009).

2.34 The main sectors of employment for workers registering under the WRS in 2008 were hospitality and catering, agriculture, manufacturing and food processing (UKBA, 2009). Data from the Labour Force Survey, which include those who are self-employed, also suggest that manufacturing, wholesale and retail, hotels and restaurants, and construction are the main sectors in which A8 immigrants are employed (Migration Advisory Committee, 2008).

2.35 The geographical distribution of A8 immigrants is distinctive in comparison to other immigrant groups. Analysis of WRS registrations and National Insurance number allocations by local authority area show that as well as being present in major cities such as London, A8 immigrants are disproportionately represented in areas such as the Wash and Herefordshire (Local Government Association, 2008). A number of studies have suggested a relationship between this geographical distribution and the level of agricultural activity (Commission for Rural Communities, 2007).

2.9 Concluding remarks

2.36 This chapter has described the basis for the WRS in the context of EU legislation, how the scheme operates and the restrictions it imposes upon the entitlements of A8 nationals. The scheme was not intended to impose substantive restrictions on A8 nationals' access to the labour market, but the registration fee may have provided a disincentive to migrate, as discussed later in this report. The substantial inflows of A8 workers since 2004 suggest that the scheme does not, in practice, place significant restrictions on flows.

2.37 Although inflows have been substantial in the presence of the WRS, that does not rule out further increases of a lower order, that might occur as a consequence of removing the scheme.

2.38 The remainder of this report considers the potential impact on flows and the consequences of this. First of all, in the next chapter we set out our approach to assessing what the hypothetical consequences of removing the WRS would be and, bearing the criteria in the Treaty of Accession in mind, how we intend to assess the potential labour market impacts that could result.

Chapter 3: Approach

3.1 Introduction

3.1 This chapter describes our conceptual approach to assessing the labour market impact of relaxing the WRS. Consistent with our remit, the approach is based on analysis of the UK labour market, and examination of the potential effects of changing the policy in question.

3.2 Nevertheless, to be useful, our approach needs to be informed by the legal context in which the Government must make its decision. We have therefore structured our approach in view of whether:

- (1) removal of the scheme would cause a serious disturbance to the UK labour market, or a threat thereof;

OR

- (2) i) there is currently a serious disturbance to the UK labour market or threat thereof **AND** ii) maintaining the scheme would help address that disturbance or the threat in some way.

3.3 Because either of the above criteria may provide a case for maintaining the WRS, our analysis and conclusions in this report are based mainly on the second of the above: whether there is currently a disturbance to the UK labour market and whether WRS abolition would exacerbate such a disturbance by increasing flows of A8 immigrants. The Government may take legal, social and other policy issues into account when considering our advice and for that reason we also briefly consider the potential fiscal impacts of changes to benefit eligibility and the loss of monitoring data provided by the WRS; but we make our recommendation regarding the WRS on the basis of labour market issues alone.

3.2 Scope of the analysis

3.4 We examine the effect of removing the WRS entirely, effectively according A8 nationals the same freedom of labour and entitlements to social security as citizens of EU15 states. Since the restrictions imposed by the scheme are limited, we do not consider options for relaxing the scheme.

3.5 We also focus the analysis on the UK as a whole. The Government asked that we consider implications for Scotland if appropriate. As workers are free to move within the UK, it is difficult to envisage how separate arrangements could operate in Scotland and the rest of the UK without considerable administrative difficulties. Nevertheless, in principle, if evidence suggested significant differential effects of removing the WRS for Scotland, in comparison with the UK as a whole (resulting for example from different macro-economic conditions), we were prepared to take this into account in our

conclusions. But analysis in later chapters shows that there is no significant difference between the Scottish and overall UK labour markets.

3.6 Our remit requires us to compare the anticipated impact with what might otherwise occur: in other words, we must assess potential impacts against a counterfactual. This is not necessarily the same as considering the impact relative to the position now or at any other point in time.

3.7 In addition, with reference to the criterion of 'serious labour market disturbance' contained in the Treaty of Accession, we must consider a working definition of a serious labour market disturbance.

3.8 The remainder of this chapter therefore:

- defines a serious labour market disturbance in order to determine whether the UK labour market is currently disturbed (section 3.3); and
- examines the hypothetical conditions under which such a disturbance could be caused or exacerbated by removal of the WRS (section 3.4).

3.9 Section 3.5 considers other potential impacts, specifically on benefit entitlement.

3.3 Definition of a serious labour market disturbance

3.10 The concept of a serious labour market disturbance is not defined in the Treaty of Accession and has yet to be tested under EU case law. We must therefore briefly explore what might be considered to be the main characteristics of such a disturbance.

3.11 A labour market disturbance could be expected to result from the following, in either the labour market as a whole or in a specific sector, occupation or locality:

- a shock in the macro-economic environment, resulting in changes in demand;
- a shock to labour supply; or
- chronic structural problems in the macro-economy or labour market.

3.12 The first two of these conditions are more relevant to the examination of the impact of A8 immigration and the WRS, because chronic structural problems are of a longer-term nature and it is unlikely that abolishing or retaining the WRS would affect such a situation. A sudden change in the macro-economic environment may precipitate a sudden change in labour demand. An example of this could be the sudden onset of a recession. We discuss the current UK recession, and consequences for the labour market, in more detail in Chapter 4.

3.13 A shock to supply may occur as a result of a sudden change in inflow of labour to or outflow of labour from the labour market. A shock could also be caused by sudden changes in the behaviour of existing labour market participants. It could be argued that the influx of A8 immigration from 2004 onwards was a shock, but it is also necessary to consider the impact of that shock, as we do later on in this report.

3.14 In the case of a labour market disturbance we would expect to observe significant changes in labour market indicators, such as employment or unemployment. Context and judgement will determine whether such observed changes constitute a serious labour market disturbance.

3.4 Potential labour market impacts of removing the Worker Registration Scheme

3.15 Consider our characterisation of labour market disturbance above: removal of the WRS could cause or exacerbate a labour market disturbance by affecting labour supply through:

- alteration of flows of A8 nationals into and out of the UK, and hence stocks of workers or jobseekers in all or certain parts of the labour market; and/or
- changing the behaviour of all workers in all or certain parts of the labour market.

3.16 A disturbance could, in theory, be caused by a sudden increase or decrease in inflows or outflows. Exacerbation of an existing disturbance could occur through more subtle changes in flows, if these could be shown to adversely affect the labour market. Removing the WRS could potentially increase the volume of inflows, relative to what would have happened otherwise, if:

- the £90 fee is perceived to dampen the expected economic advantage of migrating to the UK;
- the scheme itself is perceived as a labour market barrier;
- the scheme acts, or is perceived to act, to restrict social security entitlements (e.g. benefits) and these entitlements play a role in immigrants' decisions to migrate;
- the scheme directly makes immigrants more likely to leave the UK, for example following refusal of WRS applications;
- the scheme affects the timing of immigrants' decisions, for example if it incentivised them to stay for the full 12-month qualifying period necessary to acquire full labour and social security rights; or
- the scheme affects employer demand for A8 workers.

3.17 The above implies that, all else being equal, removal of the WRS will cause a rise in flows. The magnitude of this impact will depend on the scale of the response of inflows, and how these are expected (for example using estimates from previous studies) to affect the labour market.

3.18 Disturbance of the labour market could also, in theory, result from changes in the behaviour of immigrants who are currently subject to the scheme. Exacerbation of an existing disturbance could occur if removal of the scheme incentivises behaviour that has an adverse effect on the labour market. Circumstances under which such labour market impacts could result include:

- if the scheme encourages immigrants to chose self-employment over employment or vice versa. For example, to avoid the registration fee, immigrants may choose to work as self-employed rather than as employees; or, conversely, the opportunity to earn full employment and social security entitlements may encourage migrants to work as employees;
- if the scheme acts, or is perceived to act, as an advantage or disadvantage to immigrants in the labour market. For example, if workers were paid lower wages or were to have fewer *de facto* employment rights under the WRS, this could affect employer demand for immigrants;
- if the scheme incentivises higher rates of labour market participation for the labour market as a whole and/or immigrants within it via reduced benefit eligibility; and
- if the scheme collects data that are absolutely essential for the adequate monitoring and management of UK labour markets.

