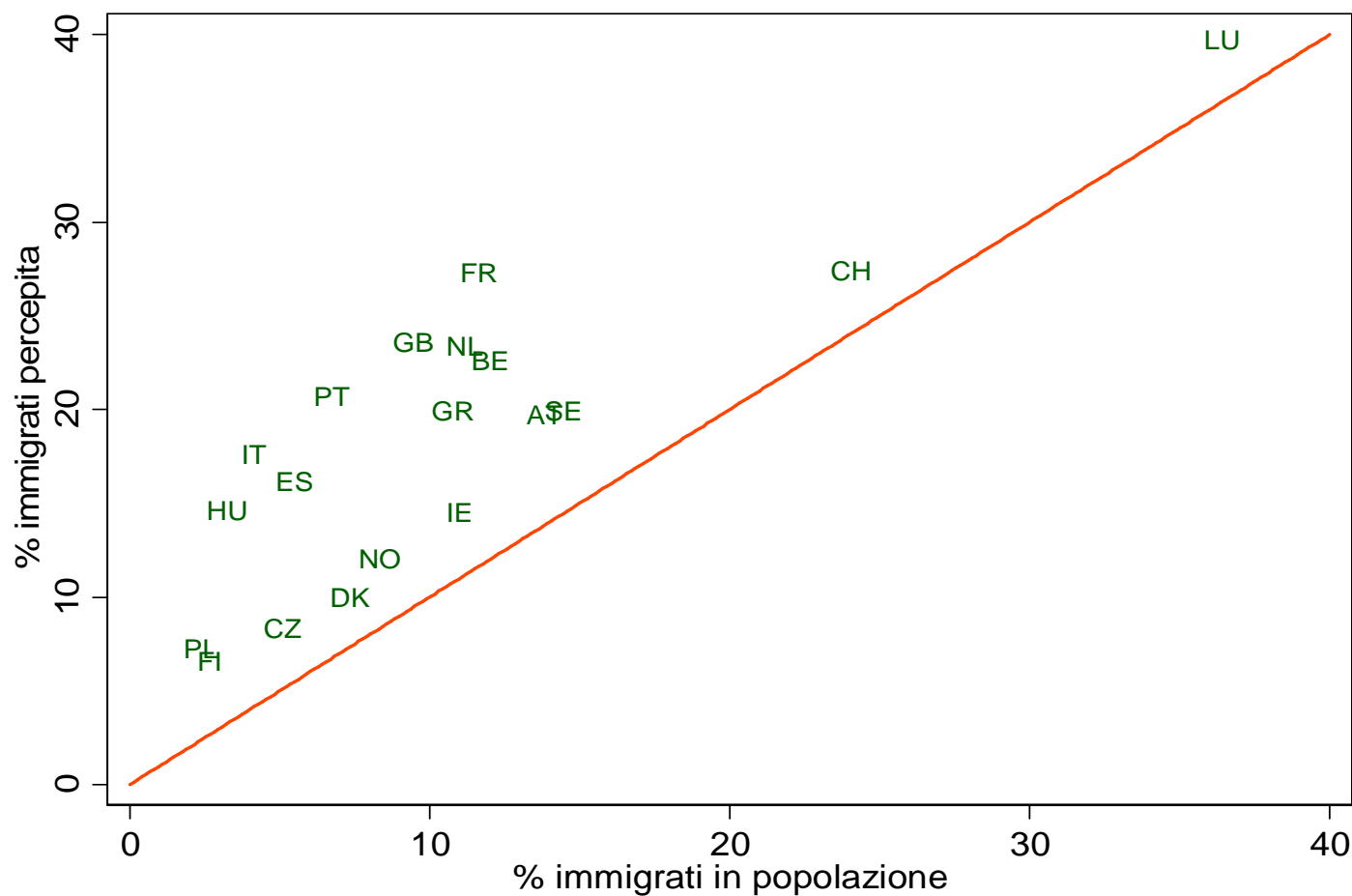


The impact of immigration on the labour market and on public finances

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Firenze, 12/6/2016

Actual and «perceived» migration



Sources: European Social Survey 2002; OECD, Database on Immigrants in OECD Countries,

Are average wages/salaries generally brought down by immigrants?

