Topics in Political Economy

Nicola Mastrorocco

Trinity College Dublin - Department of Economics

Wednesday 12th February 2019

Public Debate

- Individuals migrate due to push factors, such as war

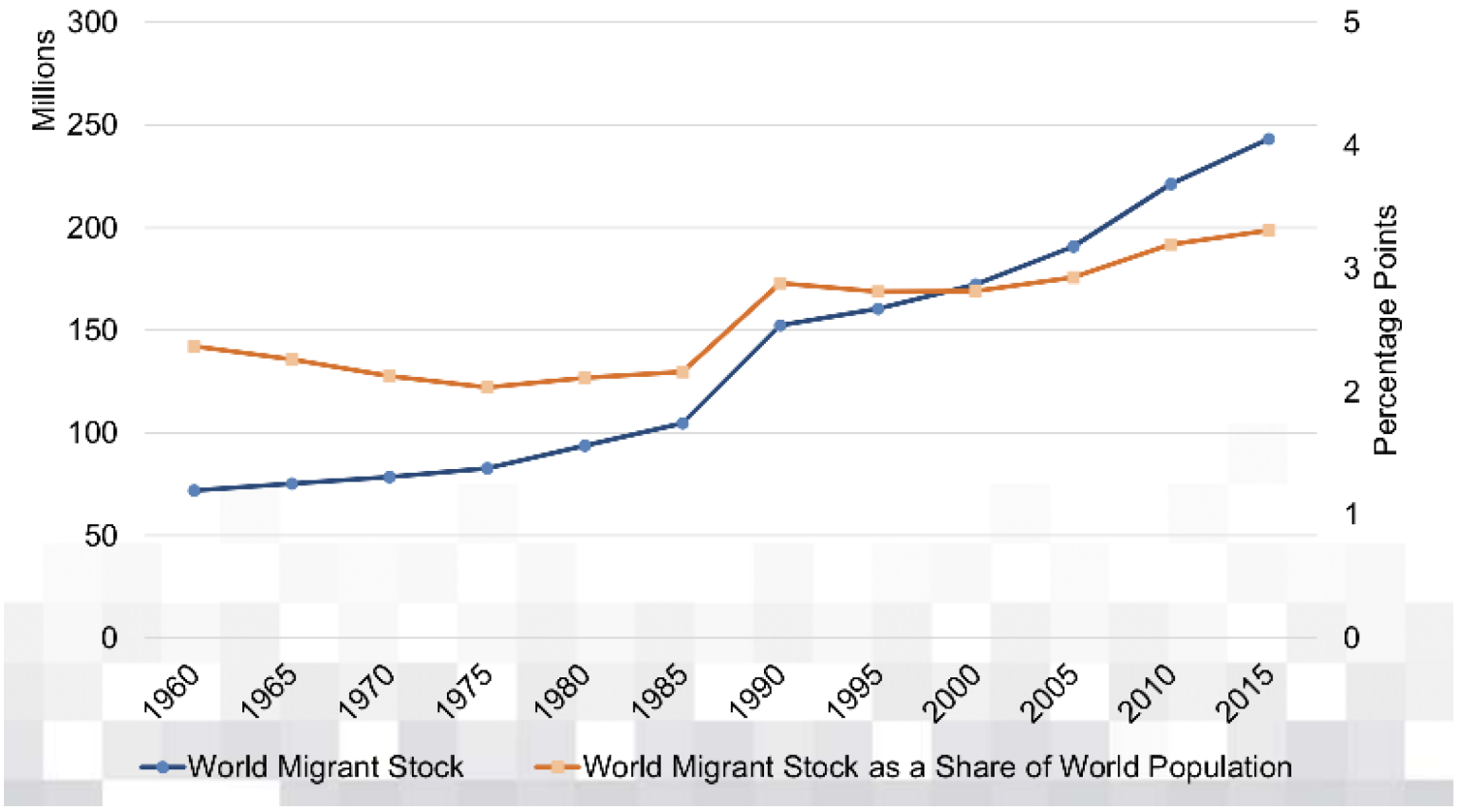
  "S*ince the summer of 2014, Europe has been struck with its worst refugee crisis since the second world war. Millions have fled their war- ravaged homelands in search of safety", The Economist (2016).*

- There is also the pull factor of economic incentives

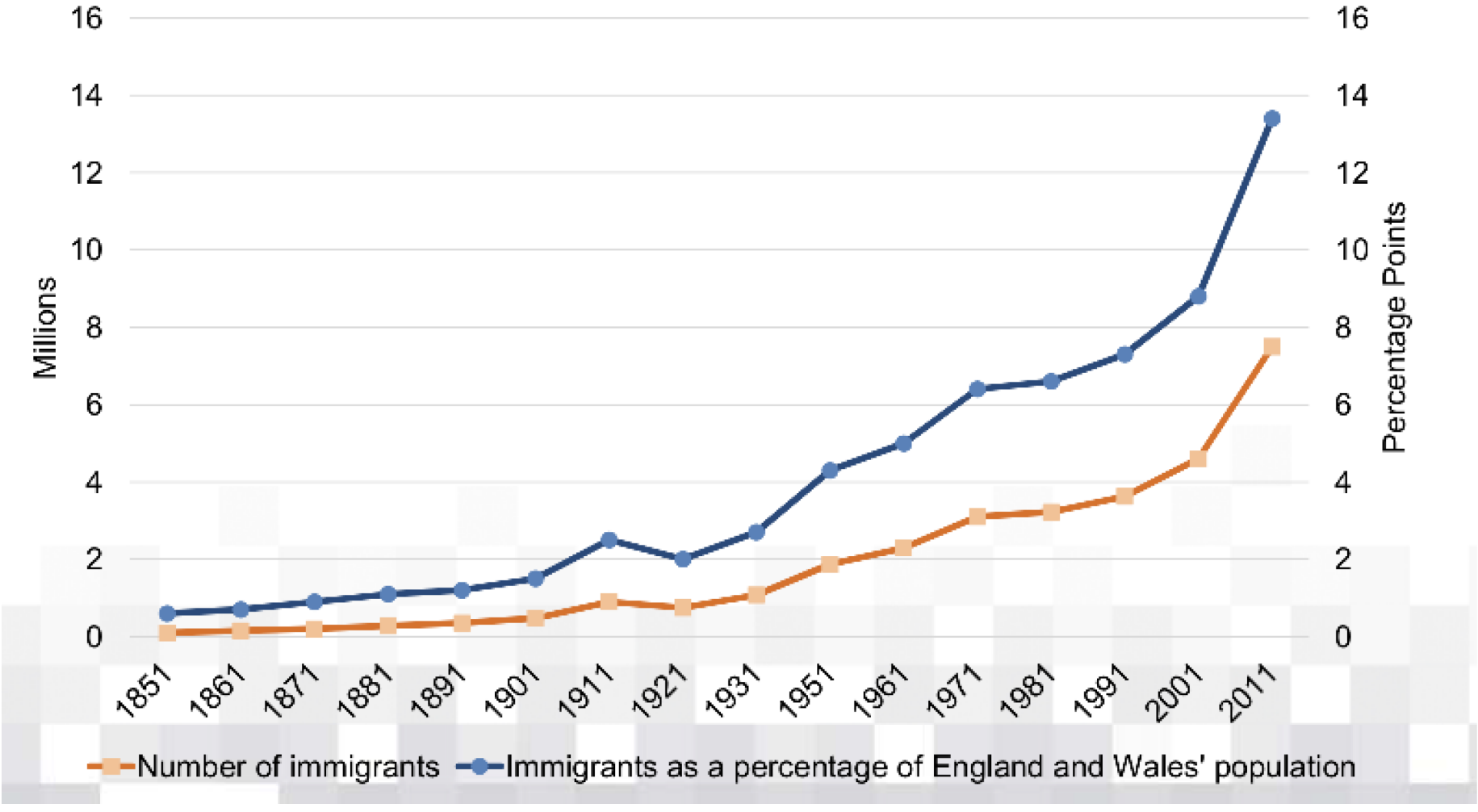
  "It's an article of faith among low tax advocates that income tax increases aimed at the rich simply drive them away", The New York Times (2013).

- But, the role of taxes in migration seems small
  "Neither tax increases nor tax cuts on the rich have affected their migration rates", The New York Times (2013).

