

# Immigration and the UK–EU Relationship

Professor Jonathan Portes

**Abstract** This chapter examines the history of free movement within the EU, and in particular the origins and impact of the decision to allow immediate access to the labour market for workers from the new Member States in 2004. It discusses the economic and labour market impacts of migration from elsewhere in the EU to the UK. It then considers the impact of the referendum, and possible options for changes to UK immigration policy after Brexit.

## 1 Introduction

The question of “what Brexit means” and in particular what those who voted to leave in the June 2016 referendum thought they were voting for remains highly contentious. However, free movement—and the resulting

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Professor J. Portes (✉)

Department of Political Economy, King’s College London,  
London, UK

e-mail: [jonathan.portes@kcl.ac.uk](mailto:jonathan.portes@kcl.ac.uk)

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substantial flows of EU nationals to the UK—was undoubtedly a central theme. The slogan “Vote Leave, Take Control” summed up the entire Leave campaign, whether referring to the fictional £350 million per week that the UK “sends to Brussels”, or to our supposed ability to speedily conclude advantageous free trade deals with third countries once freed from the dead hand of EU control of UK trade policy.

However, it was particularly effective and resonant with respect to immigration policy and border control, because, of course, it contained a very large element of truth; free movement of workers is one of the foundational “four freedoms” of the EU, and as long as it remains a member, the UK is obliged to respect this central obligation. So the Remain campaign found it extremely difficult to counter the simple argument that the only way for the UK to control immigration was to leave.

In the run-up to the referendum, negative attitudes to immigration, and in particular free movement within the EU, were by far the strongest predictor of opposition to UK membership. Ashcroft (2016) found that approximately 80% of those who thought that immigration as mostly a force for good voted to Remain, while a similar proportion of those who thought of it as a force for ill voted to Leave. This strong correlation remains when controlling for socio-demographic factors (Vasilopoulou 2016).

Was immigration, either from within the EU or more generally, the key driving factor in the vote to leave? There is already a significant literature on this topic. A number of analyses (e.g. Resolution Foundation 2016; Goodwin and Heath 2016; Carozzi 2016) find that areas with higher levels of immigration were, if anything, somewhat more likely to vote to Remain, but areas which had experienced large recent migrant flows were more likely to vote Leave.

However, alternative explanations also exist—for example, Conlantone and Stanig (2016) show that the Leave vote was correlated with exposure to competition to trade with China, while at an individual level (Kaufmann 2016) shows that social attitudes were more important than economic self-interest (as measured by socioeconomic status).

Clearly monocausal explanations are insufficient, and simple univariate or multivariate regression analysis is insufficient to establish causality (Goodwin and Heath 2016)—but to both any casual observer of the national-level campaign, and to anyone looking at the local level and

micro-level data, it is clear that—outside London at least—perceptions of the impact of migration were indeed a key factor in driving the Leave vote.

Immigration has long been a salient and disputed issue in British politics. This was the case 40 years ago; the government’s decision to admit a substantial number of refugees of Indian ethnicity from former British colonies in East Africa was hotly disputed, and then as now a large majority favoured much tighter restrictions on immigration to the UK. But it scarcely figured as an issue in the 1975 referendum on whether the United Kingdom should remain a member of the European Union (then the European Economic Community).<sup>1</sup> Indeed, if anything, there was actually a small negative correlation between attitudes to immigration and to the EU (that is, those who thought immigration was too high were slightly more likely to vote to stay in (Evans and Mellon 2015)).

So, what changed, and how did the UK get to this position? This chapter looks both forward and backward. It examines the history of free movement within the EU, and in particular the origins and impact of the decision to allow immediate access to the UK labour market for workers from the new Member States in 2004. It discusses the economic and labour market impacts of migration from elsewhere in the EU to the UK. It then considers the impact of the referendum, and possible options for changes to UK immigration policy after Brexit.

## 2 Free Movement of Workers

Long before the UK joined, the EU was founded on four basic principles: free movement of labour, capital, goods and services. These “four freedoms” were set out in the original Treaty of Rome, which spoke of the “abolition, as between Member States, of obstacles to the free movement of persons” (European Commission 1957). While the primary driver, as with other aspects of the original Treaty, may have been a desire to promote European integration for its own sake, the founders of the EU also believed that there were large economic benefits. In fact, economic theory is ambiguous on whether factor mobility (in this context, the free movement of labour and capital) is a complement or a substitute to free trade (the free movement of goods and services). In a standard

Heckscher–Ohlin model, they are pure substitutes. Either free trade or factor mobility will increase the efficiency of resource allocation and will maximise overall welfare; it is not necessary to have both.

