

**Tim Phillips [00:00:00]:**

Today on VoxTalks Economics, immigration and public services.

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**[Voiceover] [00:00:25]:**

The legal immigration system that we have in place right now does not work for America, and it really does not work for the 21st Century...

Skills based system that respects and treats people for who they are. It's a system that is more in keeping with American values...

We're full. Our system is full. Our country is full. Can't come in. Our country is full...

**Tim Phillips [00:00:38]:**

It seems like politicians across North America, Europe too rarely stop talking about immigration these days. Well, that's partly because their constituents are talking about it too. You turn on a TV, you open Facebook, and you will find people fretting that their local schools are overcrowded, that hospitals have long waiting lists, or buses are overwhelmed and they'll have to pay higher taxes as a result of immigration into their area. Well, are their fears justified? Anna Maria Mayda from Georgetown and Mine Senses from Johns Hopkins are two of the authors of a study of the impact of immigration on public goods in the US. They join me now. Anna Maria, welcome.

**Anna Maria Mayda [00:01:36]:**

Thank you, Tim.

**Tim Phillips [00:01:37]:**

And Mina, good to have you on as well.

**Mine Senses [00:01:39]:**

Thank you.

**Tim Phillips [00:01:40]:**

Anna Maria the impact of immigration on wages and public goods, it's been a hot button issue in elections, for well, I think probably for about a decade now in the US. There is a big election coming up. Is it going to be a campaign issue in 2024?

**Anna Maria Mayda [00:01:55]:**

Definitely. So before I talk about this, let me actually take just 1 second to thank our third coauthor, Walter Steingres for participating in this project as well, but could not be here today. So let me go back to your question and just to give you a sense about where American respondents are in terms of issues that they're thinking about. March 2023 Gallop poll was done and immigration was among the top four most important problems facing the United States, according to respondents. And what I found very interesting is that the percentage of respondents would think immigration is the most important problem is more or less the same as those who think inflation and the economy in general is the most important problem. So it looks like migration is on people's mind, and that was the case in some recent elections as well. Definitely in the 2016 presidential election and in 2020, but also in Europe, in Sweden, in Italy, more recent in Italy, an antiimmigrant candidate won. So definitely I would say that immigration is here to stay as a political issue.

**Tim Phillips [00:03:11]:**

And when labor economists talk about this, though, they tend to stress the labor market impacts, don't they? As whether wages go up and down as a result of immigration, whether the economy as a whole grows. What, from their research, do we know about these topics?

**Anna Maria Mayda [00:03:29]:**

This is a very controversial issue in the migration literature, so I thought I would start with a quote from a very important report by the National Academy of Science in the United States in 2017. What this report finds and writes in bold, is that particularly when measured over a period of ten years or more, and here I'm quoting word by word report, 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. So basically, in simpler terms, what the report and the migration literature in general finds is that immigrants do not negatively affect, on average, the market opportunities of native workers. But there are subgroups of workers who might be negatively affected, and those are mainly immigrants already living in the US. Who tend to be closer substitutes in the labor market of newly arrived immigrants and also high school dropouts. But now let me pause a second and let me circle back to politics from a political point of view, immigrants already living in the United States either do not have a political voice because they're not naturalized, or they are unlikely to be a strong political voice against immigration. So they definitely don't explain this opposition to immigration that we see in public opinion votes. High school dropouts can explain this content about immigration, but they are a minority. In 2023, they were only 9% of 25 plus

population in the United States. So basically what I want to point out here is that these labor market effects on workers are not likely to explain the opposition to immigration. Definitely in the United States, most US workers and most workers in general either are not affected by migration or they are positively affected. Those who are negatively affected are likely to be a very small minority.

**Tim Phillips [00:05:45]:**

You looked at another side of this debate, the impact on public goods, as I said in my introduction, like educational, health or transport at a local level. Now, why might there in theory be a negative impact on the provision of these public goods?