3.19 The direction of the impact of the above hypothetical possibilities is, in most cases, ambiguous. Some changes may result in positive impacts, whereas others may be negative.

3.5 Other consequences of removing the Worker Registration Scheme

3.20 If the WRS were removed, A8 nationals would enjoy the same rights, and be subject to the same regulations, as nationals of the EU15, Malta and Cyprus in the UK labour market. The most obvious and immediate impact of abolition would be the withdrawal of the requirement to register when working for more than one month. This would save prospective applicants a £90 fee.

3.21 Removal of the WRS would also increase entitlement to income-related social security benefits for a small sub-set of A8 nationals. First, those who are working, but not registered and therefore not in compliance with the WRS, would become eligible for income-based (means-tested) Jobseeker's Allowance (if working part time), Housing Benefit and Council Tax Benefit.

3.22 Second, A8 nationals who are currently subject to the WRS would become entitled to claim Jobseeker's Allowance, Housing Benefit and Council Tax Benefit while job-seeking, subject to household-based income means testing and living in relevant accommodation. Removing the WRS would affect eligibility for those who:

- are not working but are seeking work in the UK (i.e. either new entrants or recently unemployed); and
- are habitually resident in the UK (as demonstrated in the majority of cases by UK residency for a period of at least one month); and
- have not previously worked in the UK for 12 months continuously or have not registered on the WRS before doing so.

3.23 Under the WRS, job-seeking A8 nationals meeting all three of the above conditions are not eligible for income-based Jobseeker's Allowance, Housing Benefit or Council Tax Benefit. If the WRS were removed, following entry to the UK or having been made unemployed here, these workers would be eligible to claim these benefits for up to six months or longer if they can demonstrate that they are actively seeking work and their household income is below a given threshold.

3.24 However, the benefit entitlement of many A8 immigrants currently in the UK would be unaffected by abolition of the WRS. As discussed in Chapter 2, A8 nationals who have completed 12 months of continuous employment in compliance with the scheme become exempt from the requirement to register and assume the same status as EU15 workers. For this group there would be no change in entitlement resulting from removal of the WRS.

3.6 Concluding remarks

3.25 The Treaty of Accession requires that a serious labour market disturbance (or threat thereof) be demonstrated in order to maintain transitional measures. Our approach examines whether removal of the WRS could in itself cause a serious labour market disturbance or whether its continuation could help address the threat or mitigate the likelihood of compounding any existing disturbance.

3.26 We have outlined a working definition of a serious labour market disturbance and explored hypothetical reasons why removal of the WRS might cause or exacerbate a labour market disturbance.

3.27 Chapter 4 examines evidence on whether there is an existing labour market disturbance resulting from recent developments in the macro-economic environment.

3.28 Chapter 5 examines evidence on whether removing the WRS would be likely to exacerbate an existing disturbance of the labour market as a result of a change in labour supply or behaviour.

Chapter 4: The condition of the UK labour market and its implications

4.1 Introduction

4.1 Here we examine the current UK labour market to determine whether it is seriously disturbed, referring back to our characterisation of a serious labour market disturbance in Chapter 3.

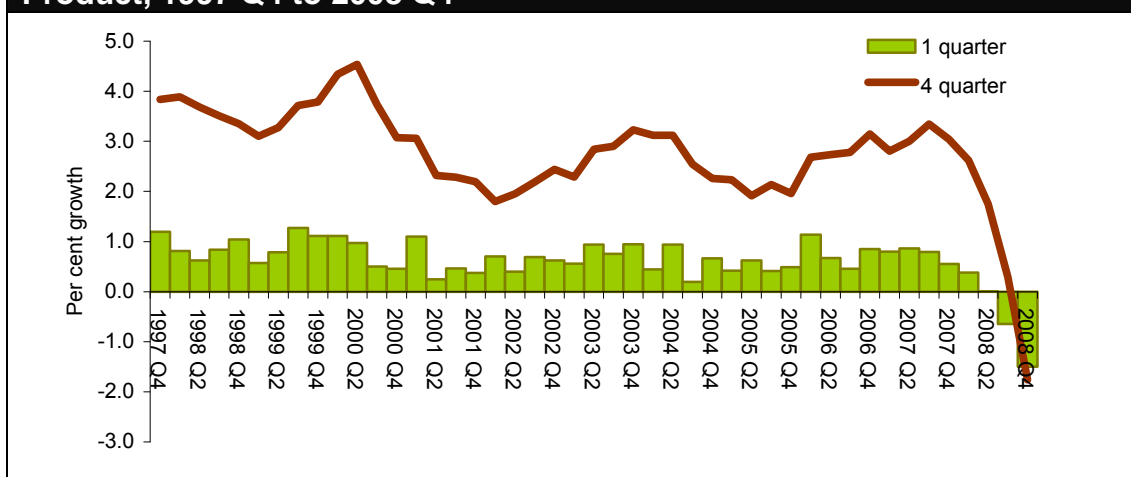
4.2 This requires assessment of the implications of the recent economic downturn for A8 immigration and its role in the labour market. An assessment of potential future inflows and impact of A8 immigration provides a counterfactual against which we discuss the impacts of removing the WRS in Chapter 5.

4.2 Recent macro-economic developments

4.3 The UK economy is currently in recession and the macro-economic prospects for the UK economy in the short term are gloomy.

4.4 From 1993 to 2007 the UK experienced a period of sustained economic growth, averaging 2.8 per cent real growth per annum, and in 2007 the UK had an annual growth rate of 3.1 per cent. However, in 2008 this fell to 0.7 per cent growth (Office for National Statistics, 2009b). Recent developments in the global economy have significantly slowed growth. Figure 4.1 shows that after the third quarter of 2007, the one-quarter growth rate started to decline, and by the third quarter of 2008 it was negative. A further quarter of negative growth in the last quarter of 2008 means the UK economy is now in recession, by accepted definitions.

Figure 4.1: One-quarter and four-quarter growth of real Gross Domestic Product, 1997 Q4 to 2008 Q4



Note: 1 quarter figures represent the per cent growth on the previous quarter. 4 quarter figures represent per cent growth on the same quarter in the previous year. Figures are seasonally adjusted, at market prices using the chained-volume measure, reference year 2003.

Source: Office for National Statistics, 2009b

4.5 The International Monetary Fund (IMF) (2009) predicts that the UK economy will contract by 2.8 per cent for 2009, but that it will begin recovery in 2010 with growth of 0.2 per cent. In its winter forecast, the ITEM Club (2009) says it expects UK GDP to fall by 2.7 per cent over 2009, business investment to fall by 17 per cent and half a million people to lose their jobs.

4.6 Latest figures (based on models of the UK economy which closely track official estimates) from the National Institute for Economic and Social Research (NIESR, 2009) estimate that output fell by 1.7 per cent in the three months ending in January 2009, after a fall of 1.6 per cent in the last quarter of last year. The current level of economic activity has declined to the level observed in January 2007, and is 3.3 per cent below that observed in April 2008. NIESR argues that the rate of contraction shows little sign, so far, of easing.

4.7 The Confederation of British Industry (CBI) (2009) predicts that the rapidly deteriorating global economy and the continued difficulties that UK businesses are facing in accessing credit will push the economy deeper into recession in 2009. It predicts that the economy will contract by 3.3 per cent and unemployment will reach close to 2.9 million by the end of the year. After six quarters of negative growth, the economy is expected to stabilise early next year with the recovery building throughout 2010. The CBI's service sector survey (2009) reported that jobs are being lost in the service sector at the fastest rate in over ten years as the recession deepens.