Similarly, capital mobility may in some circumstances be a substitute for labour mobility. But in more recent, and arguably more realistic, trade models the picture is much less clear (see Venables 1999, for a review). The general consensus among economists is that labour mobility, like trade, is welfare-enhancing, and that the benefits are additional to any that result from trade or from capital mobility, although there may be significant distributional effects. Ozden (2015), provides a useful summary of the consensus view.

However, while the economic case may be strong in principle, other free trade areas (for example, the North American Free Trade Area) or even customs unions like Mercosur do not typically involve free movement of people.<sup>2</sup> So, from a purely economic perspective, free movement was not a necessary part of the European project; it would have been possible to have a customs union, and an integrated economic space, without it; the decision to make it one of the founding principles was a political as well as an economic choice. Labour mobility was complementary not just to the economic aspects of European integration but to its wider political objectives. The commitment to free movement of workers set out in the Treaty was bolstered by a further Directive in 1968.

The period from the late 1950s to the early 1970s saw strong economic growth in most of the EU. Demand for labour was strong and unemployment low. However, intra-EU labour mobility remained quite low, compared to, for example, the US, although there were significant flows from Italy to other EU countries, especially France. Labour demand was therefore largely met by immigration from outside the EU, especially Turkish “guest workers” in Germany, North African migrants to France and—although the UK was not yet an EU Member State—Commonwealth migrants to Britain (Kokkailainen 2011).

So when the UK joined the EU in 1973, and subsequently voted to remain a member in 1975, free movement was very much part of the existing EU acquis—subsequent complaints that the British people thought that they were joining a “Common Market” rather than an area of which people could circulate freely missed the point was that the latter

was precisely what a “Common (labour) Market” meant. However, at the time, the potential impact on either UK immigration policy, or the level and nature of immigration to the UK, appeared to be relatively small. The UK did not necessarily appear particularly attractive to migrants from existing EU member states, while non-EU migration, as noted above, was an extremely contentious issue. For both politicians and voters, the two were separate.

The economic crisis of the 1970s led to a sharp reduction in labour demand, and most EU countries, including the UK, attempted to reduce labour migration from outside the EU. Intra-EU mobility remained quite low throughout the 1980s and 1990s, despite some concerns in the UK. Indeed, one of my first assignments, as a junior Treasury official working on social security issues in the late 1980s, was to help devise legislative ways to preclude “benefit tourism” from the new Member States (Spain and Portugal). The concerns were misplaced: the 1986 accession did not lead to any significant increase in flows from Spain and Portugal. Although they had traditionally been countries of emigration, EU accession (and large inflows of EU funding) led swiftly to rapid economic growth and ample domestic demand for labour.

The 1980s and early 1990s did see a renewed push for greater market integration, launched, with the strong support of the UK, under the umbrella of the “Single Market”. However, the Commission’s 1985 White Paper, which identified obstacles to the Single Market and set out proposals to address them, devoted only one relatively anodyne page to free movement: the focus was very much on product markets (European Commission 1985). As far as the UK was concerned, intra-EU labour mobility and the Single Market remained separate issues, economically and politically

So by 2000, although increasingly economically integrated in terms of trade, and despite the political commitment to free movement, only slightly over 1% of EU citizens lived in a country other than their country of birth, and the previous decade had seen only a very modest upward trend (European Commission 2014). Approximately 2% of the UK population was born elsewhere in the EU (a large proportion from the Republic of Ireland), a proportion which had remained relatively stable.

The potential downsides of this lack of mobility, despite the formal right to free movement, became more salient as the EU moved towards

monetary union. The standard theory of optimal currency areas suggested that the costs of giving up the exchange rate as an adjustment mechanism (as a consequence of entering into an economic union) would be reduced if other adjustment mechanisms, in particular labour mobility, were able to operate (Mundell 1961). There was therefore considerable concern that the lack of labour mobility posed a threat to the efficient operation of the incipient monetary union; this debate is summarised in European Commission, 2014.

Partly in response to these concerns, the EU undertook a number of initiatives designed to turn “free movement of workers” from a formal right to one that appeared a realistic prospect to EU citizens. In particular, the Free Movement of Citizens Directive (European Commission 2004) simplified, consolidated and considerably extended the right to free movement for EU citizens, not just to take a job but to look for one, and to be accompanied by family members (including non-EU citizens) as long as those exercising free movement were not an “undue burden”. This also extended to non-discrimination against EU citizens, except in limited and temporary circumstances, in the operation of the benefit system.

If these extensions to the free movement of workers—effectively turning it, for most practical purposes, into free movement of citizens—was not needed for a *customs* union, but was in large part a response to the need to enhance labour mobility as an adjustment mechanism within a *monetary* union, why did they not only apply to euro Member States, that is excluding the UK? Commission papers of the time are silent on this point. However—ironically in retrospect—it was consistently UK policy throughout this period to insist that the Single Market, including measures related to labour markets and labour mobility, were EU rather than eurozone issues, and to resist any suggestion that the UK was, because of its opt-out from the euro, in any sense a second-tier or outer circle member of the EU.

