## Emigration: some policy issues

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Emigration: Some Policy Issues

By Brendan Walsh*

In this article the reasons for Ireland's very high, and volatile, rate of net migration are examined. Being a small, open labour market, where living standards are relatively low, it is not surprising that external migration has played an unusually important role in Ireland's economic history. The recent resurgence of emigration fits into the historical pattern and reflects the underperformance of the Irish economy in the 1980s. The emigrants may be presumed to benefit from the opportunity to better themselves abroad, and the Irish economy does not appear to have been damaged by high emigration in the past, but a large outflow of population is clearly a symptom of economic failure. Policies that increased Ireland's rate of economic growth and created more employment would also reduce the rate of emigration. Changes in the income tax system could reduce the incentive for young people to leave Ireland in order to raise their after-tax incomes. Finally, the financing of third level education should be re-examined in the light of the very high rates of emigration among the graduates of certain high cost courses.

Introduction

On average we have lost about 0.5 per cent of our population a year, or almost a million people in all, through net emigration over the 65 years since Independence. Instead of growing steadily, as it would have been in the absence of emigration, our population has been static for most of this century. In the 1950s the emigration rate soared to 1.5 per cent, reaching 2 per cent in the worst years, a rate of outflow that was previously surpassed only in the 1840s and 1880s. This led to a sharp fall in population, despite the relatively high rate of natural increase (that is, the excess of births over deaths), and a widespread feeling that the country was a failed economic entity. In the 1970s, on the other hand, there was a sustained net inflow of population for the first time in our history. This boosted our rate of population growth to 1.5 per cent a year, the highest in Europe.

The annual rate of emigration is now running at about 1 per cent. Since 1985 emigration has offset the excess of births over deaths, which is now falling rapidly as the birth rate declines, so that after the remarkable growth of the 1970s the population is once again static. No other country has experienced such extraordinary volatility in its rate of population

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growth. The contribution of migration in this volatility is clear from Figure 1, which shows the annual rate of net emigration per 100 population over the post-war period.

The Causes of Emigration

We do not have to look far for reasons why there would be a high rate of emigration from Ireland. Living standards are lower here than in any other OECD country except Turkey, Portugal and Greece. There is still a sizeable population living on small, unproductive farms. The non-agricultural labour force would grow very rapidly if there were no emigration and, in the absence of labour intensive development of the internationally trading sectors of the economy, most of the increase in the labour force would have to be absorbed into low-productivity service (including public sector) jobs.

The easy access our population has enjoyed to Britain and America made it almost inevitable over the years that significant numbers would be drawn from Ireland to these countries. Once established, emigration tended to be self-reinforcing as information and support flowed back to prospective migrants.

The recent upsurge in emigration is readily understood as a response to economic conditions at home and abroad. The Irish economy went into recession more or less in phase with the rest of the OECD economies in 1979/80, but has lagged behind in the recovery. Since 1984 the gap between the Irish unemployment rate and the American and British rates has widened dramatically (Figure 2). There has also been a widening of the gap between the after-tax rewards for comparable types of work in Ireland and abroad. The rate of emigration from Ireland accelerated as these two gaps widened.

Future Prospects

Our expectations in regard to emigration are naturally dominated by what has been happening in the recent past. During the 1960s, for example, forecasters were very influenced by the exceptionally high rate of emigration of the 1950s and failed to anticipate the significant inflow of population that occurred during the 1970s. With the onset of world recession early in the 1980s, emigration from Ireland remained very low and it was widely believed that the rise in unemployment in other countries meant that there was nowhere for our young people to go. For example, it was claimed that for the immediate future there is little scope for large-scale emigration . . . (although) it is possible, but by no means likely, that in the medium term a brief period of opportunity for emigration will open up . . .

An earlier version of this paper was read to the Dublin Economics Workshop, Kenmare, October 21, 1988.
Projections of the labour force and population published in 1984 assumed that emigration would lie between zero and 12,000 a year over the period 1981-91. But in fact emigration was already running at an annual level of 20,000 at that time.

The consensus of the population projections that have been published since the results of the 1986 Census of Population became available is that a significant rate of net outflow will continue until the end of this century. There are compelling reasons for expecting that the rate of emigration will remain high. These include the following:

**Demographic Pressure**

Despite the fall in our birth rate since 1980, the potential increase in the Irish population of working age will be high for some years to come. Demographic momentum will persist here after many of the large economies of Europe begin to experience sharp reductions in the numbers entering their labour force.