**Mine Senses [00:06:02]:**

So in fact, the effect could be positive or negative, right? So if the immigrants differ from natives in terms of their skills when they arrive, that's going to result in a change in average per capita income. So that could be due to purely compositional effects because their income is different than the average. Or it could be due to the effects that Anna Maria talked about in terms of wages or potentially effect on the housing prices, right? So that change in average income is going to have an effect on the local tax base. So it's going to affect the tax revenues from sales taxes, income taxes, property taxes, et cetera. The direction and the magnitude of this change is it going to be positive, negative, how big? That's going to depend on the type of immigrants that come right. So specifically the direct impact on per capita revenues, locally generated revenues is going to be probably positive for high skilled immigrants because they tend to have higher than average income and negative for low skilled immigrants. But it's also going to depend on the response of the government itself. So the local government may respond to change in the tax base by adjusting tax rates or adjusting per capita spending or adjusting the type of services they decide to fund. It's also going to depend on what the federal and the state government does. So they might decide to fully or partially offset the change in locally raised revenues through intergovernmental transfers. The specific response of the various governments are going to be shaped by things like the balanced budget requirement, the political economy concerns and institutional factors. So for example, in practice most of these local governments have a balanced budget requirement. So if the total revenues change and the total revenues are locally generated revenues plus transfers, that's going to have a direct impact on the public expenditures and provision of locally provided public goods.

**Tim Phillips [00:07:50]:**

And to be clear Mina, then if the majority of immigrants were high skilled then at least on this side of the debate about whether immigration is a good thing, it would have a positive impact at the local level.

**Mine Senses [00:08:06]:**

That's totally true. The local impact is going to very much depend on the composition of the immigrants. But to be clear, and we can talk about this later in more detail, federal government and the state government have a lot of room to smooth this out across different localities. These are all relative effects.

**Tim Phillips [00:08:22]:**

These fears however, that immigration leads to a decline in the quality of public services they're often dismissed as anecdotal. There is less formal research by economists about this. Should they have been paying more attention to quantifying this aspect of immigration so we can find out whether it's anecdotal or not?

**Mine Senses [00:08:45]:**

Yes, I very very strongly think so. We document a lot of potential aggregate gains from immigration. There's a large literature on that.

**Voiceover [00:08:55]:**

There's a huge amount of tension here tonight with the migrant question...

**Mine Senses [00:08:59]:**

But we also know that there's growing public apprehension about immigration in a lot of developed countries. The recent Trump election and all the debates surrounding Brexit...

**Voiceover [00:09:09]:**

... migration is obviously set to be the most contested issue in the country.

**Mine Senses [00:09:14]:**

Elections in Sweden, Italy, the antiimmigrant candidates won a big vote share. It is very easy to blame those who look different than the population and I'm, I'm quite sure some of it is due to that. But when you actually ask voters why they're concerned about immigration, they also mentioned things like wages and employment of native workers and they mentioned the welfare state equally important as the labor market affects and the welfare state specifically, it's the quantity and quality of the public goods and voters tend to worry about things, you mentioned also overcrowding of schools, hospitals and public transportation as well as the consequences on their tax burden. We believe it's our job as economists to take these particular concerns seriously and evaluate whether they're empirically valid and if so, under what circumstances they're valid. Right? So a lot of the nuances get lost in the public discourse. There's lots of

variation in the effects and it's our job to document what these are like. It could be different in terms of the type of immigrants that arrive. It could be different in terms of the properties of the locality that they show up in. It could be the effect could be very different over different durations. The first generation versus second generation immigrants could have a very different effect. It could depend on the different institutions governing public finances. Right? So we think quantifying these distributional consequences along with the well documented aggregate benefits are very, very important because it would help us design policies that address some of these possibly adverse consequences of immigration without resorting to radical and we think very harmful policies such as further restricting immigration.

