Measuring Fiscal Effects of Immigration in EU

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Extended Abstract

In this paper we identify and discuss the fiscal effect of migrants in EU where fiscal impact is defined as the net value between what migrants receive in social benefits and what they contribute in taxes in the corresponding destination countries. We start by developing a model enabling us to identify the channels by which migration may affect tax and benefit positions of natives. Using this model, we then look at a largely unexploited dataset that allows us to assess the net fiscal position of migrants.

The fiscal impacts of migrants have caught an increasing attention in the current political and public finance debate among the developed countries. Nonetheless, economists have widely estimated the impact of immigration on wages, employment, national savings, rents etc. (Card, 2009; Ottaviano and Peri, 2012), whereas less attention has been given to the effects of immigration on the government public finance. The main issue derives from the complexity of the analysis and the numerous methodologies proposed, which have produced different results and conclusions on whether migrants have positive or negative fiscal impacts in the destination country (Preston 2014). There is also a growing public concern regarding the (ab)use of the welfare system by foreigners, which has lead to cut-off welfare policies for non-natives in some European countries (Boeri, 2010). An accurate understanding of these effects is an important effort for the policy decision-making of a country allowing a proper design of immigration strategy.

Our purpose is to shed light on this debatable issue by presenting new achievable conclusions regarding the scale effects of immigration in European countries.

Our study is relevant for two reasons. At first, we contribute to the public finance literature on migration by proposing a theoretical model studying the net scale benefits/losses for a country with international migration. Secondly, we introduce a dynamic estimation approach using longitudinal micro-data (EU-SILC) for some European countries.

In the theoretical part of the paper, we build a two-country model of mass migration with public goods. To isolate the fiscal effects of migration we need to specify the economic environment of the destination and origin country. How the income tax is selected by the governments and how the wage rate is determined generate several different scenarios. We assume that the Government in order to select the income tax in each country maximizes the residents' welfare via the production of a public good financed by the tax proceeds. As for the gross wage rate, we assume that it clears the labour market before migration takes place. Nevertheless, we also assume that there might still exist some frictions, so that some unfilled vacancies might be available.

Then, several alternative scenarios are considered after migration has taken place. In the first one, it is assumed that the gross wage adjusts in each country instantaneously at its equilibrium value. In the destination country, a larger labour force is now available so that, with a wage rate at equilibrium before migration, instantaneous adjustment entails a smaller wage rate expost migration. On the contrary, in the origin country, less workers are now available, and the wage rate has to increase under instantaneous adjustment. In the second scenario, we assume that the wage rate does not adapt instantaneously but remains rigid. Two subcases must immediately be distinguished in this scenario. If at the ex-ante equilibrium wage in the destination country there exists still some frictional unfilled vacancies, these vacancies can then be filled in with migrants arriving from the origin country. On the contrary, when no unfilled vacancies still exist, the arrival of migrants necessarily creates unemployment. Then we assume that this migration creates a pressure to substitute some migrants to natives in their existing jobs, so that the pool of jobless people now includes both some natives having lost their job and some migrants. To each of these scenarios corresponds a different impact of migration on the welfare of residents and it is precisely this impact, which is analyzed in the following sections.

In the empirical part of the paper, we test our theoretical findings. Differently from the existing literature, we introduce a dynamic estimation approach using longitudinal micro-data EU-SILC for European countries.

Our results tell that the perception of migrants among native in EU cannot be explained only by the fiscal externalities associated with migration.