**Migratory Networks**

The pool of Irish residents abroad has been replenished by an inflow of over 100,000 people during the 1980s. They are providing information and support to their friends and relatives in Ireland who are contemplating emigration.

**Low Employment Intensity of Growth**

Irish economic growth has not been employment-intensive in the past. It displays this characteristic of European (as opposed to American) growth to an exaggerated degree. As a consequence, even if our growth rate accelerates, the rate at which new jobs will be created may continue to lag behind that which would absorb the growth of the labour force into employment.

**Low After-Tax Incomes**

Even if our economic performance improves relative to that of the rest of the OECD, it is unlikely that after-tax incomes in Ireland will match those available to qualified people abroad for the foreseeable future.

- See Conniffe and Kennedy, op. cit.
These considerations suggest that we shall continue to experience a high rate of emigration. However, just as we failed to anticipate changes in the trend of migration in the past, it is possible that we could now be surprised by a sudden slowing down in the rate of net emigration. The following factors could lead to a reduction in the rate of net emigration as we move into the 1990s.

**Growth in Employment**

The decline in employment has now levelled off and the number at work is rising again. Even modest growth is a major reversal of trend, bearing in mind that employment declined by 10 per cent between 1981 and 1985. Growth in employment will be accompanied by a more than proportional increase in entry-level jobs and this will improve the prospects for school-leavers, a key group from the point of view of migration. Growth in more senior level jobs could eventually stimulate a significant return flow from the population of Irish people living abroad.

**Return Migration**

By the early 1990s many of the recent emigrants will be in their thirties, married with young children and having acquired work experience, skills and capital. These are people who could easily be attracted back to Ireland by improving economic conditions. Significant return migration is not ruled out even if high levels of unemployment and a rapid increase in the population of working age persist. Migrants are more willing to move in search of jobs, and to take the jobs that are available, than is the native population. They are also likely to have more relevant experience and qualifications than those who are unemployed in Ireland.

The combination of a reduced outflow of young people and an increased return flow of somewhat older people could lead to a marked fall in the rate of net emigration in the 1990s. However, it is realistic to expect that there will be a significant net outflow of population from Ireland for some years to come. It is therefore important to attempt some assessment of the costs and benefits of this phenomenon.

**Costs and Benefits of Migration**

It is useful to look at this issue in terms of three populations: the emigrants, the population of the receiving country and the population left behind in Ireland.
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The Emigrants

The welfare of the emigrants is the most emotional issue in this whole debate. While the psychic costs associated with emigration cannot be lightly dismissed, they have diminished dramatically in recent years. The fall in the costs of international transport and communications and the increasingly international flavour of Irish popular culture (or should I say the increasingly Irish flavour of international popular culture?) have made a move from Mayo to Massachusetts or Manchester far less of an emotional trauma that it was in the 1950s.

Those who emigrate are by and large responsible people who freely choose to go. If they remain abroad there is a presumption that they are better off than they would have been if they had remained in, or returned to, Ireland. Those who move from unemployment in Ireland to employment abroad, or from a low wage job here to a better paying one abroad, are likely to improve their material lot by enough to compensate for the emotional costs of emigration. It is also important that the level of social benefits in Ireland now compares favourably with that in the countries to which our emigrants go. This is a major change from the situation that prevailed during the 1950s, when Irish social welfare payments were very low both absolutely and relative to those available in Britain.

The Host Countries

Emigration from Ireland is on balance very beneficial for the countries that receive our emigrants. There is a transfer of human capital when a school-leaver or college graduate arrives into the labour force of a country that did not bear the costs of rearing and educating him or her. Furthermore, even the less educated migrants tend to be highly motivated to work and save, and to behave entrepreneurially in their new environment. They move to areas and sectors where their skills are needed, thereby alleviating bottlenecks and facilitating accelerated economic growth. Contrary to popular prejudice, most migrants are law-abiding and make relatively few demands on the social services. They rapidly become net contributors to their host country's exchequer. Some idea of the potential importance of immigration to a host country is given by the estimate that during the 1960s the Federal Republic of Germany received the equivalent of a gift of 3% of GNP a year through the immigration of "guest workers".

Data on Tourism shows a remarkable upsurge of the "visiting friends and relatives" category in the last few years. It is clear from Bord Failte figures that many recent emigrants make several visits home within the first few years of emigrating.