	Yes	No
Belgium	31	47
Denmark	21	62
Finland	39	34
France	47	31
Germany	38	30
Greece	81	9
Hungary	58	17
Ireland	39	41
Israel	58	20
Italy	35	43
Netherlands	22	55
Norway	12	58
Poland	46	31
Portugal	57	29
Spain	35	43
Sweden	15	50
Switzerland	43	32
United Kingdom	38	33
Total	40	35

Source: ESS, 2002

Do immigrants receive more or less than they contribute?

	<i>Receive more</i>	<i>Receive less</i>
Austria	56	18
Belgium	50	21
Denmark	45	26
Finland	45	26
France	45	19
Germany	36	26
Hungary	59	14
Ireland	49	27
Israel	32	37
Netherlands	49	22
Norway	36	32
Poland	33	28
Portugal	41	26
Slovenia	31	26
Spain	54	17
Sweden	28	41
Switzerland	37	26
United Kingdom	42	32
Total	43	25

Source: ESS, 2014

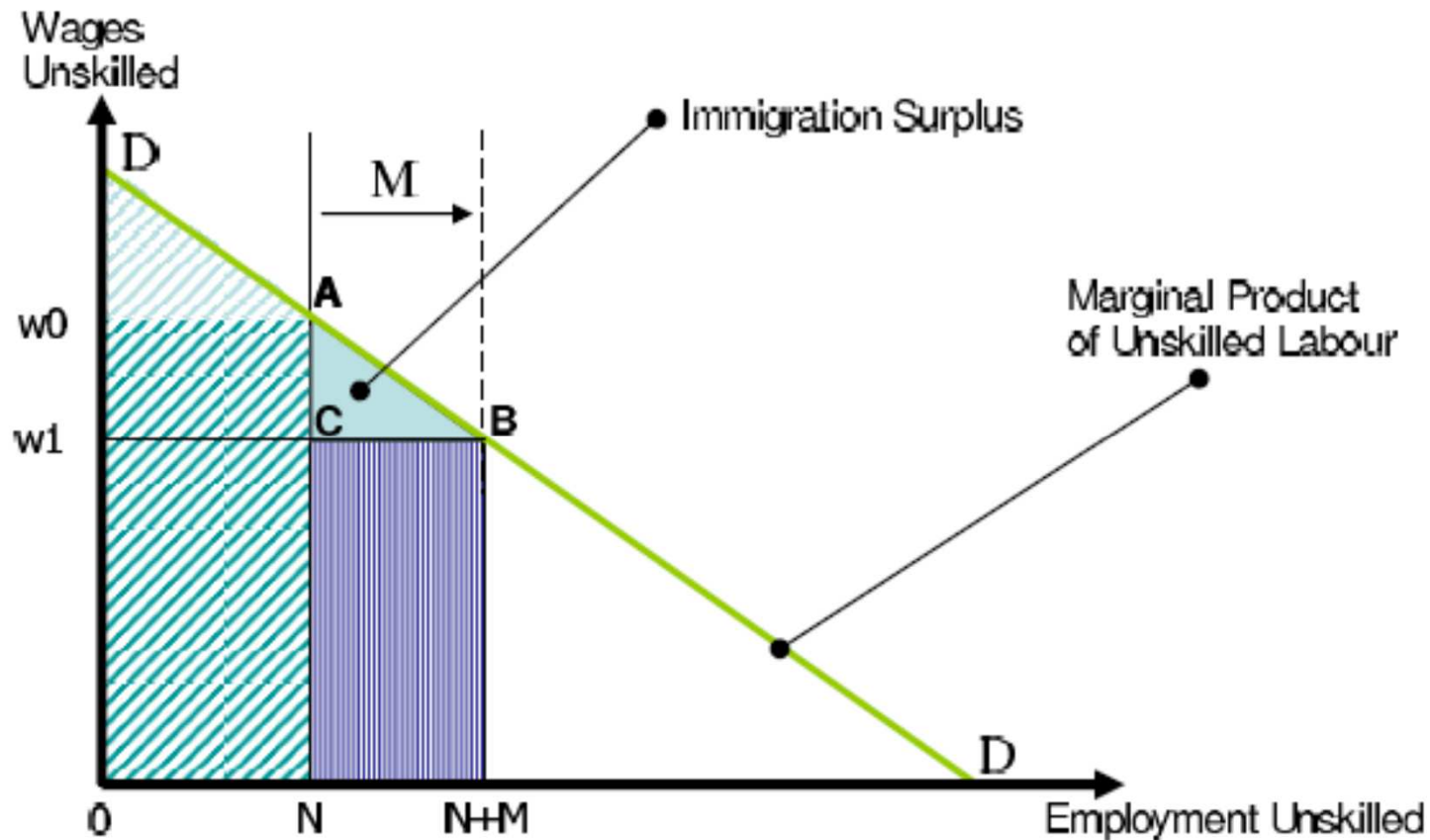
The conventional model

- Typical underlying model: One industry, produces output using capital, skilled and unskilled workers, CRTS.