**Tim Phillips [00:10:52]:**

Building walls, for example. As we record this for the last two days in the U. K. this debate has dominated the news because of a release of immigration figures. And I have to say it's not a debate that I have found particularly nuanced. So your research is extremely welcome. Let's see what it says in a moment.

**[Voiceover] [00:11:21]:**

In November 2018, we interviewed Lance Pritchett about his research into migration. He argues that the rate of immigration from poor to rich countries is actually seven times too low. Listen to the episode titled: The World Needs More Migrants.

**Tim Phillips [00:11:43]:**

So you are looking for a causal relationship from immigration to the provision of local public goods in the US. Clearly, because we're thinking about this locally it's important that your data is local as well. How granular can you get? The other question occurred to me is how do you classify ex ante? What type of immigration is happening?

**Mine Senses [00:12:07]:**

So we define a locality as a county but within a county in the US there are many smaller local governments like the townships and special districts and independent school districts, et cetera. So we aggregate all of them up to the county and we have very detailed information about what type of revenues these local governments collect the sales, property, income taxes, transfers from different state and federal governments, et cetera. As well as different spending items like education, public infrastructure, sanitation, et cetera. And then the immigrants, we're going to define them as foreign born and we're going to classify those with at least college as high skilled and less than college as relatively low skilled.

**Tim Phillips [00:12:47]:**

Now, also, as people come to the US. they can choose where they live within reason. Does this create a problem for your analysis? Because I would choose to live in a place which had high level of public services.

**Anna Maria Mayda [00:13:01]:**

Let me take this question. You're totally right. Immigrants are smart. They want to go to locations where things go well, where the economy is doing well, where potentially local governments are providing lots of goods, public goods. So you're right. This sorting of immigrants across locations within the United States is a potential issue in our analysis. And in economics we use the term endogeneity to address it. So we do need to address it in the empirical analysis and we do so in a pretty standard way in the literature. Consider that immigrants go to a given location for two different reasons. The first one is the one that we mentioned for economic reasons. But there is a second reason why immigrants go to a given location and it is because they have family and friends there or because there are connationals from the same country of origin. And so there are amenities in that location that immigrants like to consume. And so it is the second source of variation that we exploit in the data. And this second source of variation is more likely to be exogenous. It's more likely to be orthogonal independent of economic variation. Now, we also run a range of robustness checks in our analysis to check whether indeed this variation is exogenous and our results are quite strong and robust.

**Tim Phillips [00:14:36]:**

Let's get into the results so you can separate the impacts of the low skilled and high skilled immigrants. What are those impacts?

**Mine Senses [00:14:45]:**

So we find that localities that on average receive a higher share of high skilled immigrants experience a relative improvement in their local public finances. And the opposite is true for localities that receive relatively more unskilled immigrants. So to give some numbers on that so between 1990 and 2010, the share of low skilled immigrants has increased by about three percentage points in the US. So that results in a relative reduction in per capita owned revenues by about 8.4% and in per capita expenditures about 5.6%. So those are big percentage changes relatively. But in terms of dollar values, they're pretty small. It's like \$125 per person. And during this period, the share of high skilled immigrants has increased by about 1.8 percentage points and that corresponds to about 6% increase in both per capita owned revenues and on expenditures. So if you aggregate that up to the total effect of immigrants, that is a pretty well identified zero. Like it's a 0.5% point decrease.

**Tim Phillips [00:15:51]:**

But I would imagine that there would be a pretty big difference between places that got a lot of

high skilled immigrants, for example, Silicon Valley, for example, and other counties where it was predominantly low skilled immigrants. How big is that spread?