### 3 The 2004 and 2007 Accessions

The accession, in May 2004, of 10 new Member States, including a number of members of the former Soviet bloc (often referred to as the “Accession 8”, or A8 or EU-8”, states—Poland, Hungary, the Czech

Republic, Slovakia, Slovenia, Estonia, Latvia and Lithuania), radically changed the dynamic of intra-EU labour mobility. As set out above, free movement had (from an economic perspective) originally been motivated by, first, theoretical arguments about optimal resource allocation; and, second, by its potential to serve as an adjustment mechanism in the face of asymmetric macroeconomic shocks, particularly in a monetary union. It had not been seen as operating in an area where there were very large, persistent, structural differences in wage levels, as was now the case.

Given these disparities, there was clearly a possibility of much larger intra-EU flows than had previously been the case. A number of Member States therefore took the opportunity permitted by the accession treaties to impose “transitional” restrictions on free movement of workers. The UK (together with Ireland and Sweden), however, did not.

A myth has since emerged that the main reason the UK government granted immediate access was because of a supposed “Home Office forecast” that only 13,000 migrants would arrive. In fact, the forecast in question (Dustmann 2003) was independent external research, commissioned but not produced by government, and was to a certain extent already irrelevant by the time the decision was taken (since the forecast was conditional on all EU countries granting immediate labour market access, which was not the case). Within government, there were three far more important arguments for the decision.

First, the broader geopolitical one. The UK—and Prime Minister Blair in particular—had long been the most vigorous proponent of membership for the countries of the former Eastern bloc; they were seen (correctly) as likely allies for the UK’s generally liberal positions in EU debates. So the decision was seen as a way of cementing our relationship with them, and in particular the Polish government. By contrast, the imposition of transitional controls would have been perceived as something of a slap in the face: “we welcome your politicians in the Council of Ministers, but we do not actually want your people to come to our country”.

Second, economic and labour market impacts. The UK labour market was buoyant, with unemployment at its lowest level in three decades; and all the analysis suggested that immigrant workers—particularly the reasonably well educated and motivated ones likely to arrive from the new Member States—were likely to boost the UK’s economy without doing

much if any damage to the prospects of native workers. In the then prevailing macroeconomic framework, the Bank of England regarded (nominal) wage growth as a key indicator in determining the course of monetary policy; to the extent that increased labour supply restrained nominal wage growth, this would allow the Bank to refrain from increasing interest rates (note that in this framework, migration reduces nominal wage growth in the short term, but does not impact real wages; the perception, encouraged by some politicians, that the Bank and Treasury saw migration as a way of reducing *real* wages is simply false; it is based on a confusion between nominal and real).

And third, the practicalities, given the UK's relatively light touch approach to labour market regulation. There was no legal provision which would have allowed the UK to deny the right of visa-free entry to the citizens of the new EU member states: the only available option was to prevent them from working legally as employees. However, unlike many other EU countries, the UK has very limited capacity indeed to enforce employment regulations in general, and restrictions on illegal working in particular. As with the National Minimum Wage, the government largely relies on employers to self-enforce. The assumption within government was therefore that the impact of imposing transitional restrictions would be a very large increase in illegal working. This hardly seemed like an attractive alternative.

In 2007, Bulgaria and Romania joined the EU; this too led to a significant increase in flows, although this time Spain and Italy were major destination countries. The UK and most other countries imposed transitional restrictions, which were finally lifted in all EU countries by 2014, so there is now complete free movement for the EU27 (some Member States still impose restrictions on Croatian nationals).

## 4 Impacts

The impact of accession on intra-EU migration flows was large and sustained, with substantial increases in migration to all the major economies of the existing EU, even the ones that did impose restrictions, like Germany, but in particular the UK and Ireland. Goodhart (2013) described the influx of A8 nationals to the UK as the “biggest peacetime

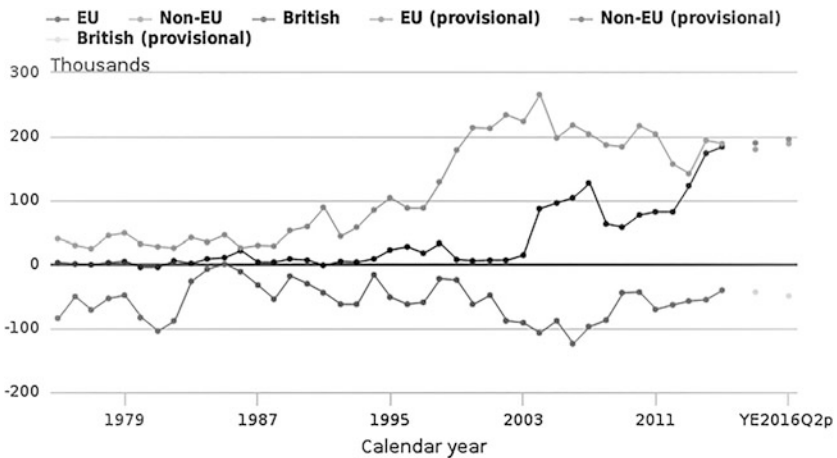


movement [of people] in European history”. Relative to expectations, flows to the UK were particularly large. New estimates from Forte and Portes (2017, forthcoming) find that free movement leads over-time to an increase of nearly 500%—a factor of six—in migration flows to the UK.

