The Economic Effects of Youth Drain *

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[PRELIMINARY]

Highly educated young individuals are often the vectors of innovation and economic change (Lazear et al., 2014; Acemoglu et al., 2015). One concern of many rich countries is that the demographic decline is bringing a period of transition in which the cohort of young workers, managers and entrepreneurs shrinks significantly. A similar concern, mainly voiced by people in developing countries is that their young highly educated individuals leave the country, lured by better opportunities in richer economies, leaving the economy and society of origin deprived of a substantial innovative and changing potential.

In the present paper we consider a case in which a significant decline of young educated individuals took place in a relatively short amount of time. This happened in Italy because of the great recession of 2008-2012 and its aftermath. While mobility of Italian youth has been non trivial for a long time, the onset of the Great Recession, which has hit the Italian economy much harder than those of central and norther Europe, has provided to several

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young individuals strong incentives to leave the country, especially since 2010. What have been the consequences of this emigration wave? Did their departure improve the economic opportunities and wages of those who stayed? Or did it hurt economic growth? This paper uses administrative data on migration flows of Italians to other countries by municipality of origin and demographic group and administrative data on firms' histories and characteristics, to address these questions.

Estimating the causal effect of emigration on any economic outcome in the origin region is challenging. An OLS regression of local outcomes on local emigration rates would clearly produce biased estimates because of reverse causality (as people leave regions whose economy is performing poorly) and omitted variable bias (as several unobserved factors may push people to emigrate and cause poor performance of firms). Migrants leave, in part, because of local conditions (observed and unobserved) which may certainly be correlated with local economic and labor market outcomes.

To overcome these issues, we adopt an instrumental variable strategy in the spirit of Anelli and Peri (2017), using what we call "pull-driven emigration". We construct the network links of the diaspora from each local labor market in Italy in a baseline year (2000) with destination countries and then we interact such bilateral network with the economic performance of the *destination country*. In this way, as certain destinations, mainly within in the European Union, performed better than others, and better than Italy, during the double-dip recession (2008-2011) and the recovery (2012-2015), people residing in municipalities with stronger network links to those countries were more likely to emigrate, attracted by "pull" forces. This instrumental variable allows us to leverage variation of emigration rates driven by the "pull factors" of emigration, independently from any push factor, such as the economic conditions in the local labor market, which are likely to be correlated with local outcomes.

Our preliminary findings show a decline in the number of existing firms in areas with larger emigration rates during the period 2008-2015, relative to areas with small rates. The 2SLS estimates confirm that the association is robust to instrumenting emigration with only its pull-driven part. We find that this effect is driven by fewer firm births, rather than by more firm deaths, which is consistent with fewer young people starting businesses. The effects are even stronger if we focus on the emigration rate of 25-45 or of college graduates as explanatory variable. Also consistently with this interpretation, we show that the decline occurs among firms whose owners and managers are 35 years of age or younger. Finally we find that local labor markets with higher emigration rates are those with a decline in overall employment, a negative change in the share of qualified workers (i.e., managers, although the effect is not statistically significant) and lower average wages. The direct effect of a loss of highly educated workers, and the indirect job creation effect from fewer entrepreneurs can explain these results.

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