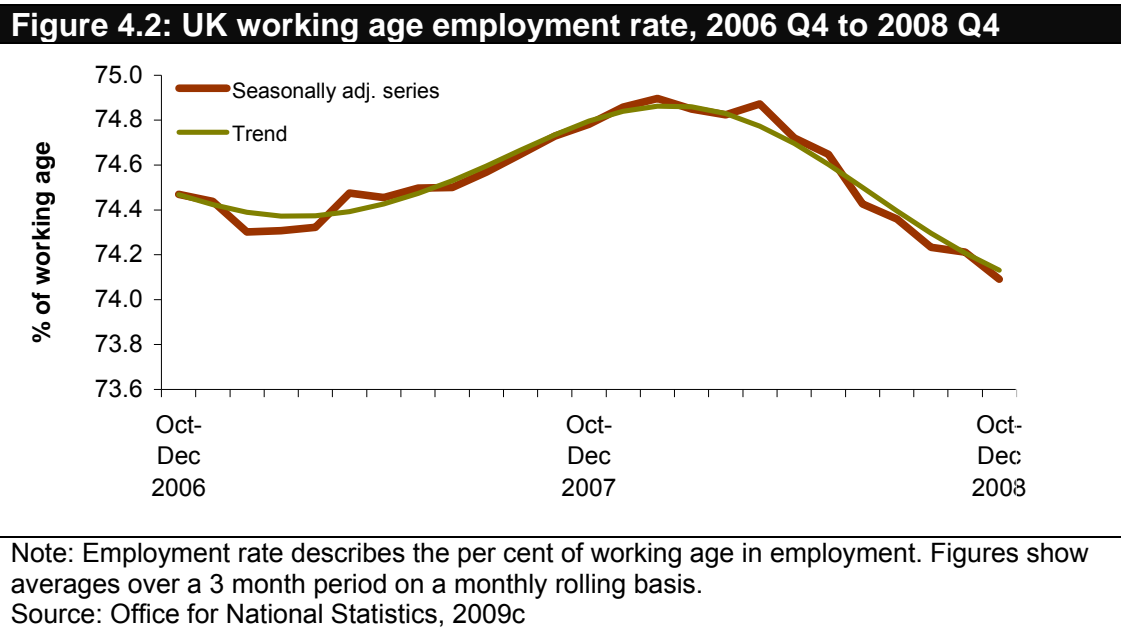
4.8 The rate of inflation, as measured by the rate of change of the Consumer Prices Index, has fallen since September 2008, and in January 2009 it decreased to below the rate recorded in June 2008 (Office for National Statistics, 2009b). The ITEM Club (2009) predicts that headline Retail Price Index (RPI) will fall sharply this year.

4.3 Current condition of the UK labour market

4.9 Since our last report to the Government in December 2008 (Migration Advisory Committee, 2008), there have been significant developments in the UK labour market in response to the UK and global economic downturn. Before we review these it is worth briefly summarising some of the relevant longer-term trends.

4.10 Although the UK and the global economy are currently experiencing a downturn, the total employment rate has remained relatively stable over the long term, notwithstanding some cyclical fluctuations. This is because employment has grown in line with the working-age population. The number of employed of working age has grown by 4 million since 1978 and the working-age population has grown by 5 million over the same period (Office for National Statistics, 2009c). The employment rate has remained stable at around three-quarters of the population of working age (Office for National Statistics, 2009c). Economic activity rates among men are much lower than 30 years ago, while female activity has increased over the same period.

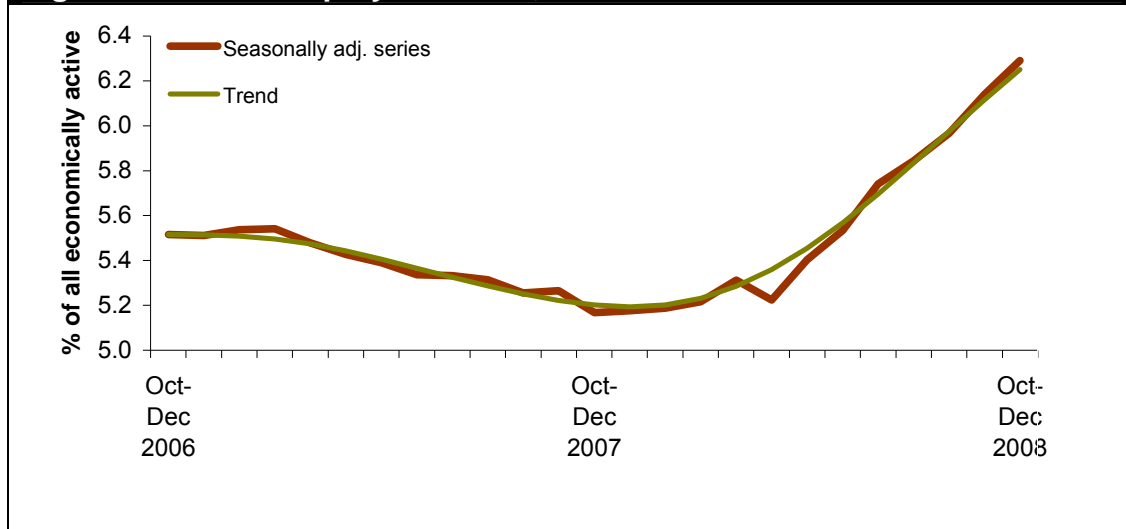
4.11 Figure 4.2 shows a recent decline in the employment rate for the working-age population. Employment stood at 74.1 per cent in the three months to December 2008, which was a decline of 0.7 percentage points on the same period in the previous year (Office for National Statistics, 2009c). For Scotland, the employment rate declined by 1.1 percentage points on the same period in the previous year (Office for National Statistics, 2009c).



4.12 In comparison with historic levels, the UK still has relatively low unemployment rates. For example, unemployment rates observed in November 2008 are still below those in the same period ten years earlier in 1998. However, the current slowdown is resulting in rapid increases in the rate of unemployment.

4.13 The unemployment rate, shown in Figure 4.3, has risen since late 2007. The unemployment rate was 6.3 per cent in the three months to December 2008, up 1.1 percentage points on the year (Office for National Statistics, 2009). For Scotland, the unemployment rate rose by 0.3 per cent on the previous year to 5.1 per cent.

Figure 4.3 UK unemployment rate, 2006 Q4 to 2008 Q4

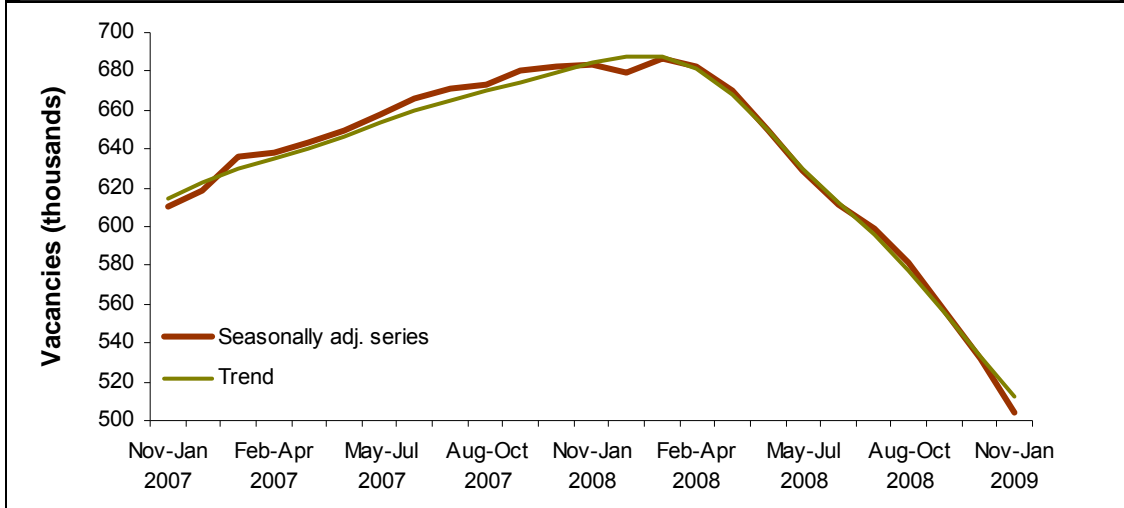


Notes: The International Labour Organisation (ILO) definition of unemployment is used here: those unemployed as a percentage of all economically active. Figures show averages over a 3 month period on a monthly rolling basis.
Source: Office for National Statistics, 2009c

4.14 The claimant count in January 2009 was 1.23 million, which was up 438,100 over the year. This claimant count rate for January 2009 was 3.8 per cent of the workforce, up 1.4 percentage points on the year (Office for National Statistics, 2009c).