Those Who Remain Behind

The most difficult economic issue in this area is to assess the effect of emigration on the population of the country of origin. At a popular level, large-scale emigration is viewed as a symptom of the poor performance of the Irish economy. It is easy to understand the chagrin that is felt when young people reject their native country in such numbers that there is a decline in population despite a healthy rate of natural increase. No other country in the world is experiencing emigration at the rate that is now occurring from Ireland.

However, it does not necessarily follow that emigration is economically a "bad thing" for the population remaining behind in Ireland. The economic effects of migration have to be carefully examined.

One possibility is that emigration is harmful because it acts as a safety valve, releasing social pressures that would help transform the economy and society. The experience of developing countries with rapidly growing population shows, however, that there is no guarantee that such a desirable transformation will occur. A growing population bottled up in Ireland might generate social chaos rather than a creative tension, and lead to a higher unemployment and falling living standards rather than accelerated growth. In this context it is interesting to contrast the early 1980s with the 1950s. The 1981-83 recession in Ireland coincided with rising unemployment abroad and an absence of opportunities for emigration. The result was that real GNP per person declined by 4.2 per cent between 1981 and 1983 and the rate of unemployment rose from 9.9 per cent to 14.0 per cent. In contrast, during the depressed 1950s the rate of unemployment never rose above 10 per cent, and between 1955-58, the worst years, real GNP per person stagnated but did not decline. The contrast between the two episodes is due to the fact that the safety valve of emigration was open in the 1950s.

Another reason for believing emigration is harmful to the economy is the view that by making a free gift of human capital to the host country, the sending country must experience an equivalent loss. However, this simple equation may not be valid. In the absence of emigration, unemployment would probably rise and wage rates fall because of a dearth of complementary factors of production (especially high quality labour,

\footnote{Alexis Fitzgerald stated the following in a Reservation to the Report of the Commission on Emigration (1953), "High emigration, granted a population excess, releases social tensions which would otherwise explode and makes possible a stability of manners and customs which would otherwise be the subject of radical change" (p.222).}
including entrepreneurship, and capital. By tending to equalize the relative abundance of the factors of production between countries, migration tends to redeploy human resources more productively. Moreover, the sending countries also gain through a return flow of remittances and ethnic tourism, which are significant sources of foreign exchange earnings in Ireland. Thus, it is possible that both the sending and receiving countries gain through the migration process.

However, the empirical evidence does not reveal a strong tendency for living standards to become more equal between regions that enjoy free movement of labour. Moreover, at the regional level there is evidence that an outflow of population leads to a self-reinforcing cycle of low growth. On these grounds it is possible to argue that Ireland's persistent loss of population has contributed to our unimpressive long-run rate of economic growth.

The record shows that there is very little correlation between the rate of migration and the subsequent performance of the economy. During the late 1950s emigration reached a peak of 2% of the population a year, yet in the early 1960s we entered a period of sustained growth in GNP. Conversely, during the 1970s we experienced a net inflow of 0.5% of population, which pushed the rate of growth of population to 1.5% a year, yet we fared worse during the recession of the early 1980s than other OECD countries. A systematic attempt to establish a feedback from the rate of migration to the rate of economic growth has yielded only negative results.

Policy Issues

Objectives
Various targets for emigration have been proposed as part of a wider "full employment" target. These include a low net emigration rate or a zero rate of "involuntary" emigration. It is difficult to give the distinction between "voluntary" and "involuntary" emigration an operational content. Some of the current emigration is clearly "voluntary", for example the emigration of medical graduates when there are vacancies and an inflow of foreign graduates to health authority posts outside the main urban centres. In

An Article in The Economist on 30 October 1938 estimated that "the present rate of emigration involves Eire in a capital wastage of about #30 Million a year. If this sum were spent annually on building houses that were burnt down as soon as they were completed, public opinion would be shocked. Nevertheless the wastage of capital could not be any greater than that caused by emigration..." Professor George O'Brien was the Irish correspondent for the newspaper at that time. I am grateful to Cormac O Grada for this reference.

fact, probably a very high proportion of the outflow is "voluntary" in the sense that it represents a search for a better job or a higher after-tax income. The long-term unemployed and those with the worst employment prospects in Ireland probably do not account for a large proportion of total emigration.

Macroeconomic policies that will reduce the rate of unemployment will also help to reduce the rate of emigration. Faster and more employment intensive growth are needed for both purposes. Emigration of itself does not seem to have any specific implications for macroeconomic policy.

