

## **IRELAND, A NON-RUNNER IN THE RACE TO THE BOTTOM**

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*The impact of immigration on the Irish economy is an issue that is presently at the centre of fiery political and economic debate. Thomas Conefrey uses recently released data to analyse both the fears and the benefits surrounding the large influx of immigrants into the Irish economy and into the EU in general. He considers the challenges posed and looks to the lessons that can be learnt from such migratory flows in the past.*

### **Introduction**

Recent high profile industrial relations disputes provoked a revival in the contentious debate as to the effects of immigration on the Irish economy. Not surprisingly, it was those on the extremes who grabbed the headlines from the unyielding free marketers, who claimed that any attempt to restrict immigration would wreck the economy. These headline grabbers argued that unrestricted immigration was facilitating a race to the bottom in employment standards.

Data recently produced on immigration and employment in Ireland and the EU has added some much needed clarity to this confused and often ill-informed debate. Far from leading to the widespread displacement of Irish workers and to a deterioration in working standards, the data indicates that immigration has had a largely benign influence on the labour force and on the Irish economy. At the same time the importance of being alert to the challenges of large scale immigration has been emphasized.

This essay will begin with a discussion of the reasons for the fresh rise to prominence of immigration related issues in Ireland. Section 2 will analyse the data on immigration and its impact on the Irish and other European economies. Migratory flows are, of course, not unique to the 21<sup>st</sup> Century. The work of economic historians on previous migrations can provide some illuminating insights for today's policy makers and these will be explored in section 3.

## The Immigration Debate in Ireland

Following the accession of ten new member states<sup>1</sup> into the EU on May 1<sup>st</sup> 2004, issues surrounding the rights of migrant workers from these new states quickly rose to the surface. Article 39 of the Treaty of Rome provides for the free movement of persons within the community and is thus one of the most fundamental freedoms guaranteed by community law (Commission, 2006). All EU migrant workers and their families are entitled to equal treatment not only in employment related matters, but also as regards public housing, taxation matters and social welfare benefits.

In order to quell member states' fears of being overrun by a sudden influx in immigration upon accession, the Treaty of 2003 allowed for a temporary derogation from the fundamental principles as set out in Article 39. The Accession Treaty sets out 'Transitional Arrangements' whereby restrictions to obtaining access to the labour market can be applied to migrant workers (Commission, 2006).

Three EU15 countries, Ireland, Sweden and the UK<sup>2</sup> decided not to avail of the Transitional Arrangements and have not applied restrictions on access to their labour markets by EU10 nationals. All other EU15 countries have maintained a work permit scheme, in some cases combined with quotas (Commission, 2006).

By not applying any labour market restrictions, concerns were raised that Ireland had left itself unduly open to the possibility of an influx of foreign workers from low wage countries whom, it was feared, would displace higher paid Irish workers and raise unemployment. With the average minimum wage in the accession countries 74% lower than minimum wages in the EU15 and with unemployment rates typically twice as high in the EU10, it was feared that these acute economic differences would attract a flood of migrant workers to Ireland (Van Suntum, 2005).

With substantial wage gaps between Ireland and the accession countries (wages in the EU10 on average one fifth of those in the EU15, Van Suntum, 2005) it was predicted that without restriction, labour would shift to the areas where returns are highest, depressing wage levels in Ireland and increasing them in the accession states as standard Heckscher-Ohlin trade theory would predict. Trade unionists accordingly issued dire warnings of

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<sup>1</sup> For ease of expression, the ten new accession countries will also be referred to in this essay as the EU10. The original 15 Member States that comprised the Union prior to the 2004 Enlargement will be referred to as the EU15.

<sup>2</sup> The UK has introduced a Worker Registration Scheme but there are no ex ante restrictions.

widespread displacement of Irish workers by cheap migrant labour from Eastern Europe (SIPTU).

The dispute at Irish Ferries, whereby management were attempting to replace Irish workers with cheaper foreign labour, was seized upon by the unions as evidence that job displacement was no longer “isolated or exceptional” but happening across a range of sectors (SIPTU). The Labour Party called for the imposition of permit system for workers from the new EU states to prevent further job displacement in Ireland. Despite relying on largely anecdotal evidence, the Irish Ferries dispute thus brought to the surface fears about the displacement of Irish workers by immigrants.

