Economic implications of cross-border worker mobility

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Introduction

- Constraints on immigration are likely to negatively affect domestic firms' ability to operate.
  - Short to medium run
  - Long run
- Immigrants do not negatively affect, on average, the labor-market opportunities of native workers (NAS report, 2017).
- There has been a shift in the U.S. towards high-skilled migration, which has been shown to have positive impacts on innovation and productivity (Burchardi et al. 2021) and to produce large job gains (Moretti, 2010).
- Immigration has, on average, positive effects in the labor market and goods markets. Those who are negatively affected are likely to be a minority.

Short to medium run

- Immigration has played a role in addressing recent labor market shortages.
- The post-Covid period was characterized but the rise and persistence of vacancies in several sectors and jobs.
- Many factors likely contributed to the increase in vacancies: among them, the decrease in immigration.

Short to medium run (cont.)

- Peri and Zaiour (2022) estimate that, between May 2019 and the end of 2021, there were 2 million fewer working-age foreign-born individuals in the United States, relative to what their number would have been at the pre-2019 growth rate.
- The drop in immigration between 2017 and 2021 led to a 5.5 percentage point increase in the vacancy-to-unemployment (V–U) ratio (proxy for tighter labor market) (Duzhak, 2023).
- There has been a strong rebound in immigration in 2022 (Census Bureau, 2022).
- That has helped offset tight U.S. labor markets by contributing a 6 percentage point reduction in the V–U ratio (Duzhak, 2023).

Long run

- Immigration has been a major driver of population and labor force growth in the U.S. (NAS report, 2017).
    - Since the 1970s (up to 2017), net immigration has been around 35 percent, and sometimes over 40 percent of total population growth. Now, net immigration is adding more people than natural increase.
    - Since 2010 (up to 2017), almost all of the 9 million net additions to the working-age population came from first and second-generation immigrants.
- Immigrants tend to have higher fertility rates than natives, which can help offset the decrease in birth rates that has recently occurred in the United States (Kearney, 2022).
- Immigration can counteract population aging since immigrants tend to be younger than natives (NAS report, 2017).

Do immigrants force down wages?

- " ... particularly when measured over a period of 10 years or more, the impact of immigration on the overall native wage may be small and close to zero. However, estimates for subgroups span a wider range and suggest some revisions in understanding of the wage impact of immigration since the 1990s." (NAS report, 2017).
- Subgroups who might be negatively affected: other immigrants and high-school drop-outs (9% of 25+ population in the United States).
- Most of the U.S. population is either not affected or positively affected by the arrival of immigrants through the labor-market channel.

What explains unwillingness to expand immigration?

- Local fiscal effects of immigration are likely to be a key *economic* explanation for policymakers' unwillingness to expand migration.
- Local fiscal effects = The impact of immigration on provision of public goods at the local level.
- The public goods provided at the local level in the U.S. are very important: K-12 education, fire and police protection, parks and recreation, public transportation, housing for low-income individuals.

Why are local fixed effects important?

- Local fiscal effects are likely to affect a larger proportion of the U.S. population: everybody pays taxes and benefits from public goods.
- Several papers on attitudes towards immigrants show that people care a lot about these fiscal effects, even more than about the labor-market effects of immigration.
  - Voters are concerned they might pay higher taxes as a consequence of (low-skilled) immigration (Dustmann and Preston 2007, Hanson, Scheve and Slaughter 2007, Facchini and Mayda 2009).
  - They also worry they may be more constrained in terms of use of public services, when immigrants arrive (Hainmueller and Hiscox 2010).
- Fiscal effects at the local vs. federal government level: NAS (2017) report finds that fiscal effects tend to be more negative at the local level and more positive at the federal government level.
- In a recent paper, Mine Senses, Walter Steingress and I (2023) estimate the impact of immigration on these local fiscal effects.

Immigration and provision of public goods at the local level

- We estimate the causal impact of immigration on public revenues and on public expenditures that finance provision of public goods, at the local level in the United States (Mayda, Senses and Steingress, 2023).

- We investigate the effect of **overall** immigration as well as **low-skilled** and **high-skilled** immigration.

- We use detailed county-level data for the U.S. in the period 1990-2010.

Main results (Mayda, Senses and Steingress, 2023)

- We find evidence of close to **no impact** of overall immigration, on per capita provision of public goods (public expenditures), on average between 1990 and 2010.
- All the immigrants who came between 1990 and 2010 had a negative impact on per capita provision of public goods of 0.3 percent per year.
- Heterogeneity across skill levels.
  - Provision of public goods **decreases** when the share of **low-skilled** immigrants increases.
  - Provision of public goods **increases** when the share of **high-skilled** immigrants increases.
  - The effects work through the tax base and locally generated (per capita) revenues.

Main results (Mayda, Senses and Steingress, 2023) (cont.)

- Heterogeneity across counties, because some counties receive low-skilled immigrants for the most part, while other counties receive high-skilled immigrants.
- Fiscal transfers from the federal government only partially offset the local impact of immigration.

How the fiscal impact of immigration works

- When low-skilled immigrants arrive:
  - the tax base goes down (average income and house prices);
  - median property tax rates increase (not enough to offset the decrease in the local tax base);
  - per capita (property, sales and income) tax revenues decrease;
  - transfers from the federal government increase (not enough to offset the decrease in state-gov transfers and in local revenues);
  - the government decreases per capita spending on public goods.