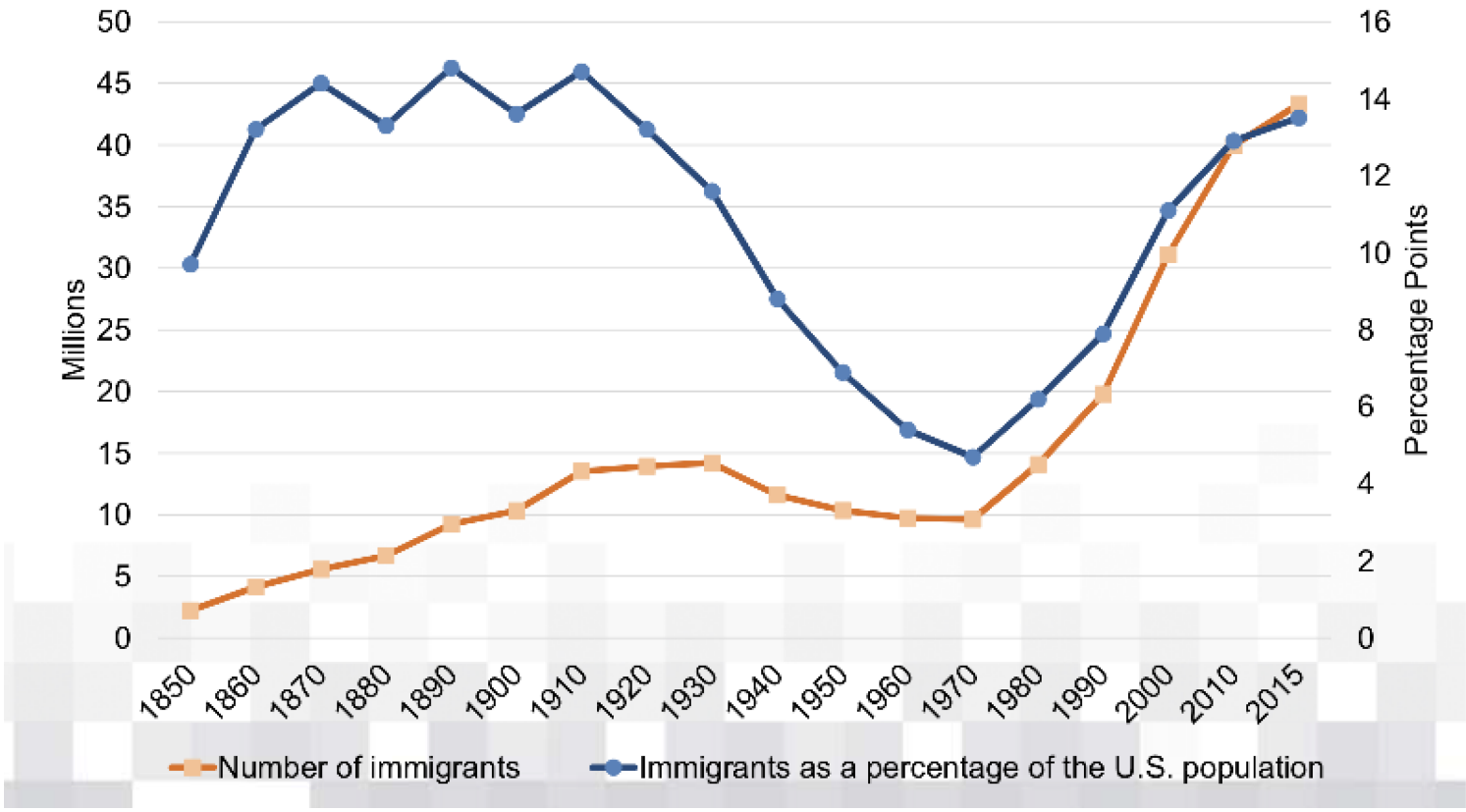
World Migrant Stock and Share



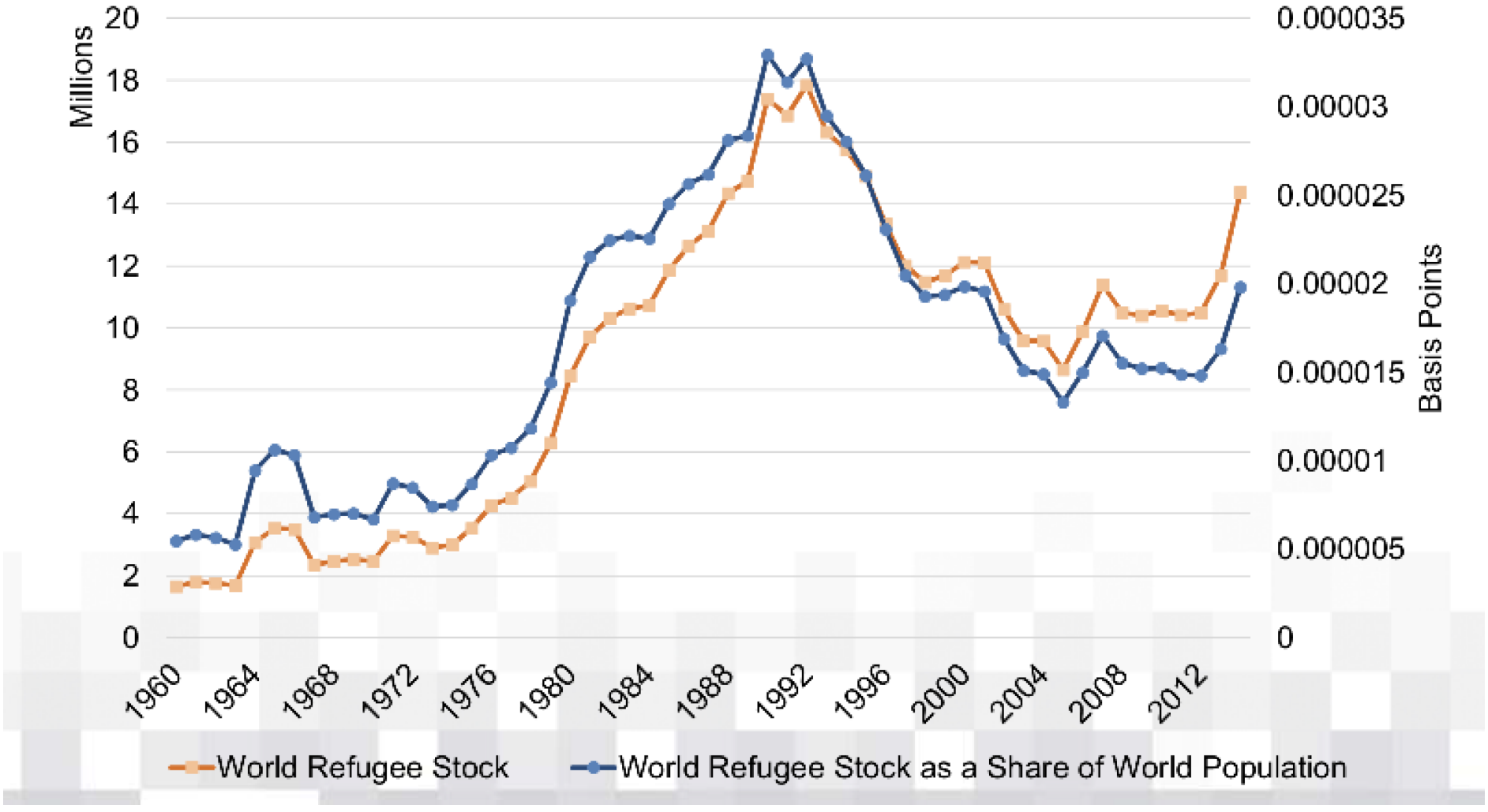
England and Wales Migrant Stock



US Migrant Stock



World Refugee Stock



Why Do People Migrate?

Individuals' Location Choice

- Individuals form **preferences** U over living in each particular **location** j
- These preferences depend on various economic and non-economic factors:
  - **After-tax wage** in location $j(w_i)$
  - **Amenities** available in location j (weather, local public goods, etc. A_j
  - **Idiosyncratic preferences f**or particular location (proximity to family, culture, etc. (μ_{ij})
  - Individuals locate in location that give them the highest utility $u_j > U_k$ for all k

Government's Role

- The government controls amenities and the tax rate
- The **after-tax** wage has two components:

$$w_j = \omega(1 - \tau_j)$$

- **The net-of-tax rate** $(1 - \tau_j)$ - determined by the government
- The **wage rate** (ω_j) – determined by the market
- Because ω_j is determined by **demand and supply**, it is affected by the government's choice of τ_j

Identifying Motives of Individuals' Migration Choices

-
- Isolate the role of the different components (net-of- tax wage, amenities, idiosyncratic tastes / shocks) in migration patterns
- **Difficulty**:
  - **Data on migration** at individual level is scant
  - **Identification** is complicated
    - Need to move along supply curve
    - Shock to one component, keeping everything else constant

Net-Of-Tax Wages & Migration of High-Skill Labor

- Start with net-of-tax wage component
- Focus on high skill labor first
- Rationale:
  - **Looms large in public debate** (cf. post-Brexit debate on outmigration of the City, debate on top income taxation)
  - **Data availability** better for particular segments of high-skill labor
  - **Variation in tax rules** offers credible identification

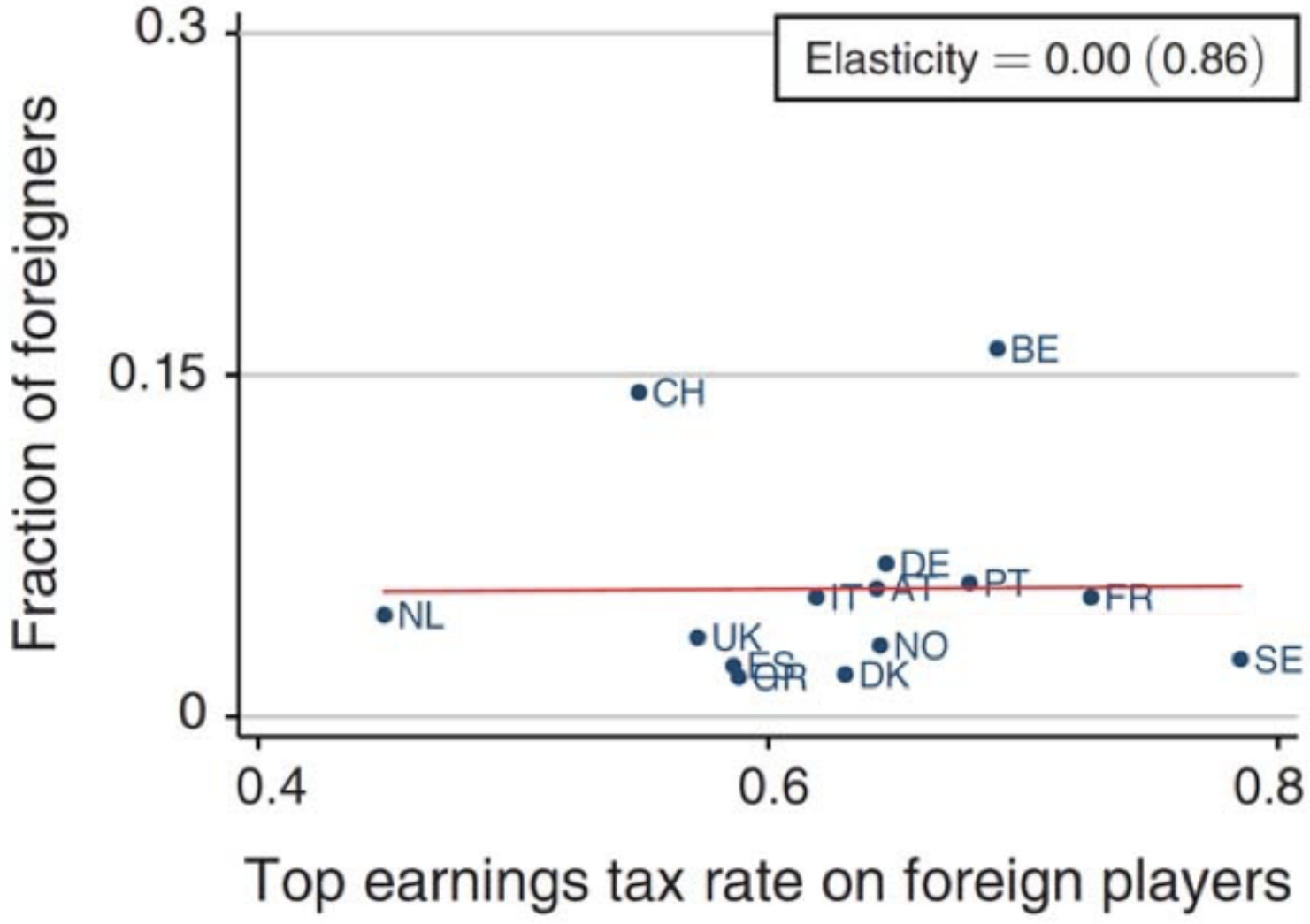
Kleven-Landais-Saez (2011)

- Estimate the **impact of taxation on the international mobility of top football players in Europe**
- Gather exhaustive micro data on the careers of all first-league football players in 14 European countries over 30 years
- Consider the effect of the **top marginal tax rate**, a good approximation of the **average tax rate for top players**
- Use variation in tax policy and labor market regulation to estimate the effects