**Anna Maria Mayda [00:16:07]:**

So you're right, there is quite a lot of variation in terms of the effects. Let me give you an example. To give you a sense of how different these effects can be. We consider two different counties, Presidio County, Texas and Monterey County, in California, between 1990 and 2010. In Presidio County, Texas, the share of low skilled immigrants increased by ten percentage points, and that of high skilled once by one percentage points. And instead in Monterey County, the share of low skilled immigrants increased by three percentage points, and that of high skilled ones by seven percentage points. So basically, in Presidio County, there was predominantly low skilled migration. In Monterey County, there was predominantly high skill migration. Well, based on our estimates, these inflows resulted in a 15% reduction in per capita public spending on local public goods in Presidio County, Texas, and in a 14% increase in Monterey County.

**Tim Phillips [00:17:03]:**

Now, what's the mechanism that's happening here? Is this all about taxation? Is it about a higher demand for public services from low skilled immigrants? What's going on?

**Mine Senses [00:17:14]:**

It's a combination of the two. This is supply and demand both working together. So part of it is the balanced budget requirement, right? So if there's a relative decline in revenues in some areas compared to other areas, that's going to be almost one to one, going to be reflected in expenditures because of these balanced budget requirements. And that's going to have implications on the quantity and quality of locally provided public goods. But also, it could be the case that, for example, arrival of immigrants changes the price of certain services, right? So if these immigrants work as, I don't know, nurses and teachers and bus drivers, that could affect the cost of providing public education, for example. Also, services differ a lot in the US. In terms of how much they rely on transfers from the federal government and state government. For example, education gets a lot of federal transfers, so some services might be more immune to these local fluctuations than others. So that's the supply side of the story. And as you correctly pointed out, demand could also be different, right? So if a lot of less skilled immigrants are coming in and they're on average poorer, that might increase demand for welfare services. And that might also change preferences of the natives in terms of how much they're willing to fund these services if immigrants are using it proportionately more than natives, for example. Or it could be the case that if immigrants have fewer cars, it might increase demand for public transportation, et cetera, right? So the demand, as well as the native's willingness to fund some of these things could be affected by the arrival of immigrants.

**Tim Phillips [00:18:51]:**

And if I understand correctly, in the US, there is quite a lot of local control about how public goods are prioritized. Does immigration change which public goods are funded?

**Anna Maria Mayda [00:19:05]:**

It definitely does. So, first of all, you're right that in the United States, local governments have quite a lot of autonomy because they raise most of their revenues locally. Transfers from other levels of government tend to be less than half of the total revenues. And so since local governments raise most of their revenues locally. They can also decide on how to spend money. And what we find is that as Mina mentioned, when low skilled migrants arrive per capita public expenditures tend to go down. Overall when high skilled migrants arrive per capita public expenditures tend to go up. And this is generally true across different items of spending. But we do find a couple of different results. So for example, when high skilled immigrants arrive to a locality that leads to a reduction in law and order spending, in police spending. And what we find is that this result is actually related to another finding in our analysis which is that when I skilled migrants arrive there is a decrease in violent and property crime rates. So this is the first result which is a bit different from other items of spending. Let me just mention another very important result which is the fact that we find that there is no impact when both low skilled and high skilled migrants arrive on per capita spending, on education, which is the largest expenditure item. And since it's such an important expenditure item, we dig a little bit deeper into this result. We check the robustness of this result by considering both per capita and per pupil spending and we find again evidence of no impact. And we also look at education outcomes. So for example student to teacher ratios at the local level and again we find no impact when low skilled or high skilled migrants arrive on student to teacher ratios. In terms of an explanation of this result it is a little bit surprising because we do find that there is a decline for example in per capita on revenues when low skill migrants arrive. And we also find that transfers to education are not enough to compensate for this decline in per capita on revenues. So the way we explain this result is that there is a reallocation of resources across expenditure items towards education.

**Tim Phillips [00:21:40]:**

Now there's some results here which are quite surprising. There's some results here that I don't know, some people might have expected. But overall there's a big question based on your research. Are the people that worry about this, are the local politicians that are going to maybe make this into an election issue, are their opinions based in reality or is it just a perception?