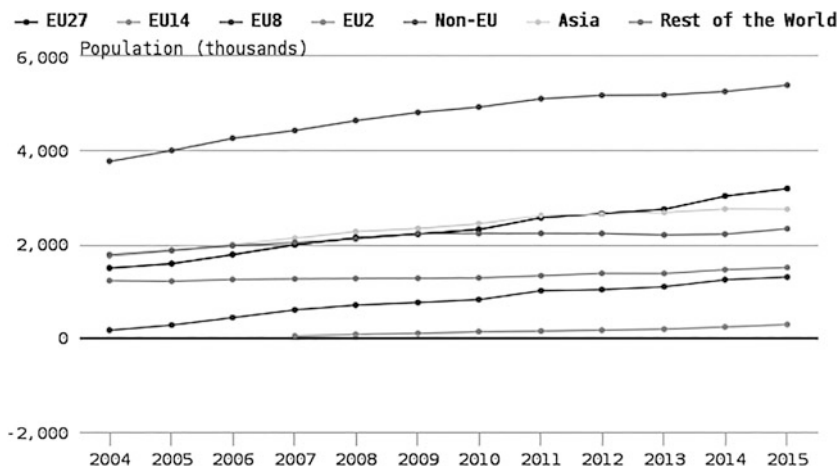
The main drivers were economic: Kahanec (2013) found that migration responded both to structural economic differences between Member States, and to short-term economic shocks; and that accession had led to significant increases in mobility, albeit hampered in part by the imposition of transitional restrictions. At an individual level, the vast majority of migrants moved to work, attracted by either higher wages or greater job opportunities. Location decisions were also influenced by cultural factors and network effects (Galowski et al. 2009).

The financial crisis and ensuing recession did temporarily reduce flows to the UK in the 2008–2012 period. However, since 2013, recovery in the UK labour market, continuing economic difficulties in some euro-zone countries, and (in 2014) the ending of transitional restrictions on Bulgarian and Romanian nationals resulted in a further sharp rise in the migration of EU citizens to the UK (Charts 1, 2).

Over the last decade, then, the UK resident population originally from other EU member states has more than doubled, to more than 3 million, and continues to rise rapidly.



**Chart 1** Net migration to the UK by citizenship. Source UK Office of National Statistics



**Chart 2** Resident UK population by country of birth. *Source* UK Office of National Statistics

EU nationals currently make up 6–7% of the UK labour force. Even this may understate the possible impacts on the UK labour market: over the last 4 years, more than 2 million EU nationals have registered for UK National Insurance numbers, required for (legal) access to employment. Much of the disparity between this and the official immigration statistics reflects very short-term and seasonal migration, which is not recorded in either the immigration statistics or the Labour Force Survey, which provides almost all the official data on aggregate labour market developments. There is also likely to be some actual under-recording.

As noted above, the primary motivation for migration was work, and most new migrants are in employment, with employment rates for intra-EU migrants well above rates for natives. One notable feature of migrants from the new Member States was that, although they were not necessarily low skilled, they primarily moved into low-skilled employment in destination countries, and were concentrated in certain sectors (for example, construction, retail, hospitality, domestic work, food processing and agriculture) (MAC 2014).

Standard theory predicts that a substantial movement of “low-skilled” workers from relatively low-wage/low-productivity economies to higher wage/productivity economies will (assuming that the workers are employed in relatively low-skilled jobs) result in:

- increased output, although impacts on per capita output will be considerably smaller, and possibly ambiguous
- an increase, possibly temporary, in the skill premium (the wage of a skilled worker relative to an unskilled one) and hence in wage inequality
- depending on labour market institutions, a possible impact on unemployment

Public and policy concern has focused on the distributional impacts—in particular, potential negative impacts on employment and wages for low-skilled workers. Although the broad consensus in the economic literature is that negative impacts of migration for native workers are, if they exist at all, relatively small and short-lived (see, for example, Constant 2014) much of this literature is US based; there was almost no empirical literature on the economic impact of immigration to the UK before 2004. Unsurprisingly, given the size of the migratory flows, this deficiency has now been remedied. There is now a considerable literature on the impact on the UK economy and labour market.