4.15 Figure 4.4 shows total vacancies in the UK labour market. In the three months to January 2009, the number of vacancies was down 179,000 over the year to 504,000 and the number of vacancies per 100 employee jobs fell from a year earlier by 0.7 to 1.9 per cent (Office for National Statistics, 2009c). This is a fall of over a quarter within a year – a vivid illustration of labour market disturbance. Figure 4.5, furthermore, illustrates a sharp increase in redundancies, as defined by the Office for National Statistics measure of those who had been made redundant or taken voluntary redundancy in the three-month periods indicated, since winter 2008.

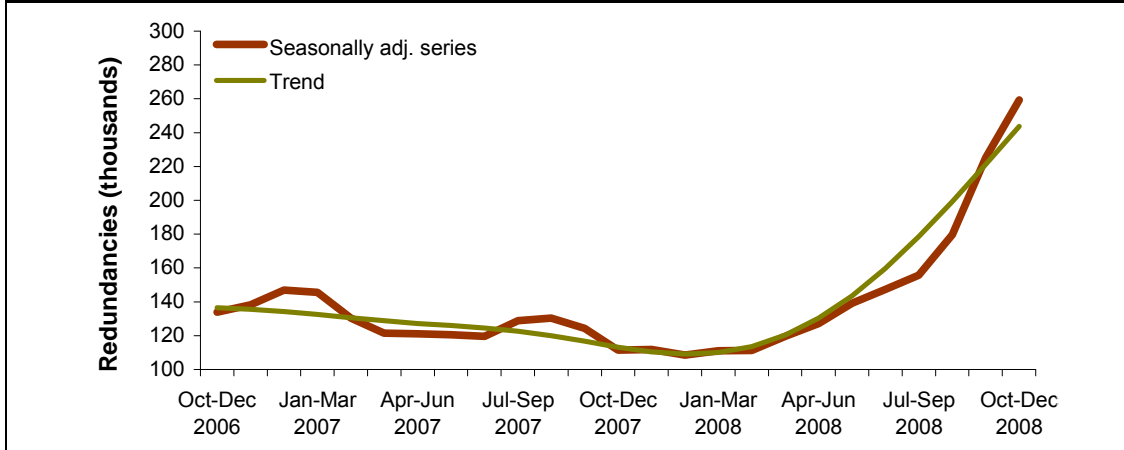
Figure 4.4: Total vacancies in the UK, Nov – Jan 2007 to Nov – Jan 2009



Note: Figures show averages over a 3 month period on a monthly rolling basis.

Source: Office for National Statistics, 2009c

Figure 4.5: Redundancy levels



Note: Figures show averages over a 3 month period on a monthly rolling basis.

Source: Office for National Statistics, 2009c

4.16 The circumstances illustrated above would appear to represent a labour market disturbance. The UK economy is now in recession and the preceding data suggest that the UK labour market is, alas, responding to these changes in the macro-economic environment with redundancies, which have doubled over the last year. These changes have been sharp and, in terms of the past decade or so, unprecedented. Although fewer data are available for Scotland, declines in employment and rises in unemployment rates in Scotland have also been observed, which suggest similar circumstances to the UK as a whole.

4.17 We believe it is therefore reasonable to conclude that recent changes in the macro-economic environment have seriously disturbed the UK labour market (including the Scottish labour market).

4.18 In the next section we look at the implications of these macro-economic and labour market changes for A8 immigration and the role of A8 nationals in the UK labour market.

4.4 Implications for future flows

4.19 Here we briefly consider the likely impacts of future inflows of A8 immigrants in a recession. There are two ways of thinking about this: we can look at existing academic studies of the impact of A8 immigration; and we can examine where A8 immigrants are concentrated, in order to establish whether those parts of the labour market are being more or less heavily affected by the recession than average.

4.20 The following two sections examine the implications of these macro-economic and labour market developments for A8 immigration. In particular, we address two questions:

- Are flows of A8 immigrants into the UK labour market likely to change in response to economic and labour market conditions (whether or not the WRS is maintained)?
- What has been the impact of A8 immigrants on the labour market and will it change as a result of deteriorating labour market conditions?

4.21 As described in Chapter 2, the UK labour market has experienced substantial inflows of A8 immigrants since accession in 2004, and A8 workers now play an important role in the UK labour market, particularly for the low-skill, low-wage sectors and occupations.

4.22 Flows of A8 immigrants, as measured by WRS applications, have been slowing since a peak in 2006. Most recent data for quarter 4 of 2008 show 29,120 applications made: the lowest since the WRS began, dropping 30 per cent from quarter 3 of 2008, and 45 per cent from the same period in the previous year (UK Border Agency, 2009). A similar decrease is seen in growth of stocks of A8 nationals.

4.23 Whether the macro-economic climate is contributing to the reduction observed in flows of A8 nationals to the UK depends on the factors that drive immigration into the UK. Survey evidence suggests that economic factors – employment and income – are the main reasons for migration, but non-economic factors such as the opportunity to learn English and gaining new experience also feature highly in reasons for immigration (Pollard *et al.*, 2008; Drinkwater, 2006).

4.24 In Migration Advisory Committee (2008) we reviewed evidence on drivers of migration. Relative income levels (GDP per capita in Purchasing Power Standard) in A8 countries demonstrated the strongest relationship to immigration rates.

4.25 Table 4.1 shows that the ratio of GDP per capita in Purchasing Power Standard in A8 countries to that in the UK was around 54.1 per cent in 2008,

up from 47.4 per cent at the time of accession in 2004. This represents a 7 percentage point narrowing in the differential in income levels between A8 countries and the UK. The narrowing of the differential could reduce incentives to migrate at the margin, but income levels in the UK remain substantially higher than in A8 countries and some Eastern European economies are also experiencing contraction.

4.26 Social factors, such as network effects and opportunities to learn English, are less likely to change rapidly and may mitigate some of the more dramatic changes in economic factors. Blanchflower and Lawton (2008) argue that A8 immigrants' dissatisfaction with their home countries may continue to sustain A8 immigration to the UK in spite of recession. Furthermore, immigrants' reasons for staying are often different from the reasons for migrating in the first place. Economic factors may not play such an important role in return migration, so predictions of increased outflows based on economic factors alone could overstate volumes of those intending to return.

Table 4.1: Ratio of relative income levels in A8 countries (Purchasing Power Standard) to the UK, 2004–2008

	GDP per capita by year				
	2004	2005	2006	2007	2008
UK	100	100	100	100	100
Czech Republic	60.8	62.3	64.3	67.3	69.8
Estonia	46.3	50.2	54.2	57.0	56.1
Latvia	37.0	39.9	43.6	48.6	48.2
Lithuania	40.9	43.4	46.1	49.9	51.9
Hungary	51.1	51.9	52.8	52.5	53.2
Poland	41.0	42.1	43.2	44.8	47.0
Slovenia	70.0	71.8	72.8	74.9	77.3
Slovakia	46.2	49.4	52.7	56.2	59.8
A8 average (weighted by population)	47.4	48.8	50.4	52.2	54.1

Source: Eurostat, 2009

4.27 The policies of other EU15 countries that are concurrently reviewing A8 labour market access are unknown at this stage and will also affect decisions to migrate to the UK. These could also affect flows.