In the absence of comprehensive data on immigration, these results indicate that peoples’ attitudes towards migrant workers were being influenced by the largely unsubstantiated claims of job displacement brought sharply into focus by the Irish Ferries dispute. The existence of these fears among the majority of Irish voters was confirmed in a recent opinion poll (The Irish Times, 2006a). Recently released data has allowed for an objective examination of these immigration issues and can be used to dispel some of the myths of the economic impact of the migrant workers.

## **Immigration Flows and Job Displacement in the Irish Economy: The Evidence**

The two crucial immigration issues are the scale of the current inflow of foreign workers into the State and whether and to what extent Irish workers have been displaced by these lower paid immigrants (The Irish Times, 2006b). I will firstly examine some EU wide evidence on the scale of the immigration flows before examining more recent and detailed CSO data on immigration and job displacement in Ireland.

The European Commission recently produced a report on the workings of the transitional arrangements for access to EU15 labour markets. The report indicates that the proportion of the working age population from the EU10 Member States within the EU15 was small, being largest in Ireland at 2%. Between 2003 and 2005 the figures have been stable providing little evidence of a sudden large increase in immigration in the member states (Commission, 2006).

Significantly, the data also indicates that immigrants have had a positive impact on the labour markets of the member states to which they have had free access. The figures show that in Ireland, Spain and the UK, EU10 nationals have significantly higher employment rates than country nationals.

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The argument that EU10 immigrants were being forced into low paid sectors and at risk of exploitation was highlighted earlier. Contrary to these claims however, the employment rate of EU10 nationals in EU15 countries has increased. This may be due to the official recognition given to previously undeclared workers from the accession countries and the enhanced clarity afforded to their legal status following enlargement. Enlargement has thus been beneficial to the welfare of EU10 workers (Commission, 2006).

Table 1 presents the first evidence with which to confront the claim of worker displacement. While the data is at the aggregate EU level, it is still useful in indicating that immigrant workers from the EU10 States did not 'crowd out' national workers with only minor differences in the concentrations of EU10 and EU15 workers in the various sectors of the economy suggesting that EU10 workers have a complementary role to play in the labour market (Commission, 2006).

**Table 1: EU15 Employed Population by Nationality and Sector 2005.**

Activity Sector	Nationality		
	National %	EU 15 %	EU 10 %
Agriculture/fishing	4	2	3
Industry	18	19	18
Construction	8	8	15
Retail/hotels	25	28	28
Financial/real estate	13	16	14
Public admin./ed.	32	27	23

Source: Commission, 2006.

Further evidence of the positive influence of immigrant workers on the labour force in the EU is provided in Table 2 which indicates that the proportion of EU10 nationals in EU15 Member States with low level qualifications is lower than for nationals of those countries.

**Table 2: EU15 Resident Working Age Population by Nationality and Education Level**

Education Level	Nationality			
	National %	EU 15 %	EU 10 %	Non-EU %
Low	31	36	21	48
Medium	46	39	57	35
High	23	25	22	17

Source: Commission, 2006.

The proportion of EU10 nationals with medium level qualifications is also higher (Commission, 2006). This indicates that EU10 immigrants can improve the skills base of EU countries and alleviate skills shortages in certain sectors such as construction. The role of immigrants in promoting human capital accumulation in Ireland has been critical to maintaining the growth of the economy where an estimated 40,000 new workers are needed each year to meet demand in a booming economy.

To summarise, the aggregate EU data indicates that:

- Labour flows between the EU10 and the EU15 as a proportion of the working age populations have been small and stable before and after enlargement.
- EU10 nationals in EU15 countries are more likely to be working than native citizens and possess comparable levels of educational attainment.
- By providing a firm legal standing for EU10 nationals, there is evidence that enlargement has improved employment standards for immigrant workers.
- There is no evidence of the displacement of national workers by the meager inflow of EU10 workers.