To the considerable surprise of many economists, including this author, there is now a clear consensus that even in the short-term EU migration does not appear to have had a negative impact on the employment outcomes of UK natives. A comprehensive literature review by the UK government (BIS 2014) found that “To date there has been little evidence in the literature of a statistically significant impact from EU migration on native employment outcomes”. Since 2014, the continued buoyant performance of the UK labour market has further reinforced this consensus. Rapid falls in unemployment, now down to about 5%, have been combined with sustained high levels of immigration.

While the evidence on wage impacts is less conclusive, the emerging consensus is that recent migration has had little or no impact overall, but possibly some, small, negative impact on low-skilled workers. Nickell and Salaheen (2015) find that a 10 percentage point rise in the immigrant share leads to approximately a 1.5% reduction in wages for native workers in the semi/unskilled service sector; this would mean that immigration since 2004 would have reduced wages for native workers in that sector by about 1%, or put another way would have depressed

annual pay increases by about a penny an hour. Impacts in other sectors are even smaller.

Beyond the aggregate impacts on employment and wages, there may also be other impacts on labour market institutions and structures, positive and negative, particularly if migration results in labour market segmentation (MAC 2014). There is indeed some evidence of dual or segmented labour markets in some low-paid sectors, for example, food and drink manufacturing, where migrants are disproportionately represented in the seasonal, temporary or flexible workforce. Of course, the existence of dual or segmented labour markets in low-paid sectors pre-dates the arrival of EU migrants: the food and drink sector, for example, relied historically on women and itinerant workers in peak periods before it had access to migrants (Rolfe and Hudson-Sharp 2016). However, the prevalence and persistence of these models of employment does appear to have increased, facilitated by access to migrant workers.

Employers argue that the availability of migrants has allowed their businesses to be competitive and to expand in a way which would not have been possible given relatively low levels of unemployment in the last decade (Rolfe and Hudson-Sharp 2016). The needs of employers in low-skilled sectors and of new migrants from the EU have been well-matched: migrants take low-skilled jobs in these sectors because they offer an easy entry to the UK labour market, allowing them to work long hours through over-time without long-term commitment (Anderson et al. 2006; Green et al. 2013; Pauritus 2014). The offer of temporary work with flexible or “zero hours” contracts is, in contrast, unattractive to many UK workers and problematic for those coming off unemployment benefits. An additional feature of Eastern European migration in particular has been a willingness to live and work throughout the UK, while previous migrants have been drawn largely to the South East and to urban conurbations (Rolfe and Hudson-Sharp 2016).

While EU migrants, particularly from the newer Member States, are concentrated in some low-skilled sectors and low-paid occupations, this is of course by no means true of all EU migrants. Particularly in London, EU migrants make up a large proportion of employees in finance and business services, occupations which are generally highly skilled and highly paid. Moreover, in some medium-skilled occupations where, until

2010, non-EU migrants made up a substantial share of employment—for example, nursing—tighter restrictions on non-EU migration have led to a significant shift by employers towards EU migrants for new recruits (Spanish and Romanian nurses rather than Filipino ones). The importance of EU migration to the functioning of the UK labour market therefore goes well beyond certain low-skilled sectors.

The impact on productivity and hence (per capita) growth is methodologically much harder to estimate. It has been argued that EU migration is likely to have depressed productivity growth, either through a simple “batting average” effect (since new EU migrants are on average paid less than the average of the current workforce) or, more tenuously, because the availability of relatively low-paid but flexible workers reduces the incentive to invest in labour-saving and/or productivity-enhancing equipment. It is, however, difficult to see this in the data—the UK’s abysmal productivity performance coincides with the financial crisis and its aftermath (which of course in turn led to a fall in migration) rather than the earlier sharp rise in migration.

A recent literature uses cross-country evidence to estimate the impact of migration on growth and productivity in advanced economies. This includes Boubtane et al. (2015) and Jaumotte et al. (2016). Boubtane et al. find that migration in general boosts productivity in advanced economies, but by varying amounts; for the UK, the estimated impact is that a 1 percentage point in the migrant share of the working age population leads to a 0.4–0.5% increase in productivity. This is higher than in most other advanced economies and reflects the relatively high skill levels of migrants to the UK. Their data set, however, only runs up to 2006.

Jaumotte et al. find that a 1% increase in the migrant share of the adult population results in an increase in GDP per capita and productivity of approximately 2%. This result is consistent across a variety of empirical specifications. Perhaps surprisingly, the estimated aggregate impacts of high and low skilled migration are not significantly different (although the distributional implications are). One possible, partial explanation is that low skilled migration appears to increase labour force participation among native women (a result also found in individual country studies, cf. Barone and Mocetti 2011). This is one example of

the type of complementarity or spillover effect by which migrants working in low-skilled occupations might indirectly increase productivity and output and is likely to be relevant to the UK.