- When high-skilled immigrants arrive:
  - the tax base goes up (average income and house prices);
  - median property tax rates decrease (not enough to offset the increase in the local tax base);
  - per capita (property, sales and income) tax revenues increase;
  - transfers from the federal government decrease (not enough to offset the increase in local revenues);
  - the government increases per capita spending on public goods.

How the fiscal impact of immigration works (cont.)

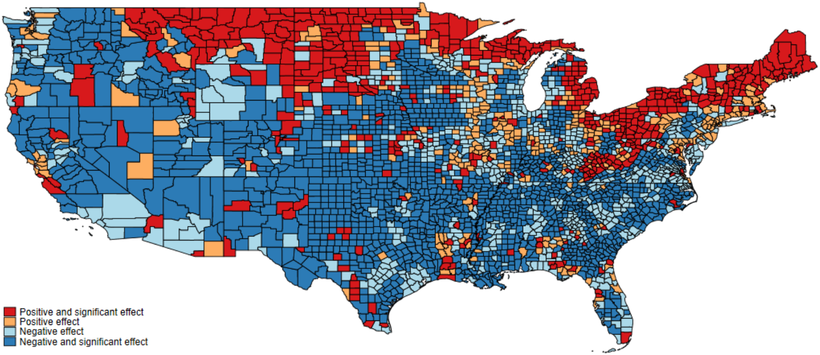
These effects are likely to be very similar when low-skilled vs. high-skilled U.S.-born individuals arrive to a locality.

The net effect of immigration in 1990-2010

- The implied net reduction in locally-provided public goods, as a consequence of immigration in 1990-2010, is less than 0.5 percent per year.
- This means that low-skilled and high-skilled immigrants compensated each other from a fiscal point of view over this period.
- This is the average effect, i.e. the effect on the "average" county.
- However, most localities in the U.S. do not look like the average, as they differ in the type of immigrants they attract.
- Hence the fiscal effect of immigration is heterogenous across space.

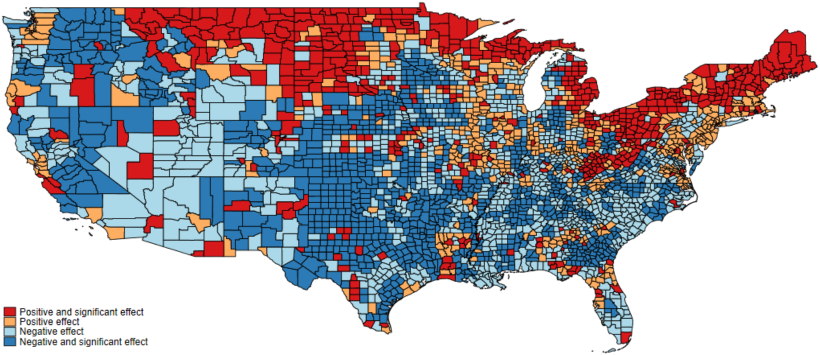
Geographic heterogeneity: per-capita revenues

Figure: Predicted effect given change in immigration, 1990 to 2010



Geographic heterogeneity: per-capita expenditures

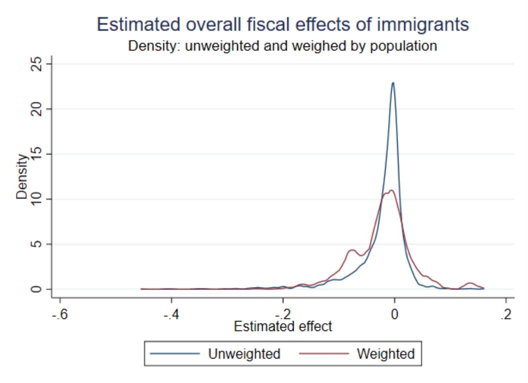
Figure: Predicted effect given change in immigration, 1990 to 2010



Specific example

- For example, between 1990 and 2010, in Presidio County, TX the share of low-skilled immigrants increased by 10 pp and that of high-skilled ones by 1 pp.
- On the contrary, in Monterey County, CA, the share of low-skilled immigrants increased by 3 pp and that of high-skilled ones by 7 pp.
- Based on our estimates, these inflows resulted in a 15 percent *reduction* in the provision of local public goods in Presidio and in a 14 percent *increase* in Monterey.

Heterogeneity of impact on per-capita expenditures



Conclusions

- Immigration can play a crucial role in addressing recent labor-market dynamics.
    - Low-skilled and high-skilled immigrants can fill key labor-market shortages in the U.S. in the short to medium run.
    - They can offset the decrease and aging of the native U.S. population in the long run.
- Despite the potential for large gains with no negative labor-market effects for most workers, there has been unwillingness to expand immigration in the U.S..

Conclusions (cont.)

- What explains this unwillingness from an economic point of view?
- Local fiscal effects
  - The impact of immigration on provision of public goods was close to zero at the local level for the average county in 1990-2010.
  - Substantial heterogeneity across space: The effects were negative for some counties (that received low-skilled immigrants) and positive for others (that received high-skilled immigrants).
  - *Redistribution from counties that gain to counties that lose are enough to compensate for the local losses.*

Thank you!

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