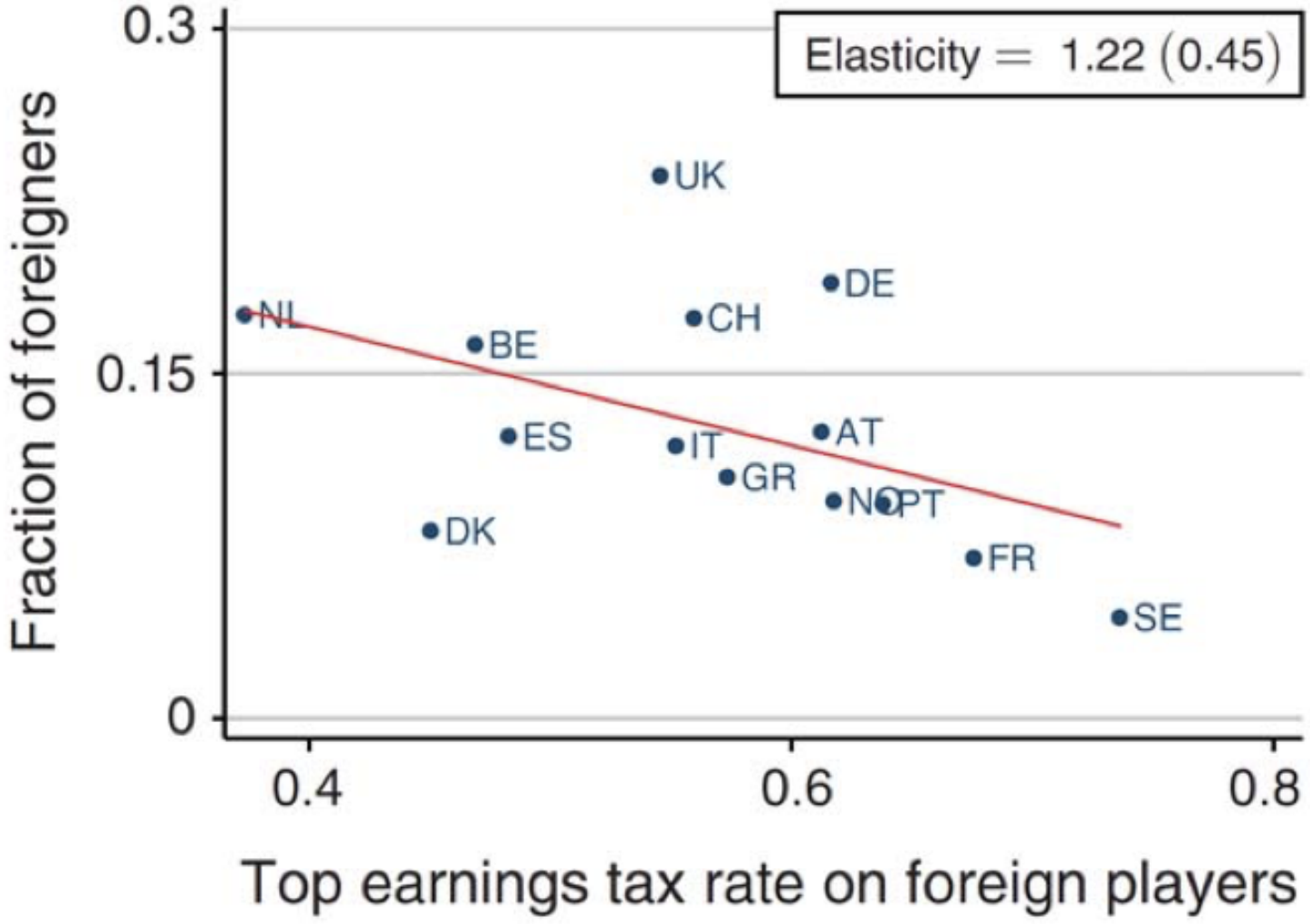
Identifying Variation

- ***Country-specific tax reforms:***
  - *Special tax schemes to foreigners: Netherlands (1980s), Denmark (1992), Belgium (2002), Spain (2004), France (2008)*
  - *This creates tax variation across and within countries over time*
- ***Regulation and the Bosman Ruling (ECJ, Dec '95):***
  - *Until '95, the European football market was heavily regulated (Three-Player Rule, Transfer-Fee Rule)*
  - *Bosman Ruling: no restriction on the free movement of laborsudden liberalization of the European football market*

Before Bosman Ruling 1985-1995



After Bosman Ruling 1996-2008



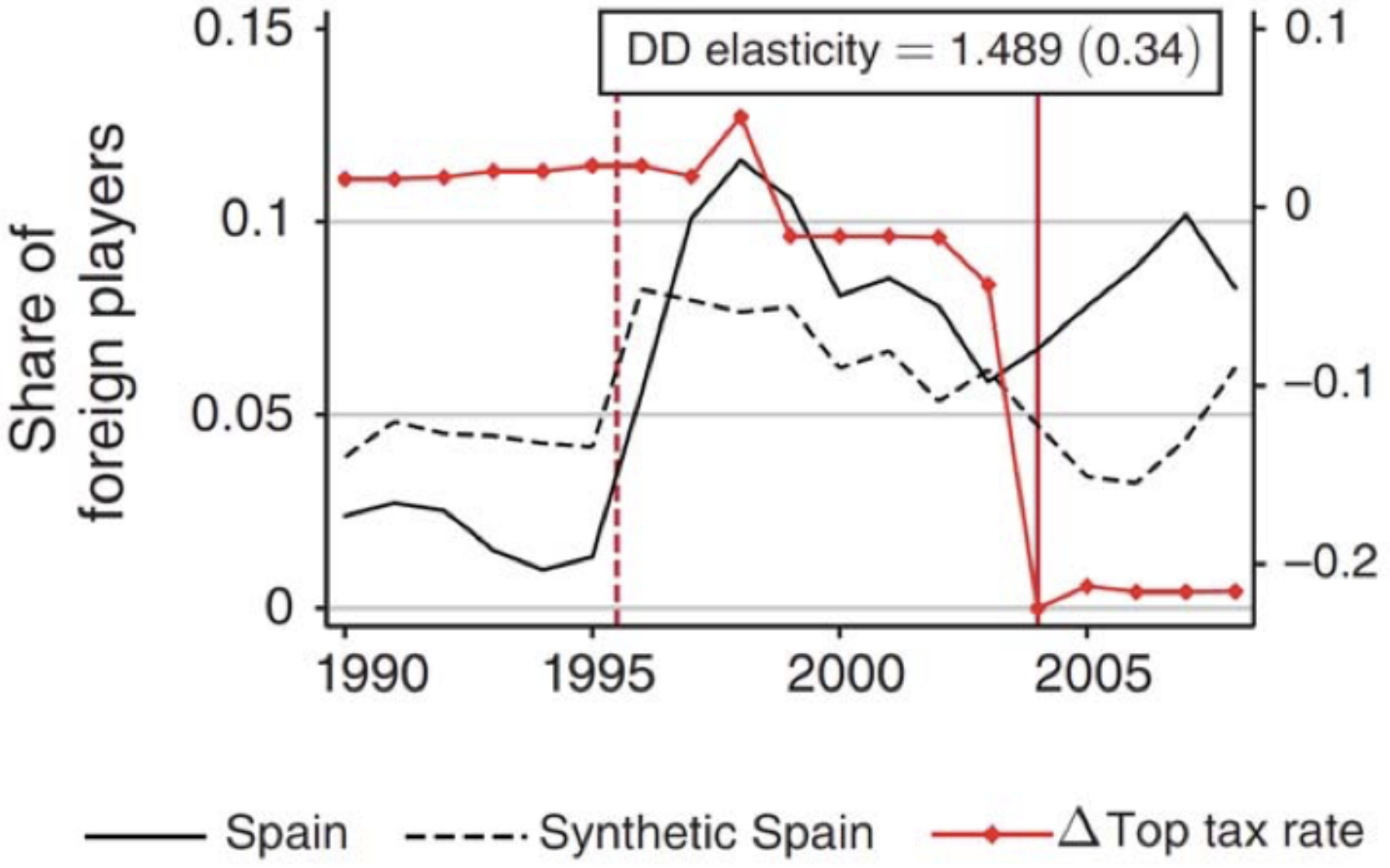
Motivating Examples

- **Identifying assumption:** pre-Bosman correlations provide a good counterfactual for the post-Bosman correlations without tax effects
- **Threats to identification:**
  1. Bosman ruling could have had differential impacts on low-tax and high-tax countries for non-tax reasons
  2. Contemporaneous non-Bosman changes that impacted low-tax and high-tax countries differently
- To deal with these issues, we turn to **quasi- experimental variation** created by tax reforms

"Beckham Law" in Spain

- Passed in 2005; applicable to foreign workers moving to Spain after January 1, 2004
- Imposes a **flat tax** of 24% (in lieu of the regular progressive income tax with a top rate of 43% in 2008)
- The scheme can be used for **up to 6 years** after which the taxpayer becomes subject to the ordinary income tax
- Eligibility requires that the individual **has not been a tax resident in Spain for the preceding 10 years**

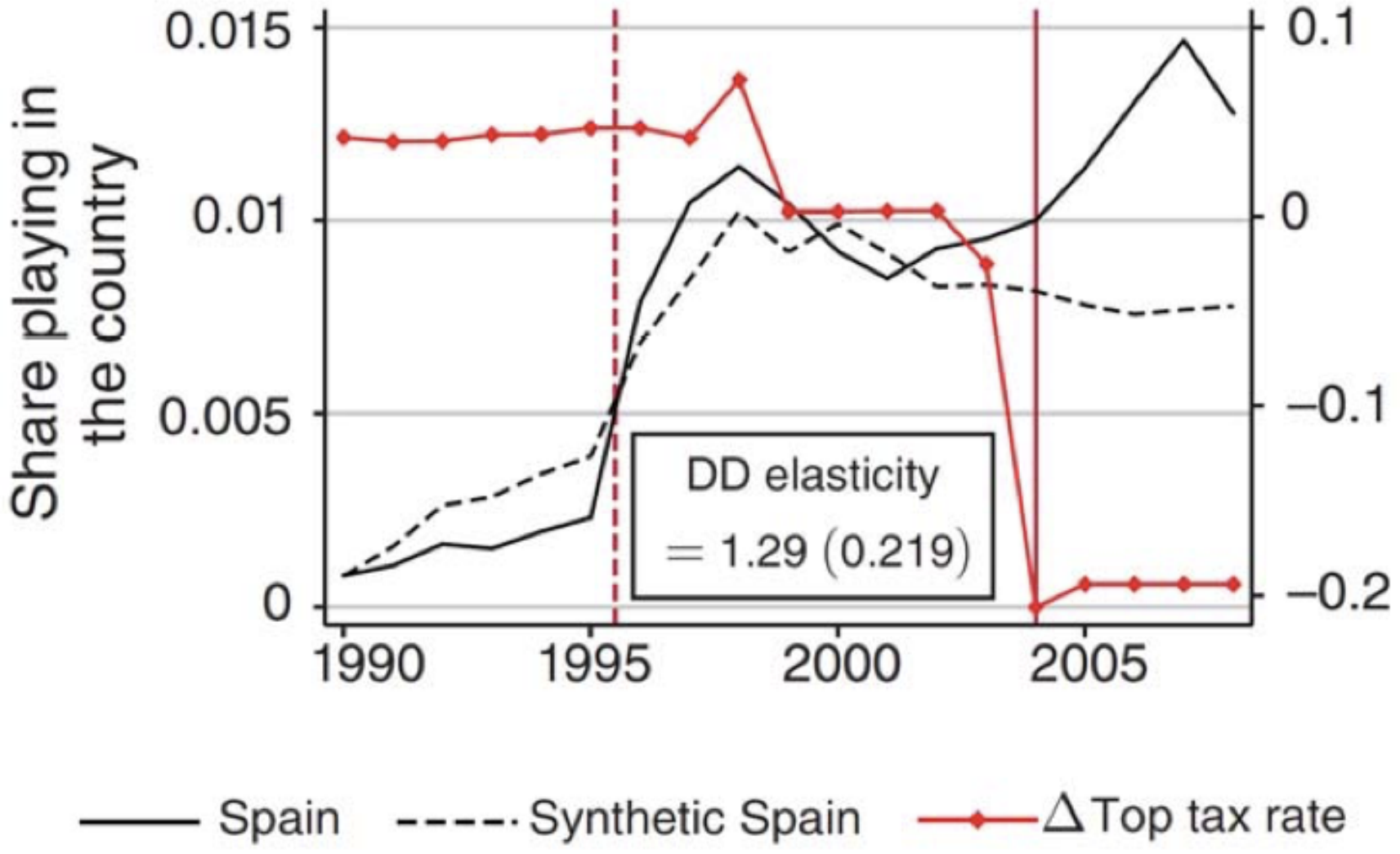
Effects of the "Beckham Law" for Top Quality Players