4.5 Labour market impacts

4.28 Here we briefly consider the likely impacts of future inflows of A8 immigrants in a recession. As already mentioned there are two ways of thinking about this: we can look at existing academic evidence on the impact of A8 immigration; and we can look at where A8 immigrants are concentrated, in order to establish whether those parts of the labour market are being more or less heavily affected by the recession than average.

4.29 With regard to the first method, despite substantial flows since accession, there is little evidence of either positive or negative labour market impacts of A8 immigration specifically (see Gilpin *et al.*, 2006 and Lemos and Portes, 2008). In his evidence to the MAC for our 2008 report on the restrictions for Bulgarian and Romanian nationals, Dustmann suggested that the strength of the UK labour market at the time and characteristics of A8 immigrants meant that the labour market was able to absorb the substantial inflow of labour.

4.30 While some studies of the impact of immigration suggest overall positive effects on wages (for example Dustmann *et al.*, 2008), there is emerging evidence of negative impacts, in general, in specific low-skill, low-wage occupations (Dustmann *et al.*, 2008 and Nickell and Saleheen, 2008). Reed and Latorre (2009) also find that small positive average effects of immigration on wages change to small negative effects once more recent labour market data covering the large A8 inflow from 2004 to 2007 are incorporated.

4.31 With regard to the second method, we explained in Chapter 2 that A8 immigrants are not evenly distributed across the labour market. This may affect the impacts of A8 immigration. If, for instance, A8 immigrants are concentrated in occupations particularly heavily impacted by the recession, future inflows may have more adverse consequences. A similar argument applies to sectors and localities as well as occupations. The evidence is discussed briefly below. Annex A contains some supporting data.

4.32 Because, as described in Chapter 2, the geographical, sectoral and occupational distribution of A8 immigrants differs from other groups, it is possible that they will be more or less vulnerable to the recession and thus contribute to a greater or lesser extent to disturbance in the UK labour market. There is no firm empirical evidence on this, but Annex A depicts trends in unemployment by industry and occupation (Figures A1 to A3).

4.33 In Chapter 2 we noted that A8 immigrants are disproportionately found in lower-skill occupations. It is clear that lower-skill occupations have higher numbers of Jobseeker's Allowance claimants, and the greatest absolute increase in unemployment has been in these occupations. On the other hand, higher-skill occupations have experienced large percentage increases in claimant count in the year to January 2009, albeit from a much smaller initial base (Figure A1).

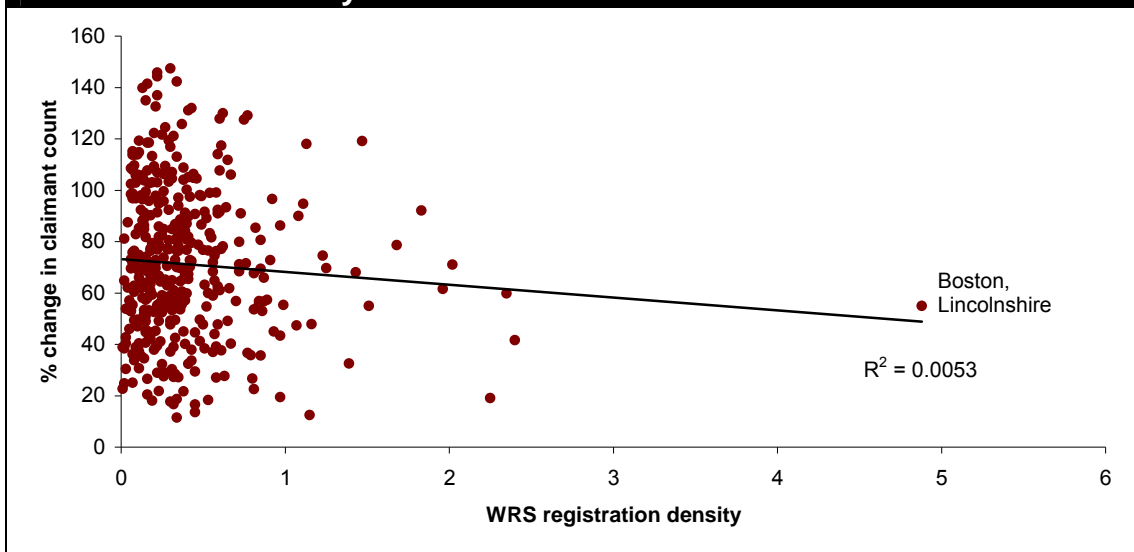
4.34 The relationship between skill levels and the number of vacancies is less clear. Vacancies in lower-skill occupations, as well as the skilled trade occupations, have fallen substantially in the year to January 2009 (Figure A2). Only managerial and associated professional occupations show increases in vacancies.

4.35 A8 immigrants are disproportionately represented in some rural areas, although, like other immigrants, concentrations are also found in large cities. Since data are available at local authority level, we examined whether the

areas in which A8 immigrants are concentrated might be more or less vulnerable to the economic downturn. Our analysis of WRS and claimant count data, shown in Figure 4.6, suggests there is little evidence of a relationship (positive or negative) between the numbers of A8 immigrants registering in a local authority area and the change between 2007 and 2008 in claimant count unemployment in that area. This is consistent with similar findings prior to the current economic downturn by Gilpin *et al.* (2006) and Lemos and Portes (2008).

4.36 Note that it is not possible to draw firm conclusions about the relationship between A8 immigration and unemployment from Figure 4.6: the relationship between WRS registrations and claimant count unemployment could be influenced by immigrants choosing to register in areas with better employment opportunities, or moving between areas after registration. Nonetheless, although Figure 4.6 does not tell us anything definitive about the past or future impact of A8 immigration on unemployment, it does suggest that labour markets with high numbers of A8 immigrants are not more or less likely to be affected by the recession than other areas.

Figure 4.6: Plot of 2008 WRS registration density against claimant count in each local authority district in Great Britain



Notes: Chart shows percentage change in claimant count 2007 – 2008 against WRS registration density. Registration density calculated as 2008 registrations as a percentage of working age population. The chart excludes the City of London as there is a large discrepancy between those that work in the City and where workers actually reside, leading to a misleading density score. Population estimates available for local authority districts in Great Britain only.

Source: Claimant count from NOMIS; WRS registrations collected by UKBA, published by the Local Government Association.

4.37 Figure A3 shows that, over the year to January 2009, vacancies have fallen in sectors associated with A8 employment, such as agriculture, construction, hotels and restaurants and manufacturing. They have, however, also fallen in other sectors, with the exception of public administration.

4.38 It could be that these data are not sufficiently detailed to enable significant differential impacts of the downturn to be identified. From the evidence available, it is not possible to conclude whether the distribution of A8 immigrants in the UK labour market is likely to make local labour markets more or less vulnerable to the effects of recession. It is similarly not possible to conclude whether sectors or occupations where A8 immigrants are concentrated are likely to be disproportionately affected.

4.39 However, it is possible to conclude that the locations, occupations and sectors where A8 immigrants are concentrated are suffering the effects of the recession along with the rest of the UK labour market.

4.6 Concluding remarks

4.40 This chapter has reviewed the current state of the labour market in the context of recent macro-economic developments to conclude that the UK labour market is currently disturbed.

4.41 This disturbance has some implications for our consideration of the future levels and impact of A8 immigration. First, a reduction in inflows and, perhaps, stocks could be observed. This could be due to immigrants responding to reduced demand for labour and either choosing not to migrate, or returning home. This effect on the reduction in inflows, however, could be overstated unless network effects are considered.

4.42 Second, the impact that A8 immigrants have in the labour market may become less favourable (or small negative impacts more observable) as a result of the recession. Sectors, occupations and localities where A8 immigrants are concentrated will not be immune from the consequences of recession. This may have implications for the consequences of any marginal increase in flows anticipated were the WRS to be removed. The implications of removal of the WRS are discussed in the following chapter.