**Taxation and Emigration**

Some targeted policies might make a worthwhile contribution to reducing the rate of emigration. For example, the heavy burden of taxation in general, and income tax in particular, is undoubtedly among the factors that encourage young people to emigrate. There is now a stark contrast between the level of income taxation in Ireland and that prevailing in the countries to which most of our emigrants go (Britain, the U.S.A., Australia etc.) The contrast is greatest for single people, and most emigrants are single. The following data show the difference in after-tax-and-social-security income in Ireland and Britain (1989/90 tax rates, single taxpayer):

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<th>Irish Pounds:</th>
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<tr>
<td>Gross Income:</td>
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<tr>
<td>Net Income in Ireland:</td>
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<td>Net Income in Britain:</td>
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The additional net income in Britain increases from 7.7% at IR£5,000 to 29.9% at IR£20,000. Moreover, in Ireland the single taxpayer faces a marginal tax rate (including PRSI) of 63.75% on gross income over IR£12,336 compared with 34% in Britain on incomes up to IR£26,605. While many other considerations affect choice of residence, including housing and other living costs, it is clear that the excess income tax burden in Ireland must be a major consideration, especially for young, unmarried people with high earnings capacity.

A possible response to this situation would be to introduce a lower rate of tax, or a special allowance, for those entering the Irish tax net for the first time and returning emigrants. This could be operated similarly to the
existing allowance for those aged 65 and over. A targeted concession of this type would avoid the substantial deadweight cost that would be entailed in across-the-board tax cuts, which would benefit those who were prepared to work in Ireland at existing tax rates. (Of course, lower rates of tax for all taxpayers may be justified on other grounds.)

Financing Third Level Education.

Another microeconomic issue that is raised by our high rate of emigration is the financing of higher education. Emigration rates are high among graduates in general and among professional graduates in particular. A very large subsidy is provided by taxpayers to these graduates, whose lifetime earnings will exceed those of the average Irish taxpayer. This type of subsidy is hard to justify on equity grounds. In a country with a high rate of graduate emigration it is also hard to justify in terms of a putative benefit to the economy.

There are a number of possible responses to this situation. One would be to charge all students the full economic cost of their education. This would have the merit of transparency, that is of revealing how much the different types of qualifications cost and allowing participants to evaluate whether they believe the investment is likely to pay-off. The disadvantage would be that Ireland is already a relatively expensive place in which to obtain a third level degree for those who do not qualify for a state grant. Irish university fees are between £1,250 and £1,750, which is very high compared with what students have to pay in Britain or on the Continent. If Ireland were to adopt a system of making students (other than those who qualify for a state grant) bear the full cost of a basic third level qualification, we would place a much heavier burden on middle class parents than they bear in other EC countries.

An alternative would be to raise fees towards the full economic cost but to award students a loan, repayable over the working life of the graduate and contingent on income. To differentiate between emigrating and non-emigrating graduates, income tax paid in Ireland could be offset against the outstanding loan. Those in employment overseas would have to repay...
according to a schedule. This would place a burden of collection on the authorities in respect of employed emigrant graduates, but in the case of those with professional qualifications (architects, accountants, doctors etc.), it should be feasible to administer a scheme of this type. In a world where qualified personnel are in increasingly short supply, it would probably be possible to collect the repayments from prospective employers.

Schemes of this sort are usually greeted with scepticism on grounds of practicality. Yet something should be done to address the very real issue posed by the high emigration rate of qualified graduates. The only alternative is to hope that in the integrated Europe of the 1990s there will be more central sharing of the costs of third level education.

Conclusion

It looks as if emigration will continue to be a major factor in Irish life for some years to come, but we should be sceptical of projections that simply extrapolate the current high rate into the medium term. With faster economic growth here there could be a rapid decline in the rate of net emigration.

A concern about emigration does not lead to any novel macroeconomic recommendations. We should pursue the economic policies that will help to reduce the level of unemployment and increase the rate of employment creation.

At the microeconomic level, the high rate of emigration should stimulate an examination of our tax system with a view to reducing the differences in after-tax income between Ireland and the countries to which our young people are emigrating. This could most effectively be achieved through targeted special allowances rather than across-the-board tax cuts.

The high rate of emigration among graduates in general, and professional in particular, should prompt a critical examination of how third level education is financed. It is hard to justify public subsidies to expensive courses when most of the graduates do not contribute to the Irish economy or exchequer.
Net Migration Rate
Unemployment Rates

Figure 2