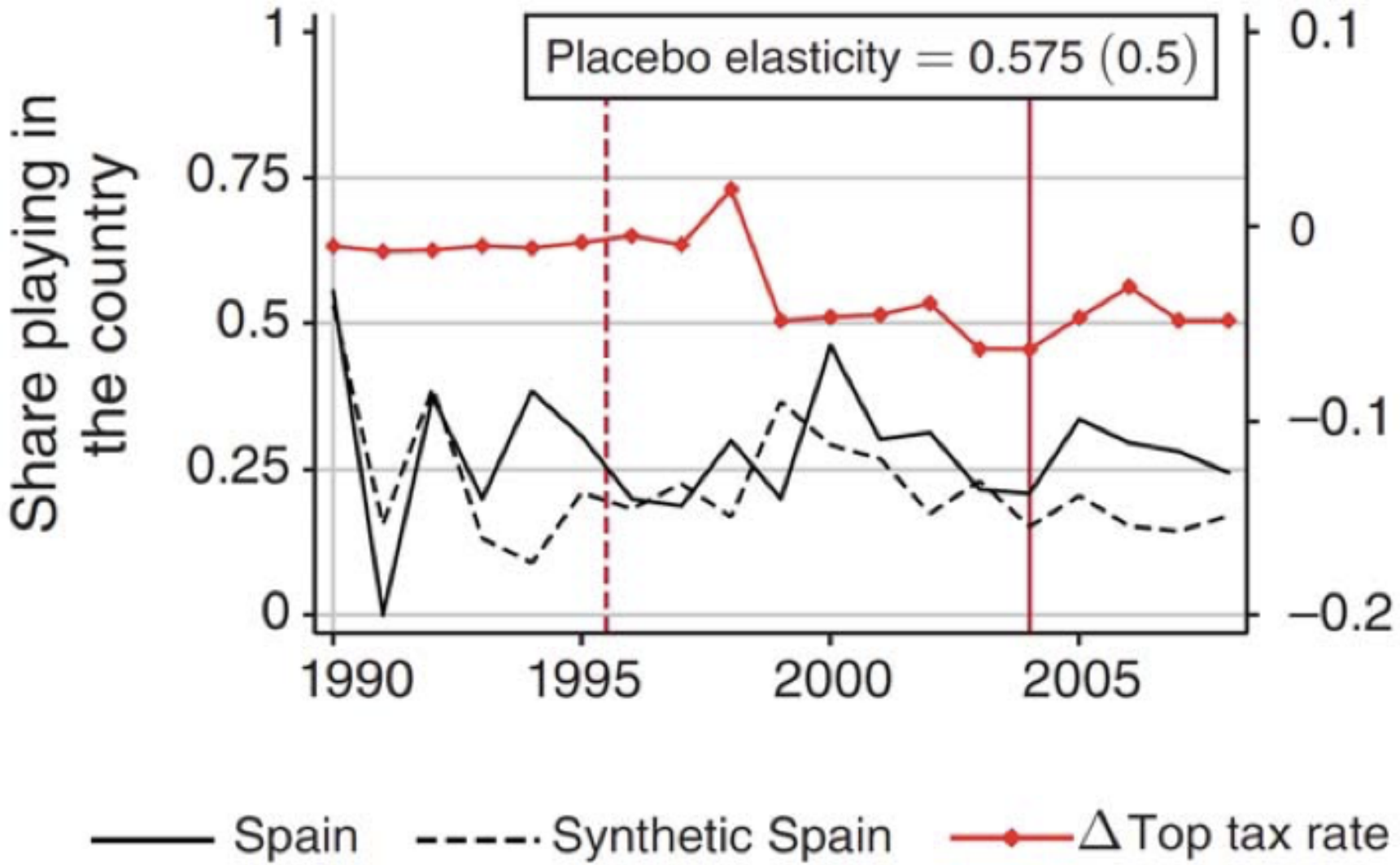
Beckham Scheme: Identification

- Identifying assumption:
- Parallel trends **(diff-in-diff)**
- **Identification** requires that there is no contemporaneous and differential change in the trend between Spain and synthetic Spain
- We can relax this assumption by using the 10-year eligibility rule: If results are biased by a differential change in the trend, this would show up in the migration of foreigners not eligible for the scheme

Effects of the "Beckham Law" for Eligible Foreign Players



Effects of the "Beckham Law" for non Eligible Foreign Players



Combining the Variation from All Country-Specific Tax Reforms

- Using all sources of variation simultaneously, we find:
  1. The elasticity of location with respect to the net- of-tax rate is 0.4 on the whole sample (overall migration effect)
  2. Elasticity is much larger for foreign than for domestic players
  3. Location elasticities are very large at the top of the ability distribution (about 2), but negative at the bottom (ability sorting effect)
  4. Cross-effect between foreign and domestic players is negative (displacement effect)

External Validity?

- How valid are these results for other segments of high-skill labor market?
- Football players may be very mobile (low moving costs, no need for country-specific human K, etc.)
- **Validate these findings using two alternative approaches**
- Other segments of high-skill labor market
- **Inventors** (Akcigit & al. [2016] and Moretti & Wilson [2016])
- All top skill labor using Danish tax reform (Kleven, Landais, Saez & Schultz [2014])

Location Choices: Extending the Analysis

- So far,empirical evidence reveals that location choices are responsive to net-of-tax wage differentials with significant heterogeneity
- But we focused on high skilled labor
  - **Extend analysis to other parts of skill distribution?**
- **Can we identify role of other components?**
  - Amenities & Local Public Goods capitalization approach see next lecture
  - Other dimensions of idiosyncratic taste shocks

Identifying Determinants of Location Choices – Asylum Seekers

- Focus on asylum seekers
  - Large debate over motivation of asylum seekers (political refugees or economic migrants in disguise?)
  - Relatively decent admin data on flows of applications with info on origin-destination countries
- Hatton–AERP&P[2016]
  - Database of asylum applications to 19 OECD destinations from 48 origin countries over the years 1997–2012
  - Analyze rich set of covariates correlating with migration flows compare many potential motives of migration (push and pull factors, etc.)
  - Trade-off = Correlational analysis no exogenous variation in each of these covariates
  - Control for origin, and even origin X destination country F-E

Determinants of Asylum Applications

	(1)	(2)	(3)	(4)
Political terror scale	0.214**	0.221**	0.221**	
	(4.48)	(4.53)	(4.57)	
Civil liberties (Freedom House index)	0.285**	0.289**	0.292**	
	(4.93)	(4.74)	(4.80)	
Political rights (Freedom House index)	−0.044	−0.050	−0.049	
	(1.06)	(1.21)	(1.19)	
Civil war battle deaths (000s)	0.012	0.010	0.010	
	(0.76)	(0.62)	(0.64)	
log origin country real GDP per capita	−0.517**	−0.533**	−0.542**	
	(2.35)	(2.26)	(2.32)	
log migrant stock in 2000/1 from origin at destination	0.226**			0.226**
	(8.54)			(8.59)
log distance from origin to destination	−0.777**			−0.768**
	(4.07)			(4.00)
log destination country GDP per capita	0.178	0.066	−0.122	0.043
	(0.35)	(0.12)	(0.23)	(0.09)
Unemployment rate at destination	−0.025**	−0.024**	−0.024**	−0.029**
	(2.22)	(2.14)	(2.19)	(2.60)
Asylum policy index overall		−0.046**		
		(4.03)		
Policy on access			−0.115**	−0.110**
			(3.08)	(3.19)
Policy on processing			−0.100**	−0.103**
			(6.45)	(6.78)
Policy on welfare			0.049*	0.034
			(1.76)	(1.21)
Fixed effects (number of FE)	Origin (48)	Origin × Dest (626)	Origin × Dest (626)	Origin × Year (765)
Destination dummies	Yes	No	No	Yes
Year dummies	Yes	Yes	Yes	No
R^2 within	0.40	0.12	0.13	0.41
Observations	9,610	9,610	9,610	9,610

Notes: z statistics in parentheses. Constant terms and coefficients on year and destination dummies are not reported.
**Significant at the 5 percent level.
*Significant at the 10 percent level.

THE EFFECTS OF MIGRATION

Effects of migration (I): Labor Market Outcomes

- One of the most obvious yet debated effect of migration is effect on labor market outcomes
- Start with partial equilibrium analysis of labor market in destination country
- In competitive labor market with downward sloping labor demand, increase in migration (=labor supply shock) should drive wages down
- **Note**: Downward-sloping labor D $\approx$ K does not fully adjust to fluctuations in labor inputs short run
    - In the longer run, negative wage effects could dissipate

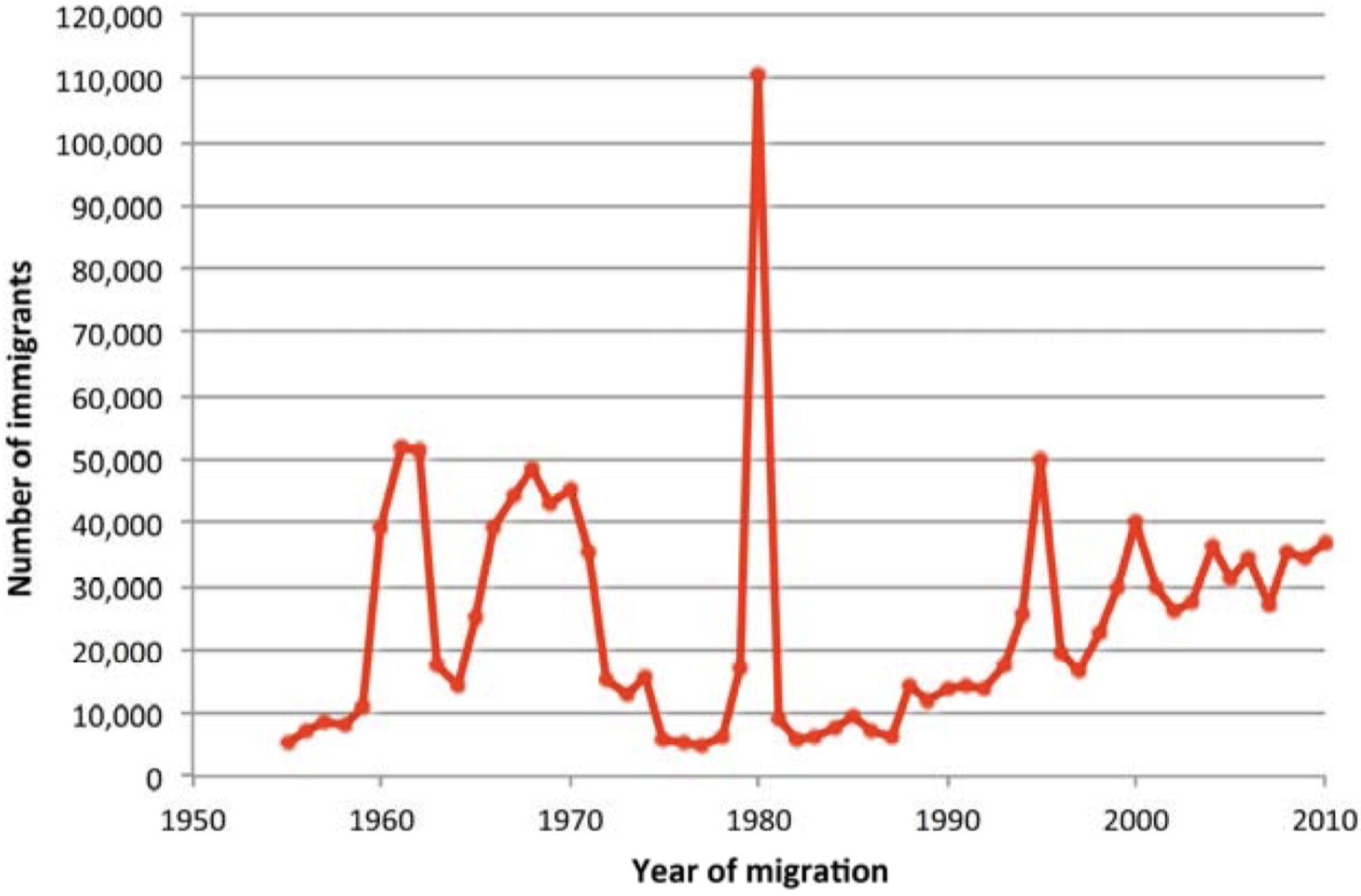
Identification issues

- How large are wage / employment effects of this simple labor demand mechanism, in practice?
- **Identification issue**:
  - Would correlating flow of migration with labor market outcomes deliver the answer? •
  - NO!Migration positively correlated with net- tax wages, employment prospects, etc. •
  - Creates positive correlation between migration and labor market outcomes
- Need exogenous variations in supply of migrants to identify effects along the demand curve