Chapter 5: Impacts of removing the Worker Registration Scheme

5.1 Introduction

5.1 The previous chapter demonstrated that the UK labour market is currently experiencing what might reasonably be described as serious disturbance. It examined evidence to determine whether this disturbance is primarily due to a shock in the macro-economic environment, which is our first criterion for a serious labour market disturbance as set out in Chapter 3. The current chapter examines whether removing the WRS would compound this disturbance by affecting labour supply, which is our second possible cause of a labour market disturbance.

5.2 We consider evidence with respect to two ways that removal of the WRS could exacerbate the existing disturbance, in comparison with what might otherwise occur. These are:

- increases in the net flows and thus the stock of A8 nationals, leading to adverse labour market outcomes for the existing resident labour force; and
- changes in the behaviour of A8 immigrants in the UK labour market.

5.3 It is important to recognise that the evidence, and our ability to analyse it, is limited by the following factors:

- The WRS is, in some ways, unique: there is no directly relevant experience to draw from, either in relation to policy changes in other countries or past experience in the UK.
- There is no clear counterfactual, because we cannot precisely predict A8 stocks and flows were the scheme to be maintained. This is especially relevant in the current context of a rapidly changing labour market.
- As discussed in Chapter 4, there is limited evidence available on the labour market impacts of immigration in a recessionary environment.

5.4 On balance, however, we believe there is sufficient information available for us to draw broad conclusions regarding the advisability, or otherwise, of retaining the WRS.

5.5 Finally, this chapter examines potential wider effects resulting from the removal of the WRS, which the Government may wish to take into account when considering its decision.

5.2 Potential changes to stocks and flows of A8 immigrants in response to removal of the Worker Registration Scheme

5.6 Here we examine evidence on potential changes to future flows resulting from removal of the WRS. The factors identified in Chapter 3 as potential influences on the volume of A8 immigration were:

- if the £90 fee is perceived to reduce the expected economic advantage of migrating to the UK;
- if the scheme itself is perceived as a labour market barrier;
- if the scheme acts, or is perceived to act, to restrict social security entitlements (e.g. benefits) and these entitlements play a role in immigrants' decisions to enter the UK;
- if the scheme directly alters immigrants' decisions to return home, for example following refusal; and
- if the scheme affects the timing of immigrants' decisions, for example if it incentivised people staying for the full 12-month qualifying period necessary to acquire full labour and social security rights.

5.7 The extent to which most of these factors could affect flows depends partly on the extent to which immigrants are aware of the scheme. A8 immigrants do seem to be largely aware of the scheme: in a study that interviewed 217 people after EU enlargement, Anderson *et al.* (2006) found that:

“Of the 72 A8 respondents who failed to register when they needed – or potentially needed – to do so, 21 workers said they ‘never heard’ about the Worker Registration Scheme, and this was also frequently given as a reason for non-registration.”

5.8 Whether or not the removal of the £90 registration fee will impact upon flows will depend on the importance of the fee in proportion to other benefits of migrating to the UK.

5.9 This essentially means that immigration decisions will be affected to the extent to which the fee reduces the anticipated economic benefit (i.e. gain in income) from working in the UK. As discussed in Chapter 4, in spite of a slight narrowing in income differentials between A8 countries and the UK, the difference is still large in an absolute sense, as relative incomes in A8 countries are, on average, around half of those in the UK. This suggests that removal of the £90 registration fee will have a limited impact. To illustrate, for an immigrant earning the national minimum wage, and working a 35-hour week for 48 weeks, £90 represents around 1 per cent of annual gross pay.

5.10 The impact of removing the fee would also depend on the extent to which paying the fee is unavoidable (itself a result of compliance enforcement

by the relevant authorities). The survey by Anderson *et al.* (2006) found that for 10 out of 72 respondents that failed to register on the WRS, the cost of the fee was a primary reason for non-registration. The fact that such avoidance by immigrants cannot be penalised further suggests that the fee is less likely to be having a substantial impact.

5.11 In addition to the fee, if the WRS acts, or is perceived to act, as a labour market barrier, flows could increase following removal of the WRS. In theory, the WRS does not restrict immigrants' ability to take employment in any occupation, sector or region, or with any employer. However, it is possible that confusion about the scheme, and consequently doubts about an immigrant's immigration status, could result in perceived barriers for new or returning inflows to the UK.

5.12 There is certainly evidence of confusion about the scheme and its purpose among immigrants. Anderson *et al.* (2006) report that the WRS "*was perceived by some [respondents] as a means of restricting access to the labour market – indeed this was more commonly cited than restrictions to welfare benefits*". However, this confusion has probably not affected flows: "*the confusion between registration and immigration status means [the requirement to register] can be perceived as unimportant for EU citizens.*"

5.13 Perceptions that the WRS presents a labour market barrier could, in theory, be transmitted through immigrant networks and affect flows. But immigrant networks are more likely to increase rather than reduce flows. There is little evidence to suggest that such factors could deter or divert immigrants from coming to the UK, and therefore little reason to expect removal of the WRS to increase inflows on this basis.

5.14 It is also possible that the potential increased entitlements to social security benefits could attract new inflows. This would depend on the extent to which potential immigrants are aware of the social security benefits they would be entitled to, and whether access to social security benefits is a driver of immigration. There is limited empirical evidence to suggest that higher levels of social security entitlements may have a small effect on flows of immigrants (De Giorgi and Pellizzari, 2006).

5.15 As discussed later, in section 5.5, A8 immigrants have so far, with the exception of child support, made little demand on social security benefits, even when some of the stock is now entitled to claim such benefits. The World Bank (2006) has argued that A8 immigrants are attracted by labour markets and not social welfare systems. The pattern of A8 immigration to different European countries does not appear to reflect the degree to which immigrants have access to, or the generosity of, social security entitlements. Sweden, for instance, has experienced very low inflows in comparison with the UK, despite having a generous social security system.

5.16 In conclusion, it is very unlikely that removing the WRS would result in any substantial change in A8 immigrant inflows. However, it is possible that some factors, including the £90 registration fee, could have a small effect at

the margin. The effect of maintaining the WRS will be to slightly reduce flows relative to what would otherwise be observed. We argue in this report that this slight dampening effect on flows is a positive phenomenon in the current economic circumstances, which is why we have not given detailed consideration to the option of relaxing the WRS by keeping the scheme but abolishing the £90 fee.

5.3 Potential changes in behaviour of A8 immigrants in response to removal of the Worker Registration Scheme

5.17 It is plausible that the scheme could affect behaviour in the labour market. However, there is no clear evidence that abolition would affect behaviour to a significant degree.

5.18 Regardless of the future of the WRS, employers in the UK will continue to demand A8 immigrants to a greater or lesser extent. There is evidence that, in some parts of the labour market, employers have developed certain preferences for A8 immigrants and other Eastern European nationalities (Dench *et al.*, 2006; Anderson *et al.*, 2006). Superior 'work ethic' is often cited as a primary reason for such preferences. Some employers also cite examples of UK nationals being unprepared to work in physically demanding or unpleasant jobs.

5.19 The WRS may dissuade immigrants from changing employers, due to the requirement to re-register and the 12-month period of registration required prior to exemption from the scheme. Dench *et al.* (2006) find that the evidence is mixed. While the WRS is seen by some employers to reduce staff turnover, because of additional incentives to remain in 12 months of continuous employment, other employers report higher turnover for A8 nationals in comparison with other immigrants because re-registration is easy (Dench *et al.*, 2006).

5.20 Immigrants' confusion about the WRS could also mean that, in practice, the scheme affects employment relations. Unscrupulous employers could potentially take advantage of immigrants who are unaware of their rights under the scheme. This possibility was reflected in evidence received from the Association of Labour Providers, the Gangmasters Licensing Authority and the governments of Poland, the Czech Republic and Estonia who also raised concerns about the registration process which requires A8 immigrants to send their passports by post. The Trades' Union Congress also stated that differential A8 employment restrictions in EU countries lead to bogus self-employment and undocumented working that left such workers vulnerable to exploitation.