Contrary to the claims of displacement, higher unemployment and lower working standards, the analysis so far indicates ‘major benefits’ to countries from opening their labour markets to immigrant workers (Commission, 2006). Data recently published by the Central Statistics Office (CSO) for Ireland confirm the existence of these benefits and cast further light on the question of job displacement.

Overall, the CSO data indicates that employment increased by 86,500 or 4.7% last year, the highest annual rate of growth since 2000 (CSO, 2006). Over half of the 86,500 new jobs went to foreign workers bringing the total number of Non-Irish Nationals at work in the state to 171,000. Fewer than 62,000 of these workers came from the new accession states (CSO, 2006).

Turning to the issue of displacement, Table 3 shows that of the 11 main economic sectors, 10 recorded higher numbers at work in 2005 than at the end of 2004. In only two of the eleven sectors is there evidence of possible displacement of Irish workers. In manufacturing (‘Other Production Industries’) the number of Irish nationals at work fell by 19,900 while the number of foreign nationals working in the sector increased by 7,200 resulting in a net loss of 12,700 jobs. Similarly, in the hotels and restaurants sector the number of Irish workers fell by 800 while the number of foreign nationals in the sector increased by 3,600 (CSO, 2006).

**Table 3: Net Change in Irish Employment, Q4 2004-Q4 2005 ('000's of Persons)**

Sector	Total Change	Irish	Foreign Nationals
Agri./Forestry/Fishing	2.8	2.0	0.7
Other Production Industries	-12.0	-19.9	7.2
Construction	25.8	16.1	9.6
Wholesale/Retail	19.6	14.0	5.5
Hotels/Restaurants	2.9	-0.8	3.6
Transport/Storage/Communication	2.6	1.3	1.3
Financial/Other Business	15.3	9.1	6.1
Public Admin./Defence	6.3	6.1	0.1
Education	9.4	8.2	1.3
Health	9.0	4.9	4.3
Other Services	5.8	2.8	3.3
Total	86.5	43.1	43.3

Source: CSO Quarterly National Household Survey, 2006.

It would be wrong, however, to imply that this decline of over 20,000 in the number of Irish workers in these two sectors is evidence of direct displacement. It is likely, given the strength of the Irish labour market that the decline in the number of Irish workers in these sectors reflects the movement of lower paid Irish workers into higher wage employment. Given the increase of 43,000 in the number of Irish workers in 2005, it seems plausible to suggest that the immigrants replaced, rather than displaced Irish workers while at the same time maintaining the competitiveness of the labour intensive Irish manufacturing and hospitality industries (The Irish Times, 2006b).

Rather than displacing Irish workers, immigrants have entered fast growing sectors of the Irish economy (as indicated by the aggregate EU data) relieving labour supply bottlenecks and helping sustain economic growth. In construction and in the hotels and restaurants industries foreign nationals account for 10% and 21% of the workforce respectively (CSO, 2006). Meanwhile, in every quarter since workers from the accession states were granted free access to the Irish labour market, unemployment has fallen. The Irish unemployment rate is 4.2%, the lowest in the EU and less than half the EU average of 9% (CSO, 2006).

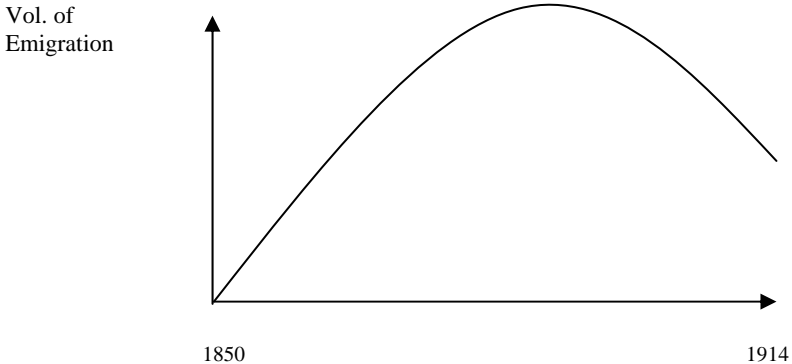
To summarise, the data contradicts the view that immigration poses a threat to the Irish economy. On the contrary the evidence indicates that immigration has strengthened the Irish labour market and provided a vital

impetus to Irish economic growth by increasing the overall level of employment, relieving skills shortages in key sectors and facilitating the movement of Irish workers into higher wage employment. At the same time, the European Commission has argued that enlargement has improved employment standards for immigrants. The conclusion that immigration is driving a race to the top does not appear unreasonable.