The Mariel Boatlift

- Card's (1990) classic paper uses the Mariel Boatlift as an exogenous migration shock to Miami's labor market
- On April 20, 1980, Castro declares that Cubans wishing to emigrate to the United States were free to leave from the port of Mariel
- From May to September 1980, 125,000 Cuban immigrants arrived in Miami on flotilla of privately chartered boats
- Mariel immigrants increased the Miami labor force by 7%

Number of Cuban Immigrants to US



Hourly Earnings of Workers Age 16- 61 in Miami and Four Comparisons

Group	*1979*	*1980*	*1981*	*1982*	*1983*	*1984*	*1985*
Miami:							
Whites	1.85	1.83	1.85	1.82	1.82	1.82	1.82
	(.03)	(.03)	(.03)	(.03)	(.03)	(.03)	(.05)
Blacks	1.59	1.55	1.61	1.48	1.48	1.57	1.60
	(.03)	(.02)	(.03)	(.03)	(.03)	(.03)	(.04)
Cubans	1.58	1.54	1.51	1.49	1.49	1.53	1.49
	(.02)	(.02)	(.02)	(.02)	(.02)	(.03)	(.04)
Hispanics	1.52	1.54	1.54	1.53	1.48	1.59	1.54
	(.04)	(.04)	(.05)	(.05)	(.04)	(.04)	(.06)
Comparison Cities:							
Whites	1.93	1.90	1.91	1.91	1.90	1.91	1.92
	(.01)	(.01)	(.01)	(.01)	(.01)	(.01)	(.01)
Blacks	1.74	1.70	1.72	1.71	1.69	1.67	1.65
	(.01)	(.02)	(.02)	(.01)	(.02)	(.02)	(.03)
Hispanics	1.65	1.63	1.61	1.61	1.58	1.60	1.58
	(.01)	(.01)	(.01)	(.01)	(.01)	(.01)	(.02)

Note: Entries represent means of log hourly earnings (deflated by the Consumer Price Index—1980 = 100) for workers age 16–61 in Miami and four comparison cities: Atlanta, Houston, Los Angeles, and Tampa–St. Petersburg. See note to Table 1 for definitions of groups.

Source: Based on samples of employed workers in the outgoing rotation groups of the Current Population Survey in 1979–85. Due to a change in SMSA coding procedures in 1985, the 1985 sample is based on individuals in outgoing rotation groups for January–June of 1985 only.

Unemployment of Workers Age 16- 61 in Miami and Four Comparisons

Group	*1979*	*1980*	*1981*	*1982*	*1983*	*1984*	*1985*
Miami:							
Whites	5.1	2.5	3.9	5.2	6.7	3.6	4.9
	(1.1)	(0.8)	(0.9)	(1.1)	(1.1)	(0.9)	(1.4)
Blacks	8.3	5.6	9.6	16.0	18.4	14.2	7.8
	(1.7)	(1.3)	(1.8)	(2.3)	(2.5)	(2.3)	(2.3)
Cubans	5.3	7.2	10.1	10.8	13.1	7.7	5.5
	(1.2)	(1.3)	(1.5)	(1.5)	(1.6)	(1.4)	(1.7)
Hispanics	6.5	7.7	11.8	9.1	7.5	12.1	3.7
	(2.3)	(2.2)	(3.0)	(2.5)	(2.1)	(2.4)	(1.9)
Comparison Cities:							
Whites	4.4	4.4	4.3	6.8	6.9	5.4	4.9
	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.4)
Blacks	10.3	12.6	12.6	12.7	18.4	12.1	13.3
	(0.8)	(0.9)	(0.9)	(0.9)	(1.1)	(0.9)	(1.3)
Hispanics	6.3	8.7	8.3	12.1	11.8	9.8	9.3
	(0.6)	(0.6)	(0.6)	(0.7)	(0.7)	(0.6)	(0.8)

Note: Entries represent means of unemployment indicator variable for individuals age 16–61 in Miami and four comparison cities: Atlanta, Houston, Los Angeles, and Tampa–St. Petersburg. Samples are based on individuals in the labor force. See notes to Table 3 for definitions of groups and data sources.

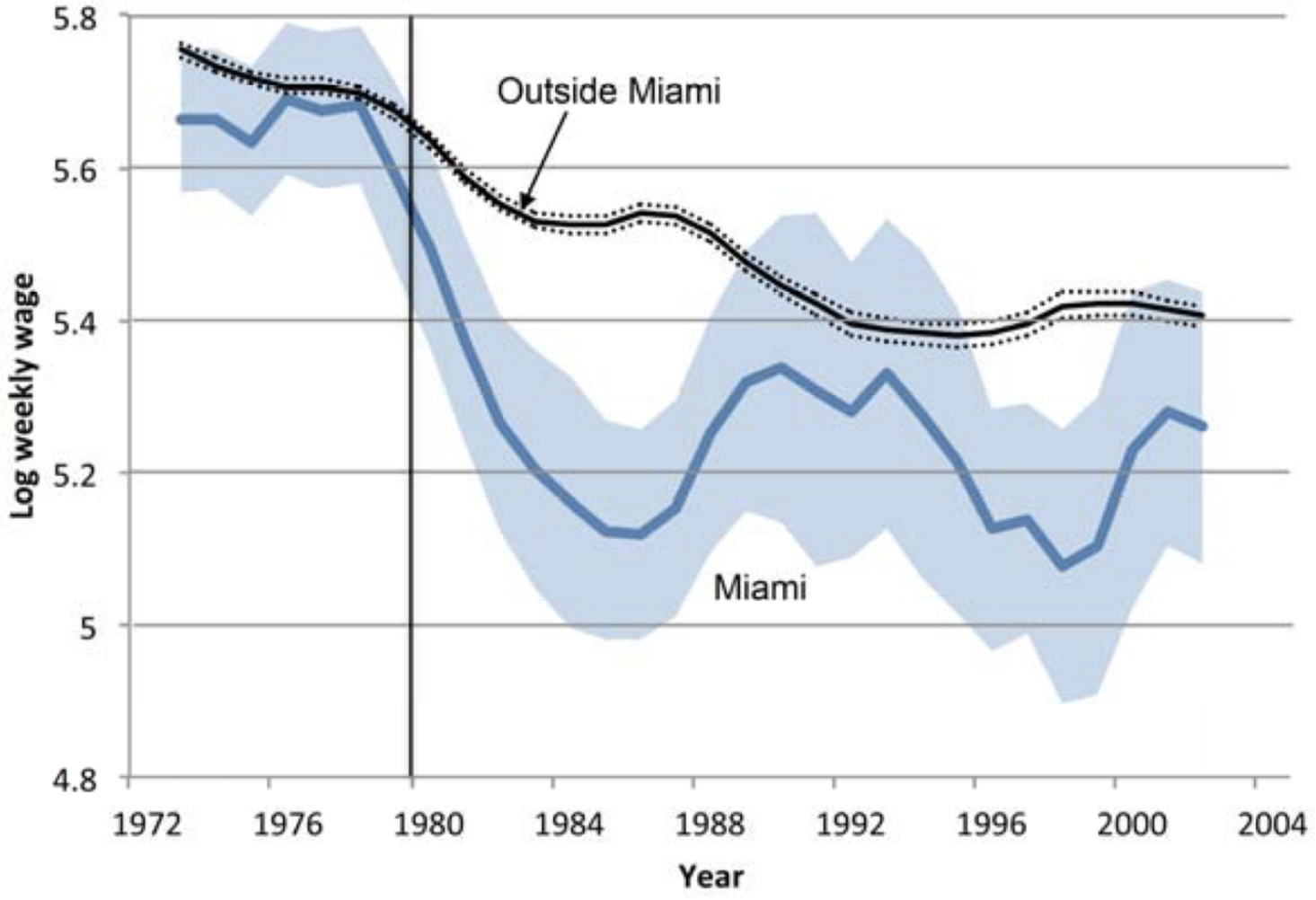
Breakout II

- Consider the Card (1990) approach to identifying the impact of the Marielitos on native Miami workers' wages.
  - **What would make a good comparison city?**
  - **If these conditions don't hold, would Card's results be upwards or downwards biased?**
  - **What mechanism could explain Card's results, which run counter to simple partial eqm theory?**

Borjas vs Card

- Card [1990] finds surprisingly little negative effect of Mariel Boatlift on labor market outcomes (wages, unemployment) of local workers in Miami when compared to 4 other cities from CPS data
- Start of big research controversy with Borjas
- Borjas [2016] revisits Mariel data
- Two important aspects
  - Synthetic control group of cities
  - Focus on high-school dropouts

Log Wage of High School Dropouts



Borjas vs Card

1. **Choice of control cities matters**
   - Synthetic control approach is probably more disciplined than cherry-picking control cities
   - Yet choice of variables to build weights of synthetic control has significant impact on estimates
2. **Precise definition of skill group matters a lot!**
   - $>$ 60% of Marielitos were high-school dropouts
   - Need to compare individuals precisely in the same labor market (i.e. market for skill) to identify labor demand effect