- Assumption: price of capital (interest rate) is set on international market (capital supply perfectly elastic) – long run.
- Migration affects wages through its effects on skill composition
- No effects if immigrants' skill composition identical to the native one.

The conventional model

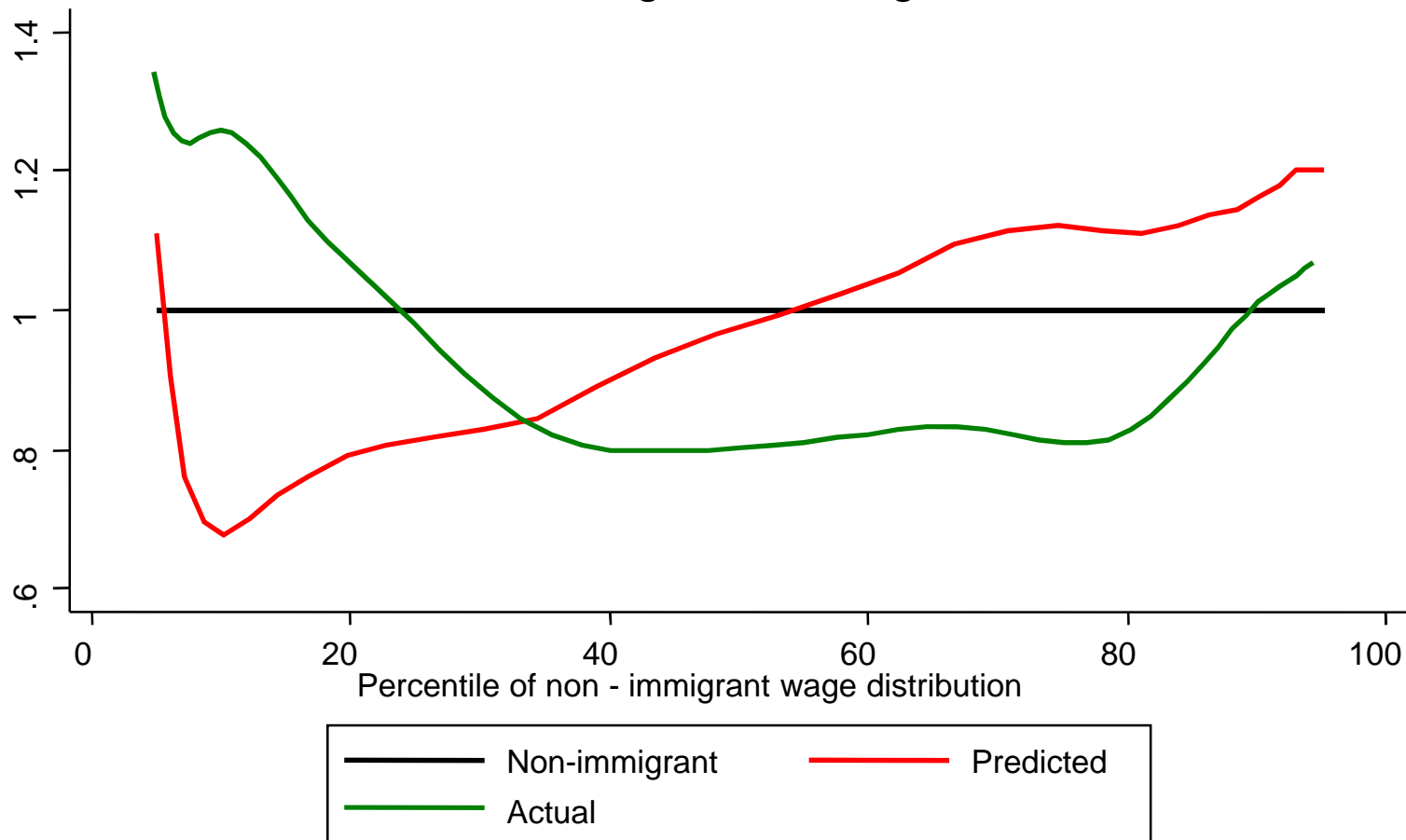
- Immigration generates a *surplus* with respect to the pre-migration situation.
- Surplus not evenly distributed among host country residents
- *Winners* and *losers* depend on relative skill composition of immigrants and natives
- A country gains the most from immigration when it admits immigrants with “scarce” skills: those skills which are rarest in the existing population
- *Important related question: how do we measure immigrants’ skills?*