5.21 It would be difficult to establish whether immigrants' confusion was due to the WRS in particular or to a more general lack of awareness of employment rights. Indeed, Anderson *et al.* (2006) quote a Polish hospitality worker who, while believing that the scheme was a money-making exercise for the Government, thought that the information distributed with registration documents was beneficial in terms of informing immigrants about employment

5.4 Likely wider economic impacts

5.22 A number of wider economic impacts may result from removing the WRS. These include the elimination of administrative costs and exchequer receipts, and also some other impacts that are discussed in this section as follows:

- reduced ability of the Government and/or the public to assess immigration flows due to lack of data;
- the elimination of an administrative burden on employers; and
- increased expenditure on benefits.

5.24 As discussed in Chapter 2, the WRS provides data with which the Government and other parties may monitor the labour market impact of A8 immigrants. Removing the WRS would mean that data from registrations would be lost, and could potentially affect the Government's ability to monitor the labour market impact.

5.25 WRS applications are used as a measure of gross flows. However, a number of studies suggest that this series underestimates such flows, partly due to the exemptions that apply to the scheme, and partly due to non-compliance. Data on National Insurance number registrations of overseas nationals also provide an estimate of gross flows, albeit with their own flaws.

5.26 The benefit of WRS data comes from the fine-grained detail at which it is available, although a number of shortcomings limit its usefulness, and it can only provide a snapshot of new arrivals, because immigrants become exempt from registration after a year of continuous employment.

5.27 Data recorded about the age, sex and location of newly arrived A8 immigrants could be sourced from National Insurance number registrations. But the WRS is a valuable source of information about immigrants' employment as this is not recorded in other administrative data. Information about the occupations and sectors in which immigrants are employed is recorded, although standard statistical classifications are not used and large numbers of WRS registrants are classified in vague categories. For example, 'admin, business and management' is the largest sector recorded. However, this is largely a result of a significant proportion of immigrants being employed by recruitment agencies then posted out to other sectors. Likewise, 'other/not stated' is the most frequently recorded occupation.

5.28 The analysis of labour market impact of A8 immigrants by Gilpin *et al.* (2006) could equally be repeated using National Insurance number registrations. This possibility was also raised by the Association of Labour Providers' evidence. Lemos and Portes (2008), however, used a number of

these detailed WRS data in their analysis of labour market impact of A8 immigrants.

5.29 If WRS data collection was discontinued, data on registrations could be substituted with data covering new National Insurance number registrations for studies along the lines of Gilpin *et al.* (2006) that examined the impact of A8 immigration on wages and employment in the UK labour market. Studies such as Lemos and Portes (2008) that use detailed data about the employment of immigrants as 'controls' would not be possible. Assessments of impact could be based on the Labour Force Survey, but this could only be done at higher levels of aggregation (because it records far fewer immigrants), and so is less likely to isolate effects if they are small.

5.30 It is probable that most, but not all, of the data collected by the WRS could be substituted with other data series. Nevertheless, the WRS could possibly prove to be a useful additional data source during times of economic disturbance, given the limited evidence on the effect of the recession on immigration flows and their impacts.

5.31 We do not think that any modest administrative burden on employers is paramount in a decision to retain or axe the WRS. Several stakeholders have, however, commented on this administrative burden including the Confederation of British Industry (CBI), the British Chambers of Commerce (BCC), Association of Labour Providers, the Scottish Executive, the Recruitment and Employment Confederation, the Gangmasters Licensing Authority and the National Farmers' Union. The CBI and the BCC also cited the principle of the free movement of labour in Europe.

5.32 Although abolition of the WRS would reduce the administrative burden of the WRS on employers, little research has been performed to examine the scale of such a burden.

5.33 Although the changes to benefit eligibility may only have a small impact on the labour market, public spending on social security could potentially increase to a limited extent. As set out in Chapter 3, the number of A8 immigrants who would be newly eligible to claim social security benefits would consist of those who:

- are not working but are seeking work in the UK (i.e. either new entrants or recently unemployed); and
- are habitually resident in the UK (as demonstrated in the majority of cases by UK residency for a period of at least one month); and
- have not previously worked in the UK for 12 months continuously or have not registered on the WRS before doing so.

5.34 Evidence suggests that A8 immigrants have very high employment rates, and a propensity to find work soon after arrival. The employment rate is around 80 per cent and the unemployment rate is around 5 per cent for A8

nationals. Between accession and quarter 3 of 2008, applications by A8 nationals for income-related benefits, whether approved or not, totalled 31,300. If we discount the last year's inflow because they are ineligible to claim benefits, this works out at around 4.1 per cent of the total inflow.

5.5 Concluding remarks

5.35 The evidence reviewed indicates that the abolition of the WRS would not result in substantial changes in flows and therefore there would not be significant labour market impacts. This is because the absence of the £90 fee would probably have only a marginal effect on immigration decisions and behaviour changes resulting from abolition of the scheme would be small. Nevertheless, it is plausible to argue that abolition of the WRS could potentially result in a small positive impact on immigration inflows.

5.36 Abolishing the scheme would potentially lead to additional public expenditure in terms of increased benefit payments to A8 immigrants, although the sums involved would be relatively small. There would also be a loss of data. On the other hand, there would be some easing of administrative burdens on employers and the immigrants themselves.

Chapter 6: Conclusions

6.1 The Government has asked that we advise on the likely labour market impact of relaxing the transitional measures in respect of labour market access for nationals of those member states that joined the EU in 2004, and whether it would be sensible to do so, and to take into consideration any issues specifically relating to Scotland. The Treaty of Accession entitled member states to maintain transitional measures for a further two years beyond 1 May 2009 if, and only if, “*there are serious disturbances (or a threat thereof) to the labour market*”.

6.2 The WRS is such a transitional measure and the continuation, or otherwise, of that scheme has been the focus of this report. Specifically, we considered whether the UK labour market is currently seriously disturbed and whether abolishing the WRS would create or exacerbate a labour market disturbance.

6.3 The UK labour market is currently suffering what might reasonably be described as serious disturbance as a result of the macro-economic downturn. Recent data indicate sharp and sudden increases in unemployment and redundancies and falling vacancy levels and employment rate.

6.4 It is likely that net inflows of A8 immigrants to the UK will fall in the next few years due to the economic downturn and reducing income differentials between the UK and A8 countries. Indeed there is evidence suggesting that these factors have already contributed to reduced flows of immigrant labour from A8 countries, and this has been supported by some stakeholder evidence. Nevertheless, our remit requires us to consider the impact of abolishing the scheme relative to the position if it was to be maintained rather than relative to the position now or at any other point in time.

6.5 The WRS was designed on the basis of a Treaty of Accession power to control (or monitor) access to EU labour markets. It does not, in practice, provide any substantial barriers to employment for A8 immigrants. We would therefore expect any impact of abolishing or retaining it on the number of A8 immigrants employed to be small. The evidence reviewed does not indicate that any substantial negative labour market impacts are likely to result from removing the WRS. Nevertheless, negative impacts of a lower order are plausible, even though evidence is limited and this is only a possibility.

6.6 We emphasise that any impacts resulting from removal of the WRS would be small in comparison to the overall negative labour market consequences of the economic downturn. **Nonetheless, we believe that it would be sensible to retain the WRS for two more years due to the possibility of small but adverse labour market impacts from abolishing it.**

6.7 The Government will, justifiably, want to weigh the above factors against the longer-term aim of free movement of labour within the EU and the spirit of the Treaty of Accession. However, in the immediate future, even if

retaining the WRS has only a small positive impact, that would be important to the domestic workers affected. Furthermore, the restrictions can only be maintained for two more years, beyond which the worst of the labour market disturbance will hopefully be over. So retaining the WRS would not, in itself, hinder the free movement of labour within the EU in the longer term.