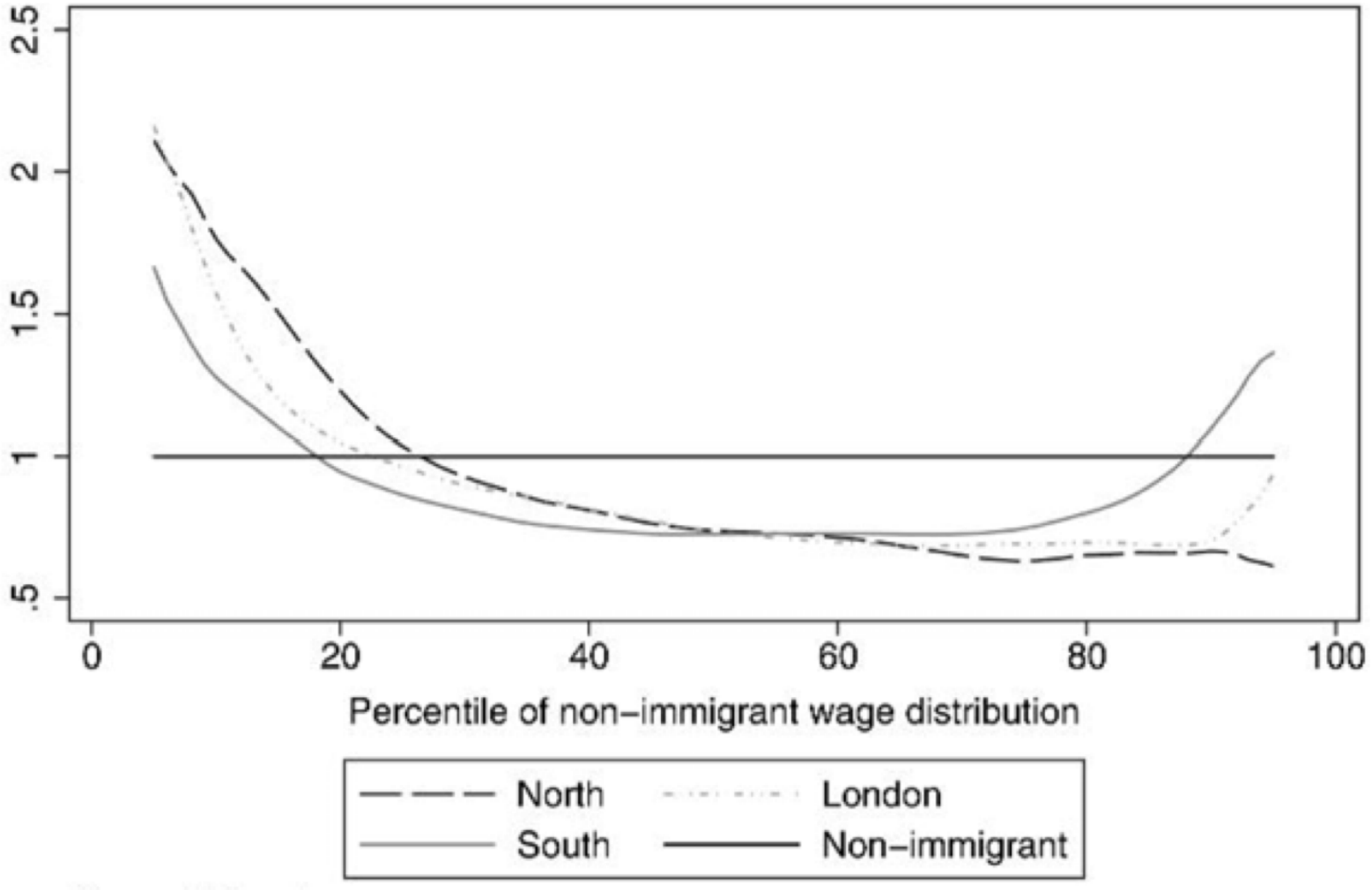
From Partial to General Equilibrium

- **Mariel effects**:
  - Large negative effects on high school dropouts
  - But zero effect overall
- Suggests positive spillovers on other skill groups!
- Partial eq. analysis focuses on one labor market in isolation
- Neglects links between different labor market for skills
- **When supply of one skill group increases, makes relative productivity of other skill group increase**
  - Positive effects on wages and labor demand
  - Elasticity of substitution b/w skills determines magnitude

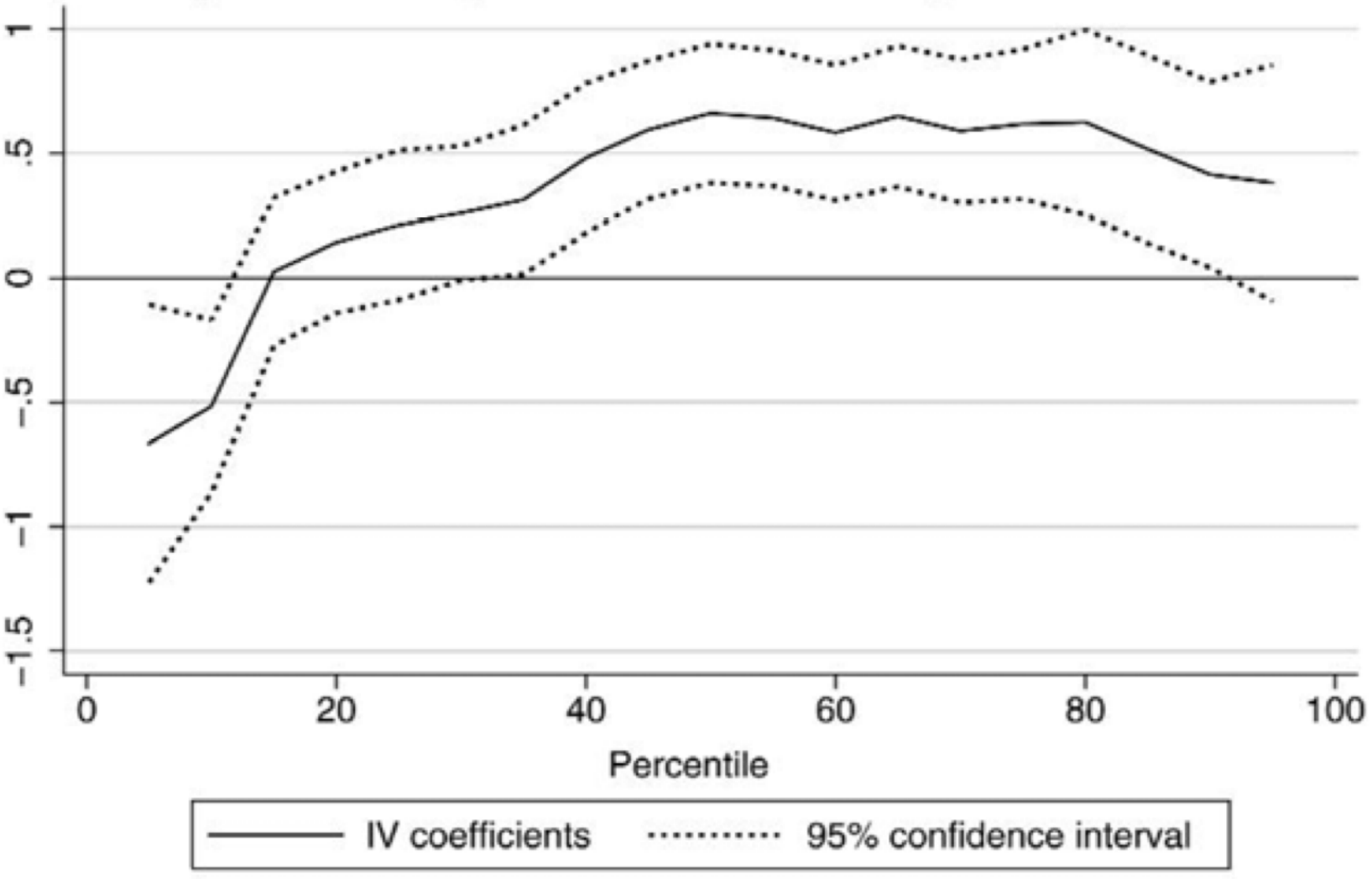
Dustmann et al., RES 2013

- Estimate wage effects of migration along the full distribution of native wages in the U.K.
- Use migration shocks of late 1990s in the UK as source of exogenous variation
- Exploit geographical variation in location of migrants across the UK
- **Data**: U.K. Labour Force Survey (LFS) over the period from 1997 till 2005 combined with census data to construct geographical distribution of migrants

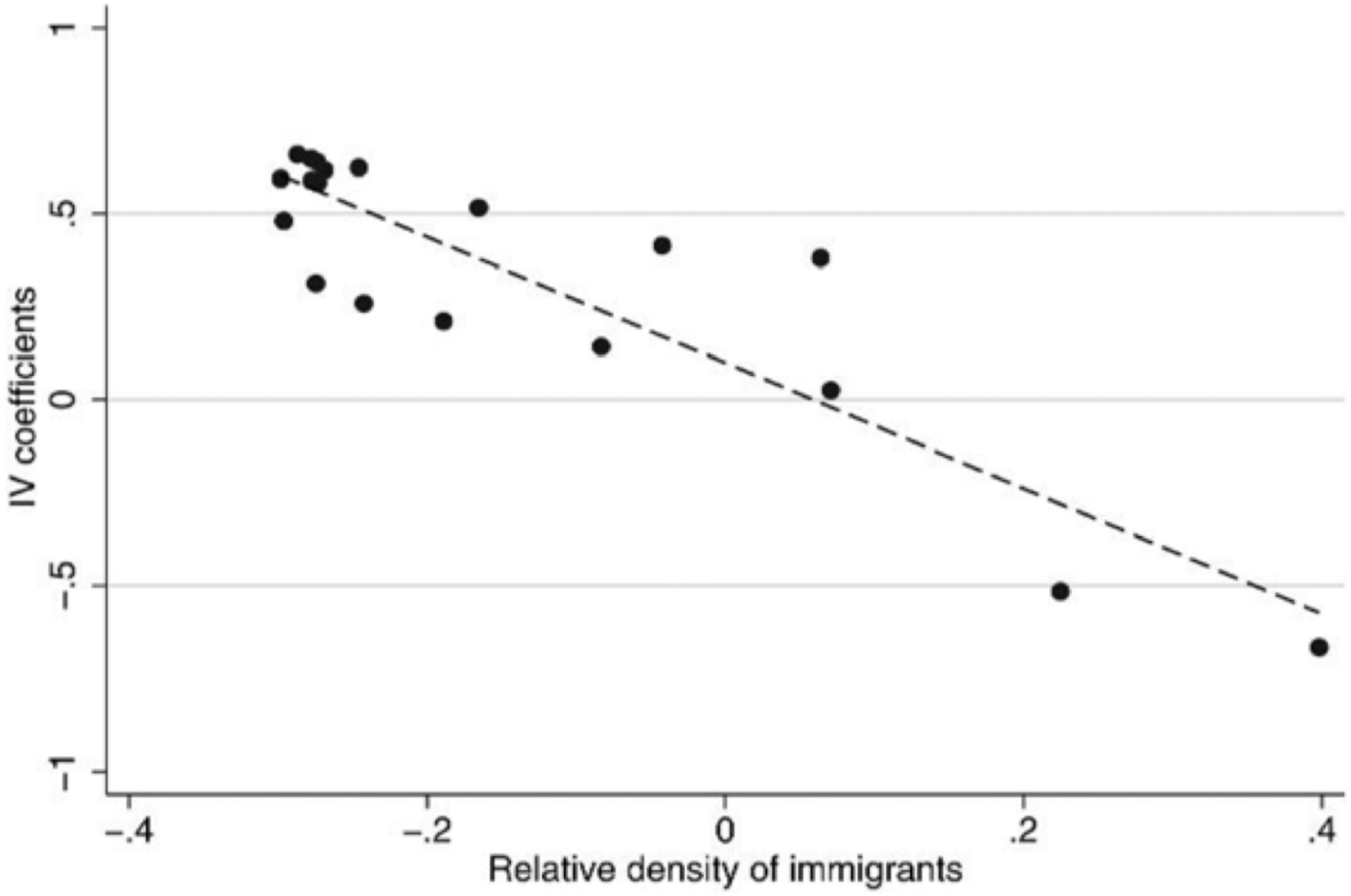
Position of Recent Immigrants in Wage Distribution