Wage effects of unskilled migration



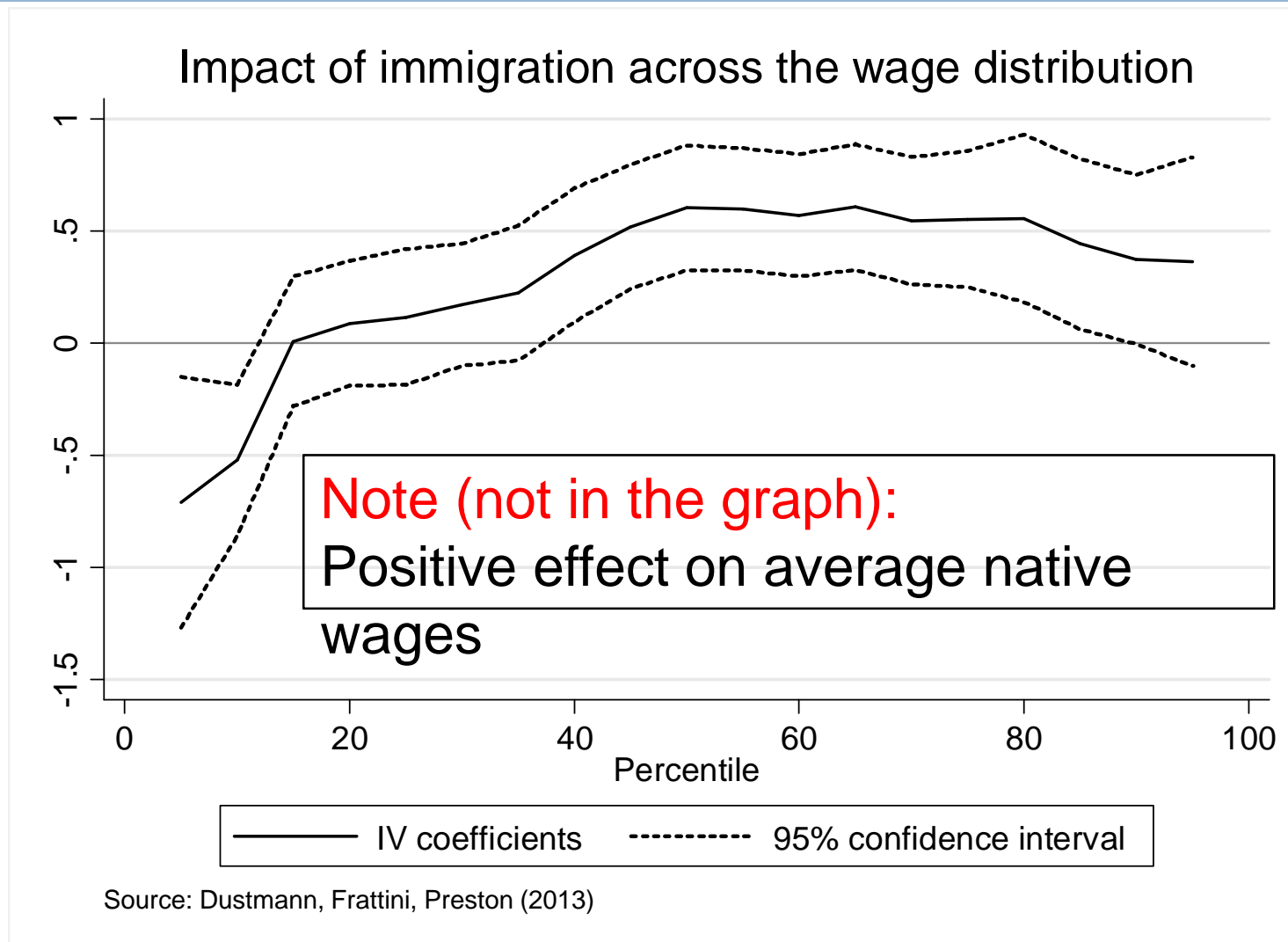
Example: immigrants' location along native wage distribution (UK, 1997-2005)