### **Lessons from History: European Emigration 1850-1915**

Finally, while Europeans today may be grappling with the impacts of immigration, it was emigration which persisted on the continent for much of the 19<sup>th</sup> Century. Between 1820 and 1914, 60 million Europeans emigrated to the New World (O'Rourke and Williamson, 2000). The nature, causes and consequences of this mass migration have been much examined and this brief analysis merely scratches the surface to reveal some enduring lesson for today's policymakers.

**Figure 1: The stylized pattern of European Emigration 1850-1914.**



The Figure shows the stylized pattern of European emigration. In the early stages, emigration is constrained by enormous wage gaps between Europe and the New World. As industrialization occurs in the home country, wages rise and the constraint on emigration is released. Emigration increases dramatically and this coincides with rising home wages as emigration acts as a vent for surplus population. Eventually real wage convergence between the home and destination country causes emigration to taper off (Hatton and Williamson, 1994).

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This analysis provides two clear lessons. Firstly, by increasing wages at home emigration is eventually reversed as wages levels at home become comparable to those in the destination country. History shows that emigration is a self-limiting process. Of its own accord, emigration from a poor country will eventually decline (O'Rourke, 2004). Secondly, by blocking immigration, rich countries are inhibiting the convergence of wages and living standards on poor countries. Mass migration holds out the possibility of a more efficient allocation of labour by allowing the movement of workers to areas where they are most productive. Indeed, it has been argued that freeing up world migration could double world income (O'Rourke, 2004).

The fears of EU15 countries of being swamped by Eastern European immigrants are therefore ill-founded and short-sighted. By opening up their labour markets to immigrants from the EU10 States, the EU can expedite the process of real wage convergence which ultimately dampens the demand for emigration from these countries as domestic labour market conditions improve. This in turn will help drive the process of convergence in real wages and living standards between rich and poor with major benefits for the world as a whole.

### **Conclusion**

In this Essay I have examined the contentious topic of the economic impact of immigration. I began by examining some of the reasons for the reemergence of debates on immigration policy in Ireland. The Enlargement of the EU in 2004 and Ireland's decision not to impose any restrictions on the movement of labour, in addition to the recent high profile Irish Ferries dispute all led to calls for the introduction of immigration restrictions to combat the alleged displacement of Irish workers and the threat of a so-called race to the bottom.

Section 2 surveyed the evidence for both Europe and Ireland, which presents the harmonious conclusion that immigration has been largely beneficial to the Irish economy. Immigrants were shown to have higher rates of employment and comparable levels of educational attainment to Irish workers. There is no evidence that immigration has had an adverse effect on conditions in the Irish Labour market. On the contrary, a record number of new jobs were created last year while the Irish unemployment rate remains the lowest in the EU. Where the number of Irish workers in certain sectors of the economy has declined, the overall strength of the labour market suggests that immigration has facilitated the movement of these Irish workers into higher paid sectors. Finally, the lessons from economic history which



indicate the potential economic gains from freeing up international migration were discussed.

Large-scale immigration does present challenges especially in the event of an influx of unskilled migrants which could threaten to reduce wages and conditions for Irish workers (NESC, 2006). Governments must also be awake to the dangers of illegal and exploitative work practices and ensure that unscrupulous employers are dealt with under the full rigors of the law.

Right now, however, Ireland has much to gain from the type and volume of immigration it has been receiving. Immigration is vital in order to ease labour shortages in key sectors such as construction and financial services. In an ageing Europe, proper immigration policy can form part of the solution to the problem of stimulating economic growth while at the same time catering for the needs of an older population.

Europe must not be blind to these economic realities and to its obligation to enhance the economic wellbeing of its newest citizens.

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