The implication is therefore that migration to the UK is likely to have boosted productivity (see Forte and Portes for a more detailed discussion).

The overall consensus, then, is that the impact on the UK economy and labour market has been relatively benign. As one recent evidence review (Wadsworth 2015) summarised:

On balance, the evidence for the UK labour market suggests that fears about adverse consequences of rising immigration in general and EU immigration in particular have still not, on average, materialised. It is hard to find evidence of much displacement of UK workers or lower wages, on average. Immigrants, especially in recent years, tend to be younger and better educated than the UK-born and less likely to be unemployed. But there have been some effects. The less skilled may have experienced greater downward pressure on wages and greater competition for jobs than others, but these effects still appear to have been small.

Given the labour market impacts, fiscal impacts too might be expected to be positive. Dustmann and Frattini (2014) found that migrants from the EU to the UK made a significant positive contribution to the public finances, even during periods when the UK as a whole was running a fiscal deficit. Of course, it is hardly surprising that young migrants in employment make an initial positive fiscal contribution; proper assessment of fiscal impacts requires a life cycle perspective (Preston 2014). In this context, there are various reasons to expect the impact to still be positive (in particular, migrants tend to arrive after they have left compulsory, publicly financed education). This issue is discussed below in the section on the future impacts of immigration policy changes.

However, positive net impact on public finances at the national level does not preclude significant impact on demand (and hence cost) at the local level, particularly if funding allocations do not adjust quickly (or at all) to reflect pressures resulting from migration (George et al. 2011). A notable recent example is the shortage of primary school places in some

parts of the UK (especially London); this appears to be largely the result of poor planning on the part of central government, given the rise in the number of young children resulting from recent increases in migration (from both the EU and elsewhere).

But broader concerns about the potential negative impacts on public services appear to be largely unsubstantiated: higher immigration are not associated, at a local level, with longer NHS waiting times (Giuntella et al. 2015), and in schools, increased numbers of pupils with English as a second language does not have any negative impact on levels of achievement for native English speaking students (Geay et al. 2013). If anything, pupils in schools with lots of non-native speakers do slightly better. This does not mean, of course, that citizens do not associate their experience of deterioration in public service quality and availability resulting from other factors (in particular, cuts in funding during the UK's ongoing fiscal consolidation) with the increased demand resulting from higher levels of immigration. The fact that migrants' fiscal contribution could, in principle, at least provide enough funding to cover their marginal impact on demand is not much comfort in practice if those revenues are in fact being allocated elsewhere, for tax cuts or deficit reduction, as in fact has been the case.

## 5 Benefit Tourism and the UK's Renegotiation

As far back as 1993, Conservative opponents of the European Union focused on the issue of "benefit tourism". In his speech to the Conservative Party Conference, the then Secretary of State for Social Security, Peter Lilley, claimed (referring, apparently, to Italian, French and German nationals):

Community rules have opened up a new abuse: 'Benefit Tourism'. People travelling around pretending to look for work, but really looking for the best benefits. Not so much a Cook's tour as a Crooks tour. Gordon Brown claims our system is less generous than elsewhere in Europe. Then why do they come and scrounge off us? They certainly don't come here for the climate.

“Benefit tourism” resurfaced as a major political issue in the UK under the Cameron government. However, this was driven by political necessity rather than economic reality. The then Prime Minister, recognising that EU migration was generally unpopular, came to the conclusion that his “renegotiation” would not be credible with the public unless it addressed the issue. However, his original proposal—an “emergency brake” on the number of EU nationals allowed to migrate to the UK—commanded little support in other EU countries, and when Chancellor Merkel informed him it was unacceptable he withdrew it. Restrictions on the access of EU nationals to UK benefits was a—hopefully achievable—fallback position.

Given this background, it was hardly surprising that the UK government was unable to substantiate its position that “benefit tourism” is a significant policy concern. There is no evidence that access to the UK benefit system is a major driver of migration flows. Overall, migrants are underrepresented among benefit claimants, and especially claimants of unemployment and other out-of-work benefits. And while it is EU migrants do claim significant amounts of “in-work” benefits, which are available to low-paid workers, especially those with children, most do so only after they have already been resident for several years, suggesting it has little to do with their original migration decision (Portes 2015). Recent analysis of administrative data by the UK government (HMRC 2016) showed that approximately 750,000 EU migrants who arrived in the four years prior to 2014 paid National Insurance contributions during 2013–2014, suggesting they were in work during this year, while only about 150,000 claimed in-work benefits. This implies that even for low-skilled or low-paid migrants, in-work benefits are not a major factor driving flows to the attraction of the UK. The wider economic literature also supports the view that differences in benefit entitlements are not a significant driver of migration (Giulletti 2014).