Position of recent immigrants in wage distribution



Source: LFS, various years (from Dustmann, Frattini, Preston 2013)

Example (cont'd): Immigration and native wages (UK, 1997-2005)



Conventional model may be restrictive

- In the one-sector model, changes in factor supplies can only be accommodated by changes in factor prices
- Alternative adjustment mechanisms:
 - Output mix
 - Multi-sector economies can adjust to changes in skill mix through changes in output mix (Gaston and Nelson 2000)
 - Technology
 - Changes to skill structure are accommodated through changes in technology used to produce the same goods (Lewis 2011)
- Thus, the economy may adjust without changes in wages

Conventional model may be restrictive

- Imperfect substitutability between immigrants and natives with same observable skills?
 - New immigrants compete more with previous immigrants than with natives (Manacorda et al, 2012; Ottaviano and Peri, 2012)
 - Immigrants and natives specialize in occupations for which they have a comparative advantage, e.g. manual vs language intensive tasks (Peri and Sparber 2009)
- Related issues: gains from product variety, productivity spillovers, scale effects...

Summary – labour market



- Effects of immigration on labour market depend crucially on native and immigrant skill structure
- Average native wages will increase if capital is perfectly elastic, but there are winners and losers
- Alternative adjustments mechanisms
- Most studies find modest effects on wages
- Distributional effects of immigration, though average wage gains

The Fiscal Impact of Immigration

- Fiscal consequences of immigration most important economic issue of concern in public debate when assessing pro's and con's of immigration
- Concerns about fiscal effects have larger impact on attitudes towards more liberal migration *policies* than concerns about wage impacts of immigration (Dustmann and Preston, 2007; Boeri, 2010).

The Fiscal Impact of Immigration

- Concerns about fiscal consequences of immigration are two-fold:
- On the one hand, concern that immigrants may contribute less than they take out of the public coffer
- On the other hand, concern that this is due to:
 - ▣ *Self-selection (the welfare magnet hypothesis, Borjas 1999)*
 - ▣ *Moral hazard*

Overall fiscal effects of immigration

- Overall fiscal effects of Immigration: revenues – expenditures
- Immigration expands population thus brings new sources of revenue, but also possibly different demands on Public Services
- Static vs Dynamic estimates
 - ▣ Dynamic analyses: more complete picture, but results heavily dependent on modelling assumptions (Storesletten, 2000)
 - ▣ Static analysis: more data-based, but careful with interpretation!

Many Conceptual/Measurement Issues, such as:

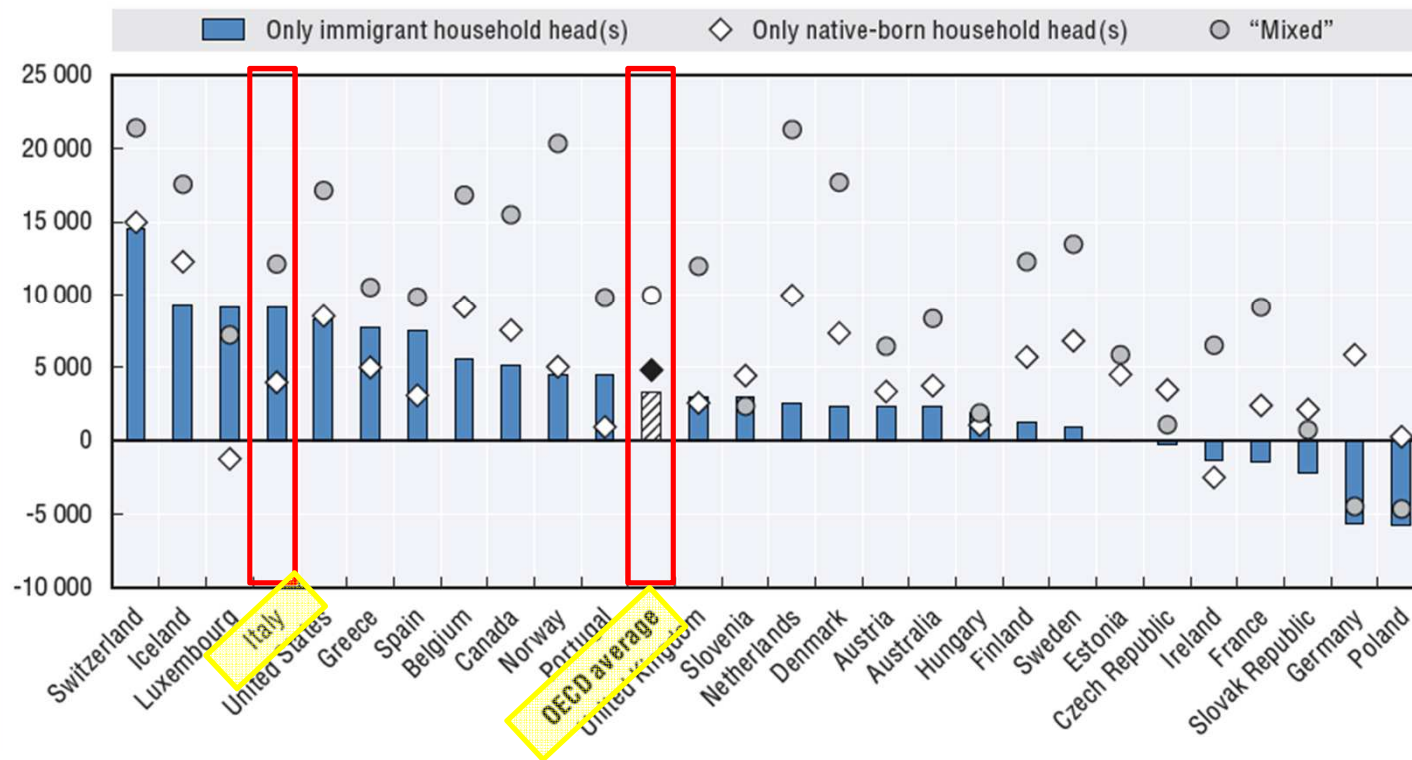
1. Second generation immigrants?
2. Average Population vs. Arrival Cohorts
 - ▣ *Estimates to be interpreted differently and not comparable*
3. Net fiscal contributions (NFC) and the deficit
 - ▣ *Absolute net contributions or Relative contributions?*
4. Cost of public goods provision
 - ▣ *“Pure” and “congestible” public goods*
5. Burden of corporate and capital taxes?
6. General equilibrium considerations?