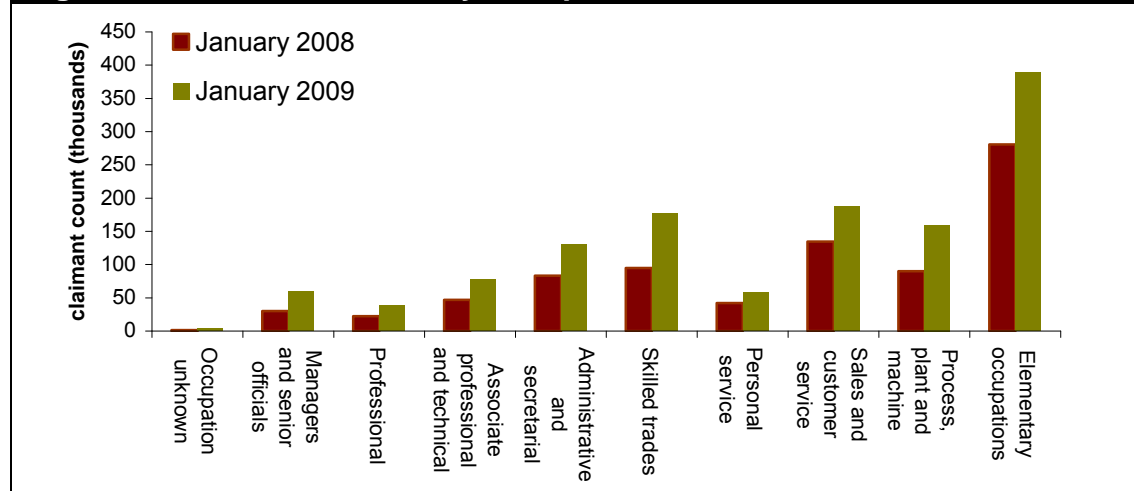
6.8 Other factors are also worth mentioning, although our recommendation is not determined by these. First, it is clear that the WRS creates burdens for employers and immigrants. While we do not wish to trivialise these, they need to be assessed against the benefits of the scheme.

6.9 Second, WRS abolition may have a very small impact on spending on social security benefits, as it would slightly increase the numbers among the existing stock of A8 workers eligible to receive benefits.

6.10 Finally, the absence of the WRS would reduce the stock of data available to the Government for monitoring labour market conditions. While WRS data is not perfect, it complements other data sets, and it can potentially play an important role in helping us to understand the impact of the recession on immigration flows.

Annex A: Occupation and sector trends in the UK labour market

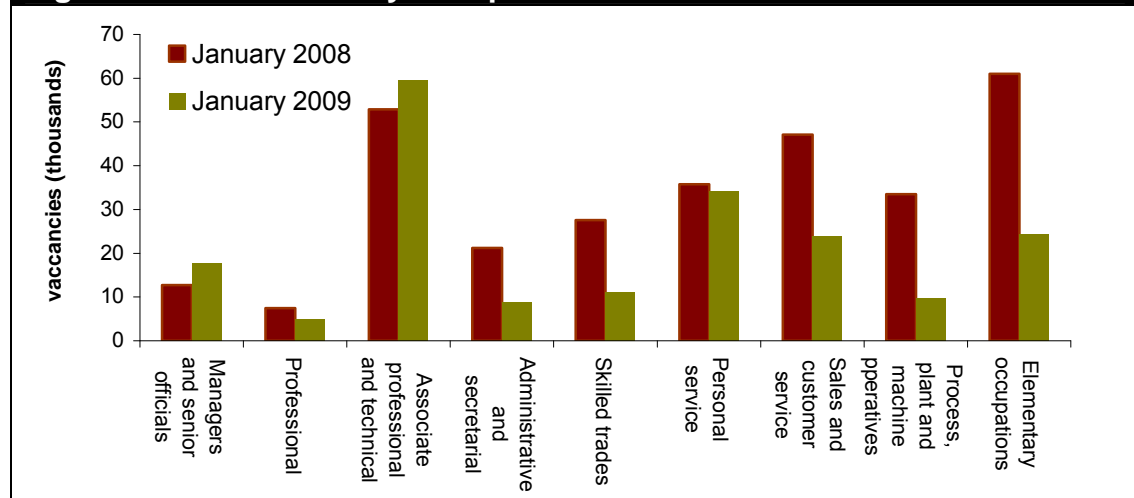
Figure A.1: Claimant count by occupation



Note: Data show claimant count by claimants' sought occupation. Occupations are classified into major groups (1 digit) of the Standard Occupational Classification.

Source: NOMIS, 2009

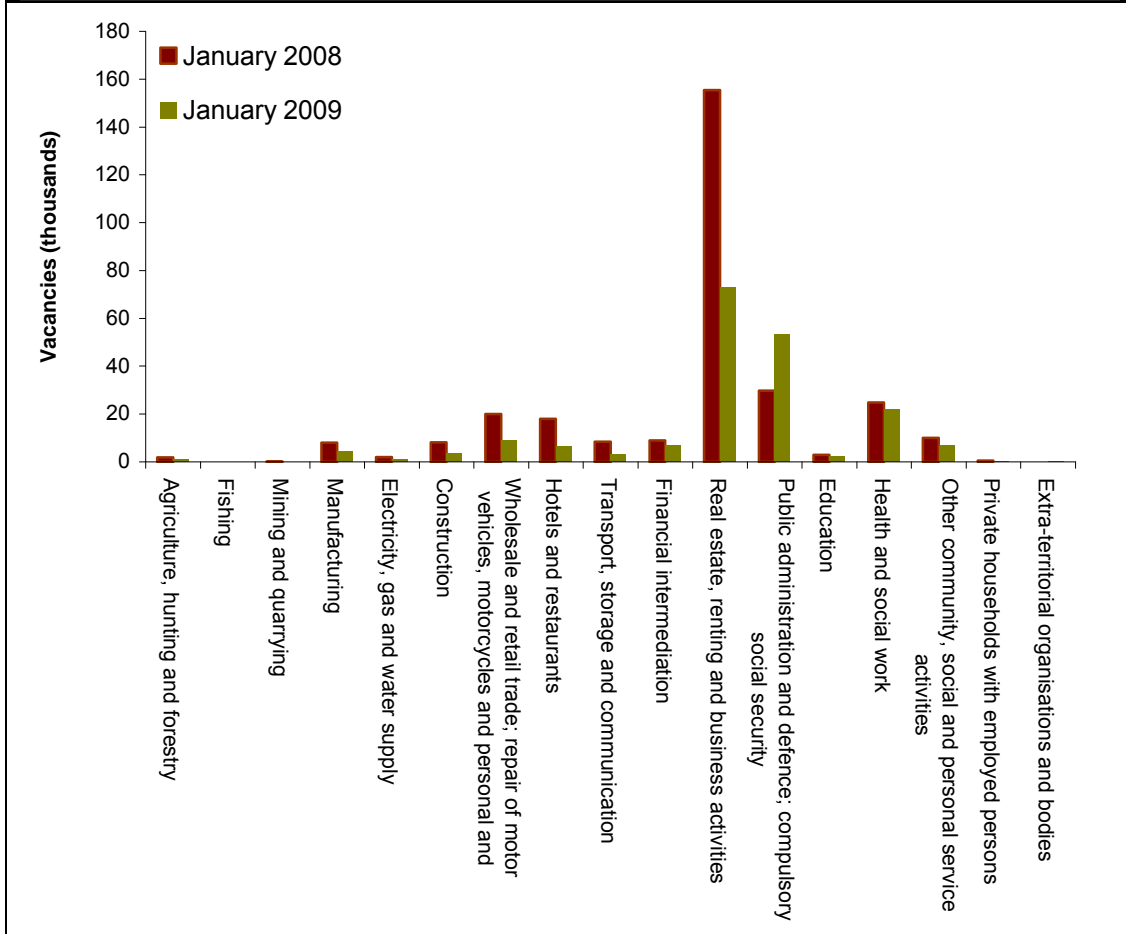
Figure A.2: Vacancies by occupation



Note: Vacancies are live and unfilled. Occupation classifications are 1 digit SOC.

Source: NOMIS, 2009

Figure A.3: Vacancies by industry



Note: Vacancies are live and unfilled. Industry breakdown is 1-digit Standard Industrial Classification.

Source: NOMIS, 2009

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