Nevertheless, migrant access to benefit entitlements was a key issue in the UK’s renegotiation. This would have allowed the UK to phase in entitlements to in-work benefits for new arrivals from the EU over a period of four years, and reduce, but not eliminate, child benefit payments paid to those with children living abroad. It is generally accepted (even within the UK government) that the impact of these provisions on benefit payments will be small, and on migration flows negligible.



This was probably the maximum degree of change to the existing rules that the Prime Minister could have hoped to secure, given the need for the approval of all 27 other Member States—including, of course, the countries whose citizens resident in the UK will be directly affected. However, the renegotiation backfired badly during the campaign. Its real significance proved to be not the details of the changes, but that it clarified that, as set out above, that free movement remains a fundamental principle within the EU; and the UK was forced to accept that remaining within the EU mean broadly accepting the status quo. The UK did not secure any treaty change, now or promised, and the main measures the UK would have been entitled to impose would have been temporary and/or time-limited.

That meant that the dividing lines for the referendum were more clearly drawn, and in a way that very much favoured the Leave campaign. If the UK had voted to stay in, it would have accepted—however reluctantly—that staying entails a commitment to free movement of workers in the EU, both in principle and practice, and the resulting migration flows, with the impacts described above. In the event, forced to confront this logic, the British public voted to leave. In retrospect, the Prime Minister's decision to focus his renegotiation on the largely illusory problem of benefit tourism was a catastrophic political error, which ended not only his own political career but very probably the UK's membership of the EU.

## **6 Where Next for UK Migration Policy?**

So what does the Brexit vote mean for UK immigration policy? The first point to make is that it seems highly probable that EU nationals currently resident will be granted permanent residence rights. There is clearly majority support for this; it is very difficult to see in practice that depriving significant numbers of people who have lived here for any period of time of the right to remain would be politically or administratively sustainable, regardless of the legal position. Another important point is that it does not seem likely or feasible that we would restrict EEA nationals' right to enter the UK without a visa.

Nevertheless, this does not mean that it is infeasible to restrict future EU migration for work purposes. And in the short term, even before any policy change, we might see a significant fall in net migration from the EU, for several reasons.

- Even before the referendum, employment growth in the UK had slowed (whether as a result of Brexit-related uncertainty, or, perhaps more likely, of other factors). Meanwhile, unemployment is falling both in the EU as a whole, and in the Eurozone. Moreover, for some countries at least (in particular Romania and Bulgaria), the very high levels of recent inflows is likely to reflect the impact of the lifting of transitional controls in 2014; this seems likely to run its course. So even if there had been no referendum, immigration might have peaked.
- The referendum could make this fall much sharper. This is not just because of the overall economic impact of Brexit on growth, output and employment, about which we still have little hard data, although there is a strong consensus that the economy is already slowing significantly. A Brexit-related slowdown is likely to impact some sectors/regions—such as the finance sector in London—that employ large numbers of EU migrants. Moreover, migration from some EU countries—e.g. Poland—appears to respond quite quickly and substantially to exchange rate changes, presumably because migrants compare the salaries that they could earn at home to what they can earn here (and, in part, remit back to family). The value of the UK minimum wage, expressed in zlotys, has fallen by almost 15% already.
- To these economic reasons must be added legal and psychological ones. EU citizens already resident here may have a legitimate expectation, supported by most if not all politicians, that they will be allowed to remain legally indefinitely. But there will inevitably be a prolonged period of uncertainty before we know exactly what that means. If people cannot plan with any confidence, not just about themselves but their families, they are less likely to come and less likely to stay. Moreover, not only have we seen isolated but very unpleasant outbreaks of racism, with calls for EU citizens resident here to leave, but there is a much more widespread and more general sense that they are no longer welcome. There is already some anecdotal evidence that

this is leading to some to contemplate returning to their countries of origin.

What will this mean in terms of numbers? Forte and Portes estimate the determinants of migration from other EU countries, including both macroeconomic variables and the impact of free movement, and use the results to construct illustrative scenarios for future migration flows. Their central scenario implies a decline in net migration from the EU of more than 100,000, to less than half its current level. Of course, any such forecast is subject to huge uncertainty and the actual outcome will depend crucially on when and how policy changes as a result of Brexit. It would, of course, be hugely ironic if it was the referendum result—rather than any change in policy—that led to the government hitting its “tens of thousands” target.

So what are the potential outcomes for future UK immigration policy after Brexit? Before the referendum, it appeared that a Brexit vote would mean that the UK faced a clear choice on immigration policy (Portes 2016). If we wanted as far as possible to retain access to the Single Market—either by maintaining membership of the European Economic Area (like Norway) or via a series of bilateral agreements (like Switzerland)—then we would need to accept that freedom of movement would continue much as now. At the same time, as noted above, it is difficult to view the referendum result as anything other than a rejection of free movement in its current form. Some degree of control of EU migration for work purposes would appear to be a political necessity. However, this still leaves a considerable degree of flexibility. In particular, it is helpful to look at the design of a possible new system along two separate (although not unrelated) dimensions: the degree of “European preference”, and the restrictiveness of the system.