Fiscal effects of immigration

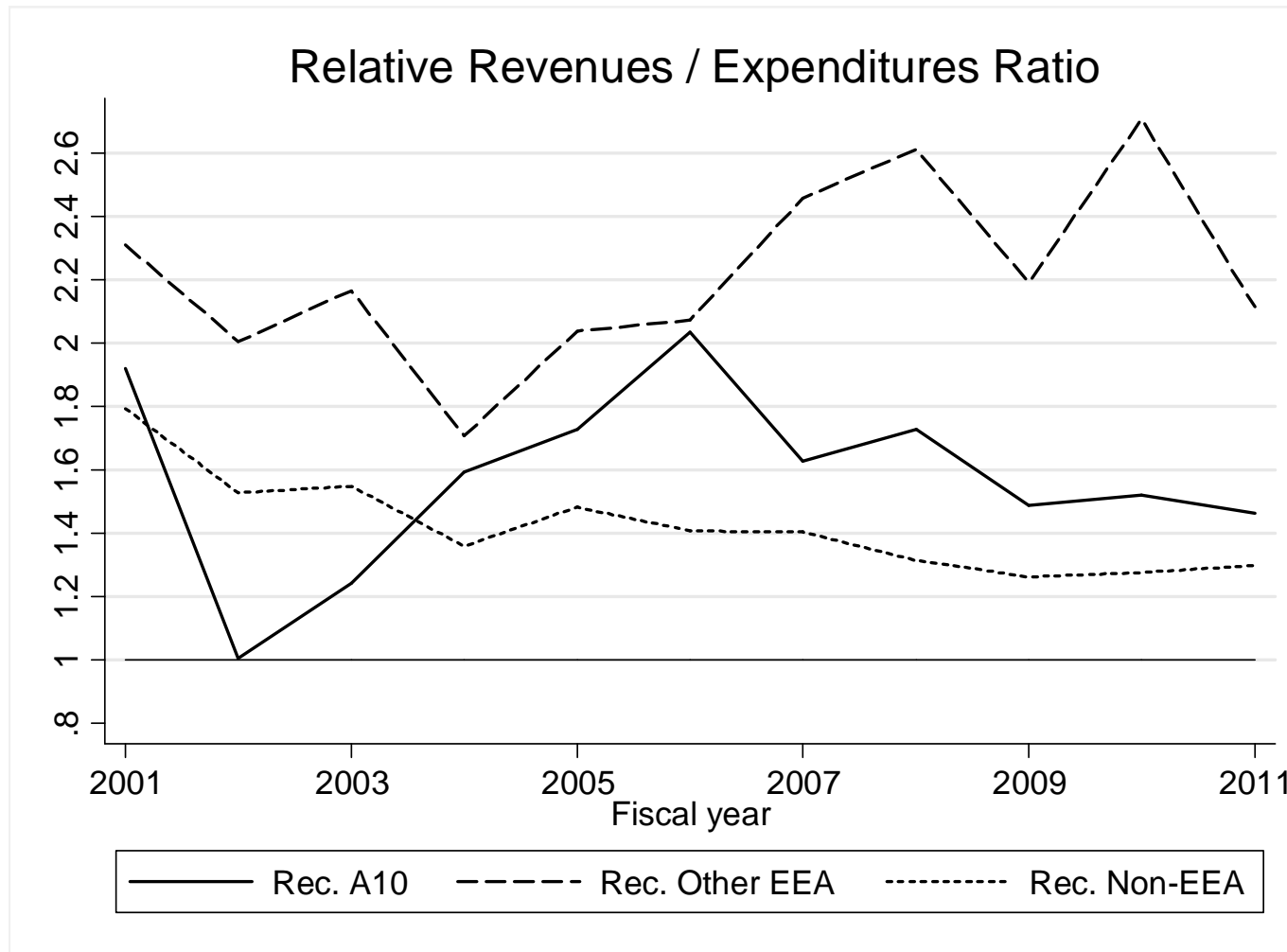
- Results are clearly country and time-specific
- Recent OECD study giving cross-country snapshot (Liebig and M...)

Figure 3.2. Average net direct fiscal contribution of households by migration status of the household head, 2007-09 average

EUR (PPP adjusted)