**Anna Maria Mayda [00:22:06]:**

What our paper finds is first that local fiscal impacts are very uneven across different localities in the United States. So some places are negatively affected relative to counties that don't receive migration and other places are positively affected. And also we find that the impact of low skilled and high skilled migrants is quite different and perceptions by public opinion do get these points.



So perceptions are correct that these effects are very uneven and very different between low skilled and high skilled migrants. So you find that in public opinion data that people perceive these differences. Now though what public opinion doesn't capture. And this is also because it is harder honestly for somebody who's not working on these issues to follow, is that even only thinking about the fiscal impact of migration, there are likely to be other effects which in economics we call general equilibrium effects that are not captured by the type of analysis that we carry out. So basically in the type of estimation that we do, which is panel data estimation, what you're capturing is relative effects. Effects relative to counties that don't receive migration. But even counties that don't receive migration are likely to be affected from a fiscal point of view through general equilibrium effects. So let me give you an example. When migrants arrive they don't only impact local governments, but they also impact the federal government in terms of public finances. And so they will be part of these general equilibrium effects. And these effects at the federal government level tend to be much more positive than at the local level. So our analysis is not able to capture these general equilibrium effects. And also public opinion definitely has a harder time to realize that to the extent that the federal government for example, is positively affected that will trickle down also to local governments. But what public opinion gets right is that these effects are very uneven across localities and very different between low skilled and high skilled migrants.

**Tim Phillips [00:24:23]:**

So I'm going to finish off with a question that might be very naive from where you're sitting. That is, you said earlier on that the average was really no impact at all. So couldn't the federal government just defuse this issue with some clever redistribution? Would that be possible?

**Anna Maria Mayda [00:24:45]:**

You're right, it can be possible. Actually, basically how this unevenness of fiscal effects can be addressed is in two different ways. First of all, as Mina mentioned, what we find is that on average the effect is very close to zero. So if all counties that receive migration look the same then for each of them the effect would be less than 0.5%. What that means is that if the federal government carries out a system of redistribution from counties that gain to counties that lose among the counties that receive migrants, that would be enough to make basically all counties that receive migrants as well off as counties that don't receive migrants. Now on top of that, as we said, actually the National Academy of Science report finds that the fiscal effects at the federal government level tend to be more positive than at the local level. So also those more positive effects at the federal government level can be redistributed in part towards local levels.

**Tim Phillips [00:25:54]:**

But is that going to happen?

**Mine Senses [00:25:56]:**

As you said earlier, this type of effect of immigration on welfare state has not been studied much in the literature and this is one of the very first papers to do so and we have so much work to do on this, right? So there is what the state government can do what the federal government can do different institutions governing public finances. Some states have school equalization laws that says you have to spend exactly the same amount independent of the local revenue you generate. Some states don't. So role of institutions like that in providing a buffer, these are extremely important questions that we really need to study before we can say clearly, is this right? Is this wrong with the public thinks? But the thing you highlight about the federal government I think is very important because this is already an institution that exists in the US. and it could be maybe utilized more to smooth out some of these local shocks and in some cases the automatic transfers immediately kick in, right? Like if a school has more students, it gets more funding from the federal government automatically. Some of it is automatic, some of it is not. So it's worth thinking about how we can perhaps modify existing institutions to ease some of these concerns of the public.

**Tim Phillips [00:27:05]:**

Well, these are very important questions and I think your contribution is going to prove very valuable if your voice is heard. So I really hope it is over the next 12 18 months. Anna Maria, Mina. Thank you very much.

**Anna Maria Mayda [00:27:19]:**

Thank you, Tim.

**Mine Senses [00:27:21]:**

Thank you.

**Tim Phillips [00:27:30]:**

The paper is called Immigration and Provision of Public Goods: Evidence at the local level in the US. And the authors are Anna Maria Mayda, Mine Senses and Walter Steingress. It is discussion paper 18054 at CEPR.

**[Voiceover] [00:27:49]:**

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