Impact of Immigration Across the Wage Distribution



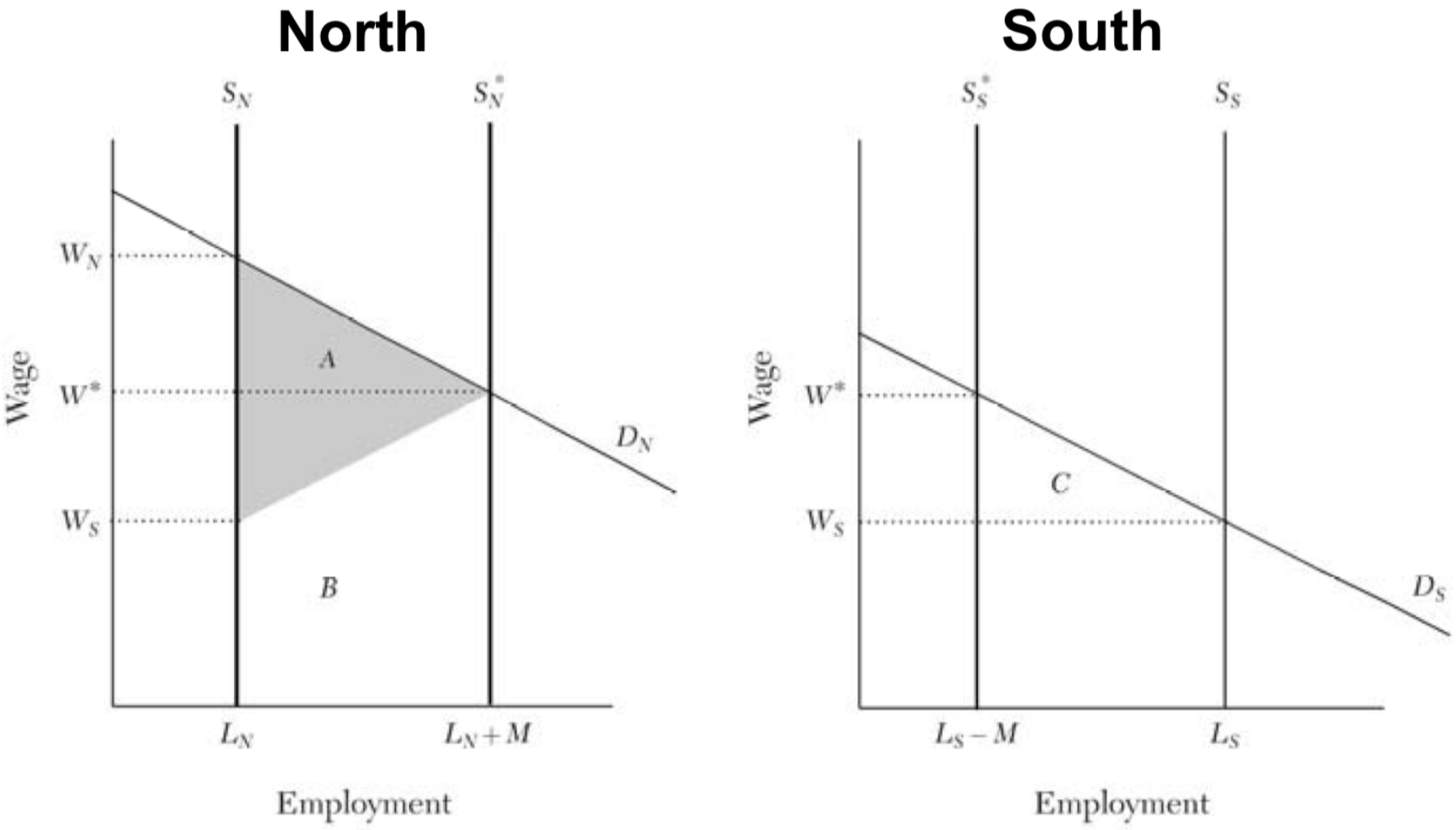
Impact of Immigration and Density of Immigrants



Tax/GDP: Anglo-Saxon Countries

- Previous analysis was only considering effects on labor market in destination country
- What happens when we also consider origin country?
- Standard **"gain from trade" argument**
  - Open border policy = net gain for global economy
  - Yet, entails significant redistribution
- **Stabilization argument**
  - Migration flows can help stabilize / insure against asymmetric labor market shocks
  - Particularly helpful in single currency zone (US, Euro zone)

The Global Gains from Open Borders



Additional Externalities of Migration

- Effects of migration go beyond labor market outcomes
  - **Fiscal externalities:**
    - Positive: tax revenue generated
    - Negative: benefits / public expenditures received
  - **Congestion externalities** (e.g. housing price effects, congestion of local public goods)
  - **Productivity spillovers, agglomeration economies**
    - E.g. Moser & al. [2014] on German-Jewish emigres, Moretti & Kline [2013] on Big Push
  - Other externalities: education, crime, culture

Dustmann and Fratini, EJ 2014

- Investigate fiscal externalities of migrants in the UK

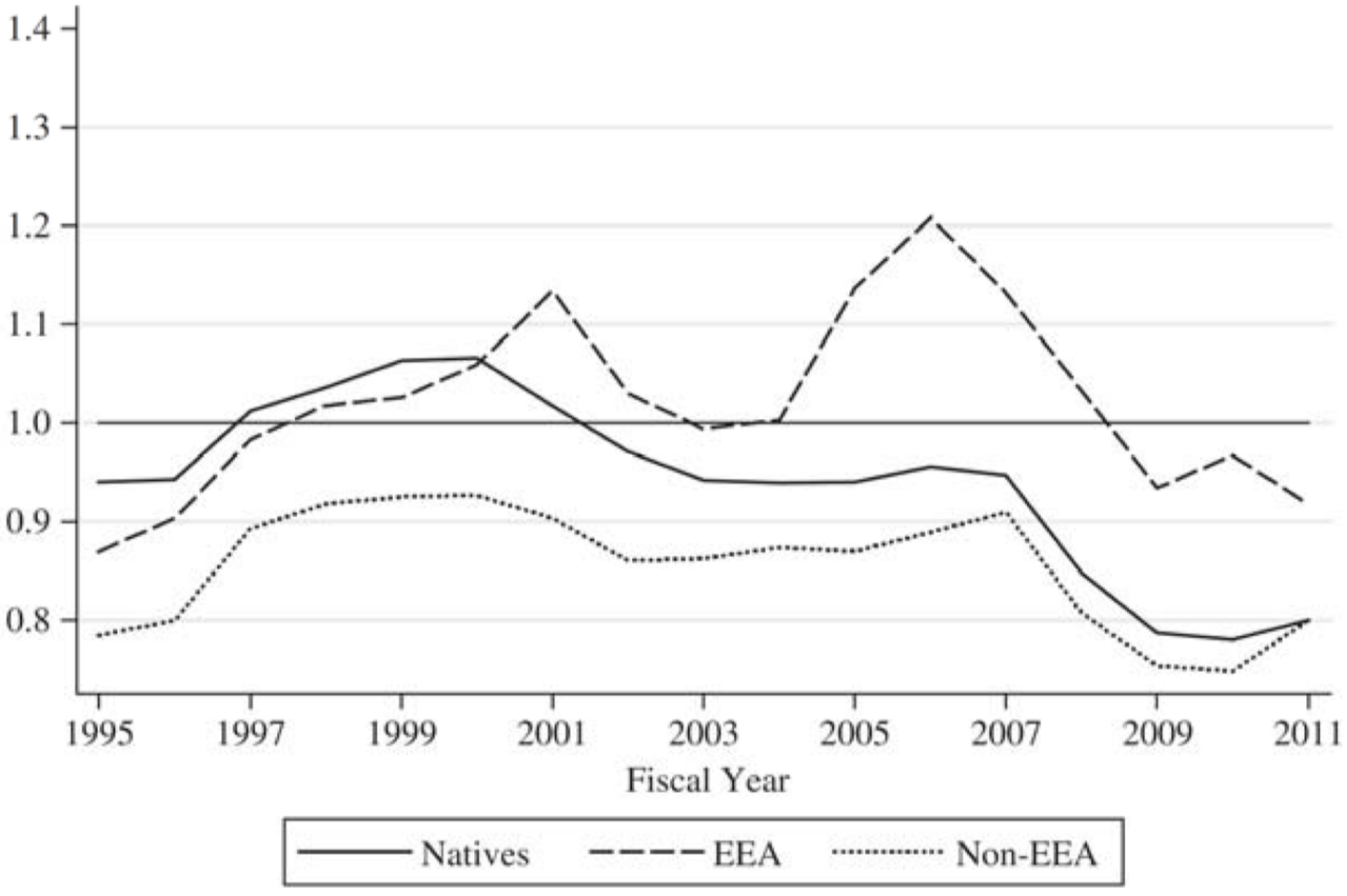
1. Assess probability of different immigrant groups of receiving benefit payments or tax credits and living in socially provided housing.
2. Compute net fiscal contribution of different population groups
   - Assign individuals their share of cost for each item of government expenditure
   - Identify their contribution to each source of government revenues.

Dustmann and Fratini, EJ 2014

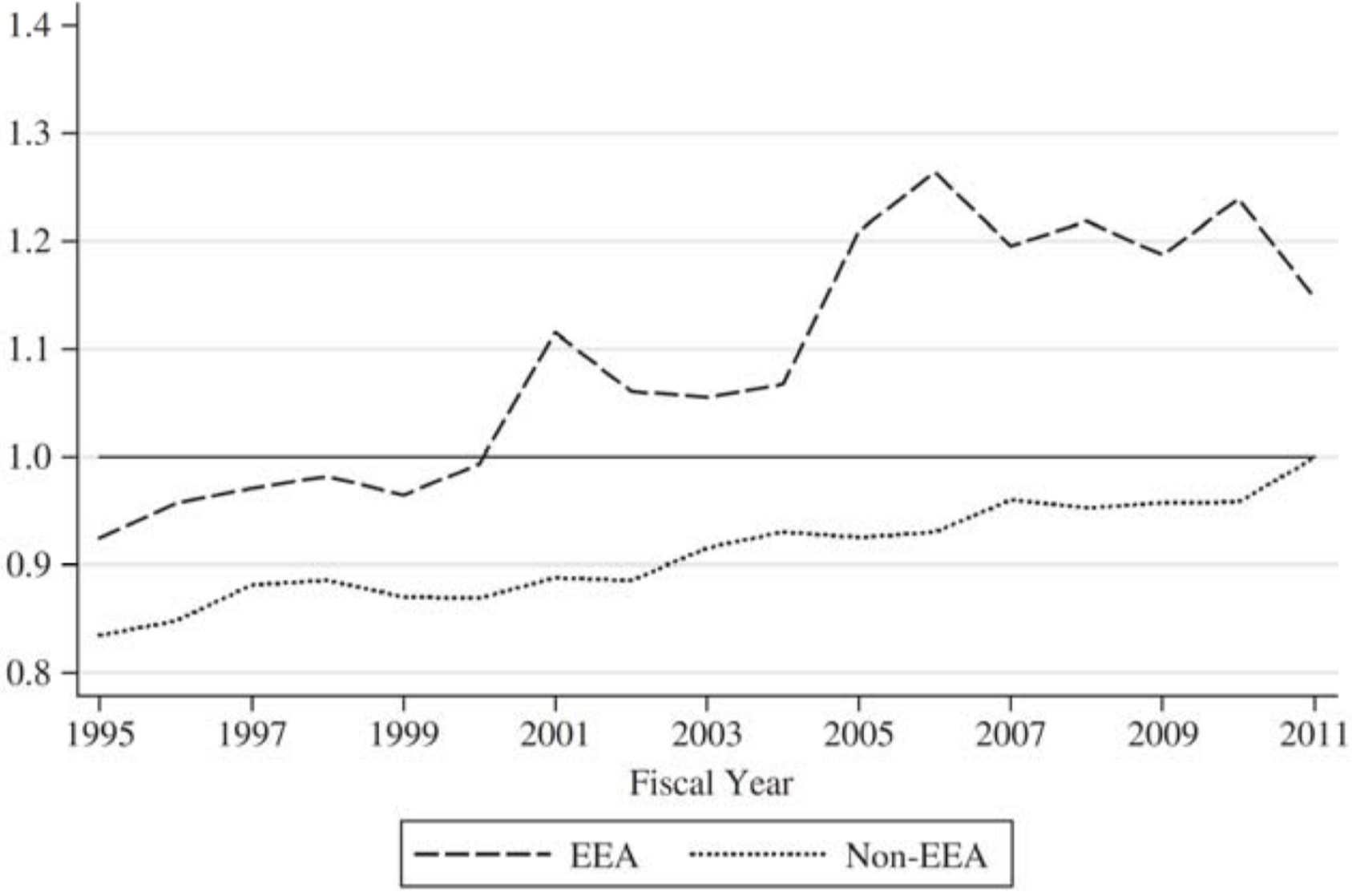
Immigrants-Natives Differential in Probability of Claiming State Benefits/Tax Credits or Living in Social Housing