## 6.1 European Preference

The first choice then is whether any new system should give preferential treatment to EU (and presumably EEA) citizens, compared to those coming from outside the EU:

- A “non-discriminatory” system, as promised by Vote Leave during the referendum campaign, would simply apply the same system to EU citizens and non-EU ones. At present, this would mean a relatively restrictive regime for skilled workers, with some quotas (but see below); no migration for low and medium-skilled work; and specific restrictions on students and spouses (but no quotas)
- By contrast, a “modified free movement” regime (although it would almost certainly not be called that!) would preserve much of the current degree of labour mobility between the UK and EU, with perhaps some overall annual or monthly limit, requirements for workers to have a job offer before moving, and restrictions on entitlements to benefits and access to public services;
- In between, there are variety of options, but in particular it is possible that the government might seek to create some sector-specific schemes which would be wholly or largely restricted to EU nationals; these might cover some sectors that have been particularly dependent on EU workers who would not qualify under the current rules applying to non-EU nationals (for example, agriculture and social work)

At present some version of the intermediate option appears to be the government’s preference—but there is almost no detail as yet as to how such a system might work.

## 6.2 Liberal or Restrictive Policy

The second choice the government faces is whether the policy should be relatively liberal or restrictive. Note that it is perfectly possible, in theory, to completely abolish free movement—that is to move to a system that treats EU and non-EU citizens the same—while making the system overall as or more liberal than the current one. Equally, applying the current system for non-EU nationals to EU ones would result in a far more restrictive system than at present.

A more liberal alternative would be “downward harmonisation”; that is, the new system for work-related migration would be less restrictive than that currently applying to non-EU nationals (although, obviously,

more restrictive for EU nationals to whom free movement currently applies). This would mean that immigration continued to run at historically fairly high levels; it could, however, support a rebalancing from unskilled jobs to skilled migration, as well as from EU to non-EU migration.

A restrictive policy would aim to reduce migration to the government's target of "tens of thousands". At the moment, this appears to be the government's preferred option: Prime Minister May has ruled out any liberalisation of the rules applying to non-EU citizens and has even suggested further restrictions on, for example, international students.

The economic consequences of ending or very significantly restricting free movement, while at the same time maintaining or tightening other rules, would be significant. The Office of Budget Responsibility, in its November 2016 forecast, projected a significant worsening of the government's fiscal position as a result of Brexit. Of this, about £15 billion (over the forecast period to 2020) was the result of assumed reductions in migration flows. Looking at the broader macroeconomic impacts, Forte and Portes estimate that Brexit-induced reductions in migration would (under a central scenario) reduce GDP by 0.6% to 1.2% over the same period.

At a sectoral level, the consequences of restrictions for some industries that rely on migration from within the EU to fill low-skilled jobs would be very large. At least in theory, it is possible to construct a plausible economic rationale; while restrictions would cut growth in the short term, it might over-time incentivise firms into productivity-enhancing investment or training. However, there is little or no evidence that occupational or sectoral usage of migrant labour is associated with lower levels of training (MAC 2010). Other research has focused on migration from outside the EU and in relation to higher-level skills, but has similar findings (George et al. 2012; CIPD 2014). In low-paid sectors the difficulty of attracting and retaining young people appears to act as a disincentive to training, rather than the availability of migrants (Rolfe and Hudson-Sharp 2016).

The evidence on the impact on wages suggests that there a restrictive policy might have some (relatively small) positive direct impact on wages for low-skilled workers, although little or none for medium and highly

skilled workers. However, the impact on incomes would be more than offset by the wider negative economic and fiscal impacts. Wadsworth et al. (2016) summarised:

We cannot be precise about the size of the losses from restricting immigration following a Brexit ... At the national level, falls in EU immigration are likely to lead to lower living standards for the UK-born. This is partly because immigrants help to reduce the deficit: they are more likely to work and pay tax and less likely to use public services as they are younger and better educated than the UK-born. It is also partly due to the positive effects of EU immigrants on productivity.

Analysis of both the impact of the UK's membership of the EU, and the economic consequences of Brexit has to date mostly focused on the UK's trading relationship with the rest of the European Union. However, free movement is perhaps equally if not more important: the movement of people has had, and will continue to have a profound influence on the UK's economy and society, and its ongoing relationship with other European countries, for the foreseeable future.

## Notes

1. For simplicity I will refer to the "EU" throughout.
2. The Trans-Tasman Agreement between Australia and New Zealand is an exception.

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