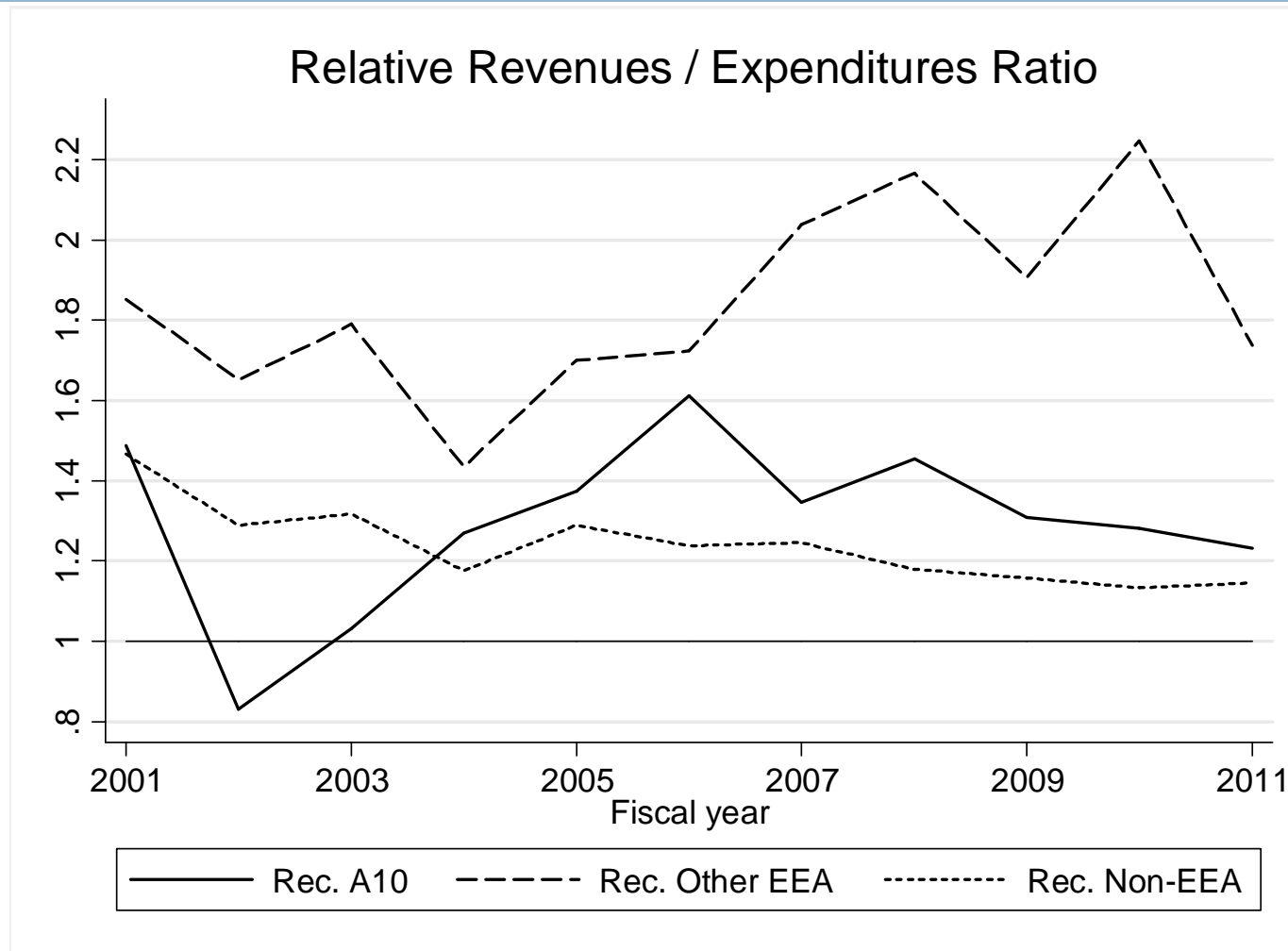


Relative fiscal position of recent immigrants - UK (*marginal cost scenario*)



Source: Dustmann and Frattini (2014)

Relative fiscal position of recent immigrants - UK (*average cost scenario*)



Source: Dustmann and Frattini (2014)

Empirical estimates on adverse selectivity

- Many studies on adverse selectivity/ welfare use (Preston, 2014):
 - ▣ Look for association across countries between less skilled migrant flows and welfare differences
 - ▣ Test natives-immigrants differences in *residual* welfare dependence within specific countries
 - ▣ Look for association across countries between skill composition or welfare dependency of migrants and welfare generosity

Empirical evidence on adverse selectivity

- For earlier years (up to early 2000s):
 - ▣ No or at most limited evidence of welfare magnet (Pedersen et al., 2008; De Giorgi and Pellizzari, 2009)
 - ▣ Mixed but moderate residual welfare dependency, cross-country heterogeneity (Bruecker et al. 2002). Some 'quantitatively moderate' evidence of welfare benefits distorting migrant composition

Empirical evidence on adverse selectivity

- For recent years, including post-enlargement migration:
 - ▣ no indication of welfare magnet (Giulietti et al. 2013)
 - ▣ though unskilled migrants over-represented in more generous countries and more likely to receive non-contributory benefits than natives in Nordic countries (Boeri 2010)
- In the UK:
 - ▣ Immigrants from A8 countries after 2004 have lower levels of benefit receipt and are less likely to live in social housing than natives (Dustmann et al. 2010)
 - ▣ Same result holds for post-2000 immigrant from all sources (Dustmann and Frattini, 2014)

Summary – fiscal effects



- Effects are country-specific, but generally small
- Beware of short-term analysis
- Most migrations are driven by work opportunities rather than welfare generosity
- No evidence of (theoretically inviting) welfare magnet
- Some evidence of selection into welfare in some (especially Nordic) countries (Bratsberg et al. 2014)

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