	State benefits/tax credits		Social Housing		
	1	2	3	4	5
Panel (a): Resident immigrant population, 1995–2011					
All immigrants	−0.030***	−0.034***	0.020***	0.004**	0.012***
	(0.001)	(0.001)	−0.001	−0.001	−0.001
EEA	−0.078***	−0.078***	−0.026***	−0.031***	−0.029***
	(0.002)	(0.002)	−0.002	−0.002	−0.002
Non-EEA	−0.013***	−0.019***	0.034***	0.015***	0.026***
	(0.001)	(0.001)	−0.002	−0.002	−0.002
Predicted probability of receipt for natives	0.372	0.373	0.185	0.187	0.186
N	4,845,620	4,845,620	3,572,692	3,572,692	3,572,692
Panel (b): Immigrants arrived in years 2000 onwards, 2001–11					
All immigrants	−0.174***	−0.155***	−0.012***	−0.024***	−0.011***
	(0.002)	(0.002)	(0.003)	(0.003)	(0.003)
A 10	−0.165***	−0.131***	−0.061***	−0.066***	−0.055***
	(0.003)	(0.004)	(0.005)	(0.004)	(0.005)
Other EEA	−0.243***	−0.232***	−0.093***	−0.098***	−0.085***
	(0.004)	(0.005)	(0.006)	(0.005)	(0.006)
Non-EEA	−0.163***	−0.148***	0.017***	0.002	0.015***
	(0.002)	(0.003)	(0.004)	(0.003)	(0.004)
Predicted probability of receipt for natives	0.403	0.400	0.175	0.175	0.175
Year and quarter effects	Yes	Yes	Yes	Yes	Yes
Age	No	Yes	No	No	Yes
Gender	No	Yes	No	No	No
Region of residence	No	No	No	Yes	Yes
N	3,451,264	3,451,264	1,973,356	1,973,356	1,973,356

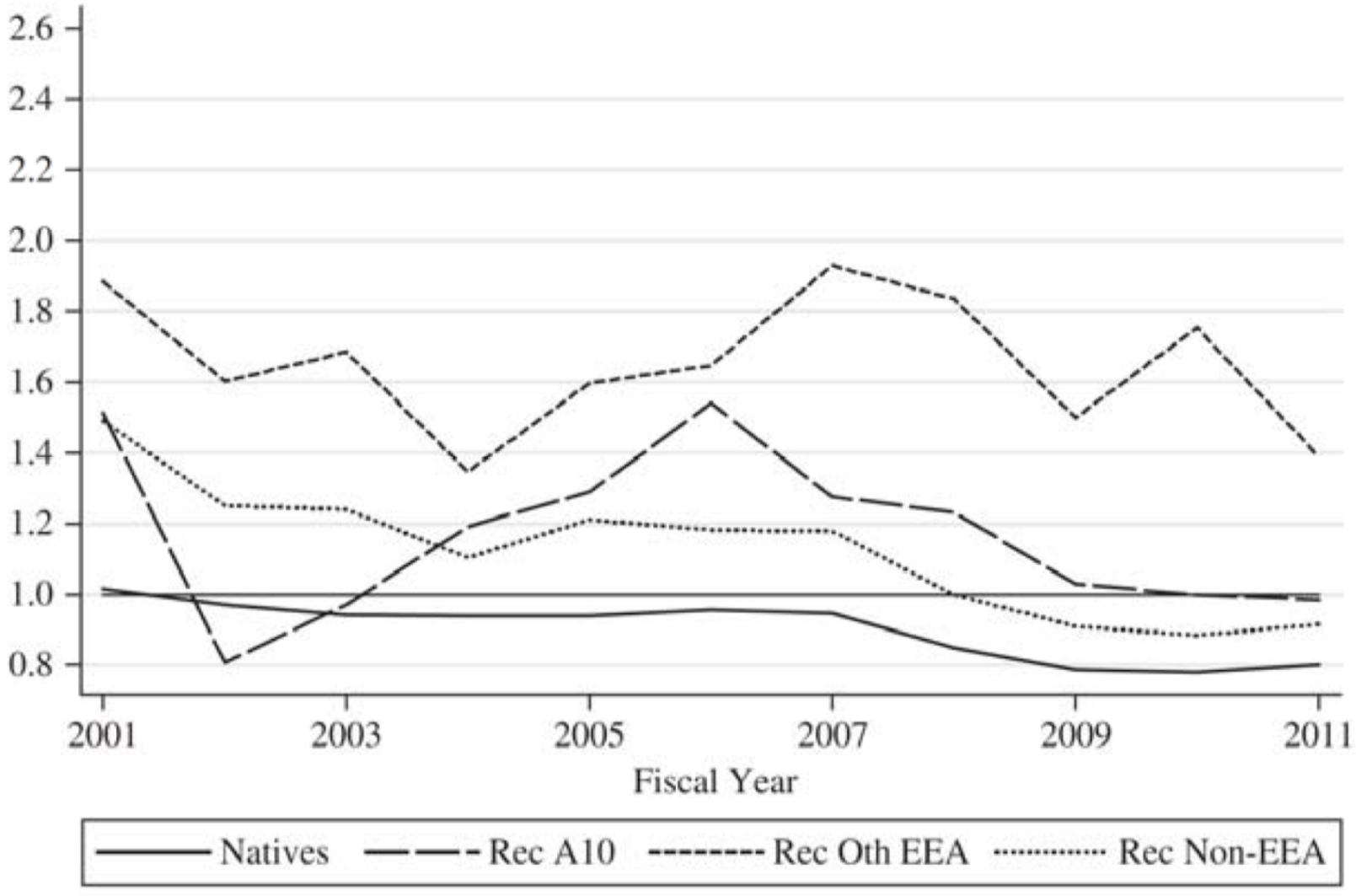
Revenues / Expenditures by Group



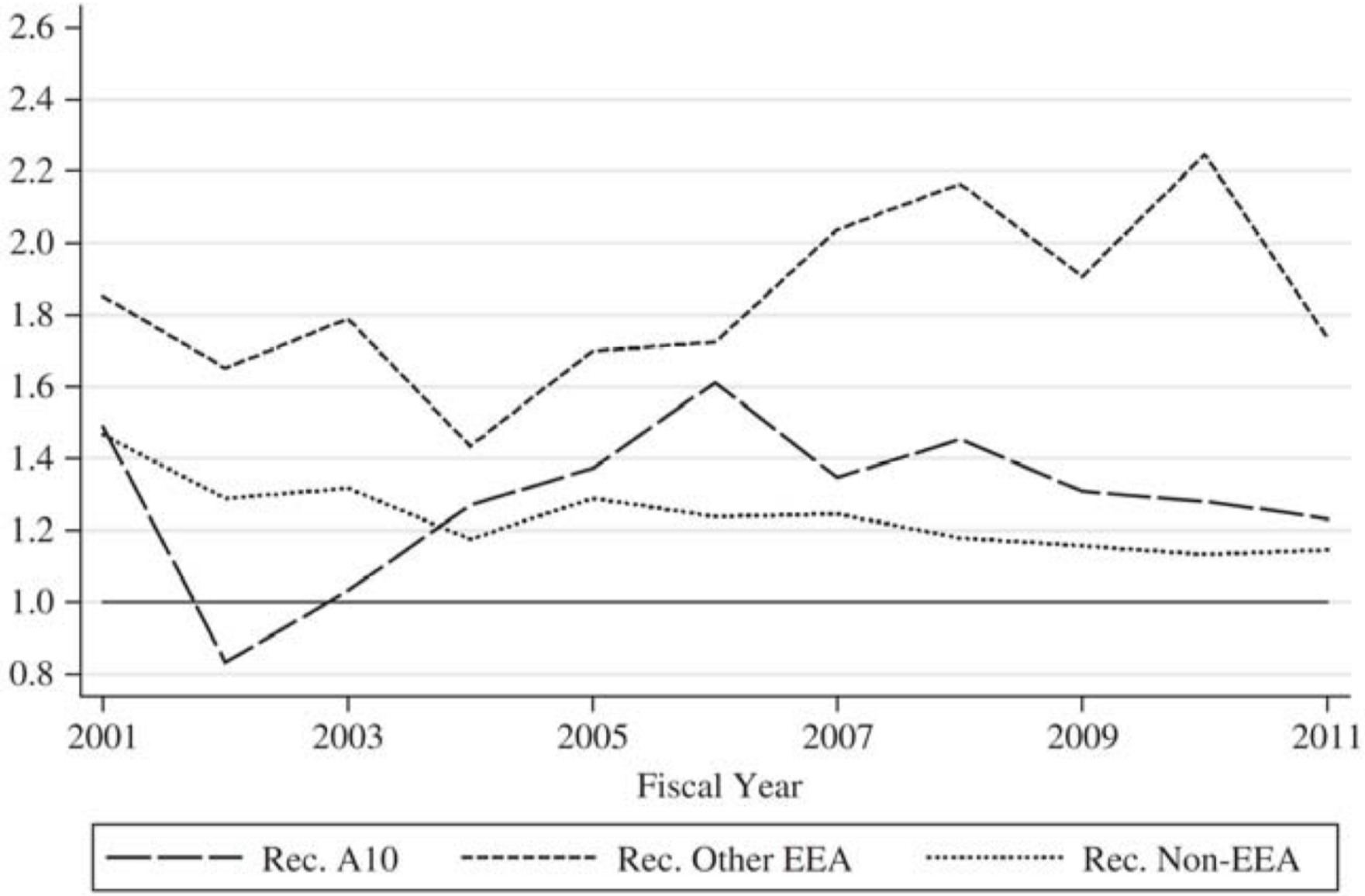
Revenues / Expenditures by Group Relative to Natives



Recent Revenues / Expenditures by Group



Recent Revenues / Expenditures by Group Relative to Natives



POLICIES

Policies: Free Movement

- What role for policies in regulating migration flows?
- First approach: market based.
  - No policy, no borders, free movement
  - Issues: decentralized equilibrium will not be efficient
    - Local and global migration externalities are not properly priced
    - individuals do not internalize local and global external effects of migration

Policies: Borders and Natonal Sovereignity

- What role for policies in regulating migration flows?
- First approach: market based.
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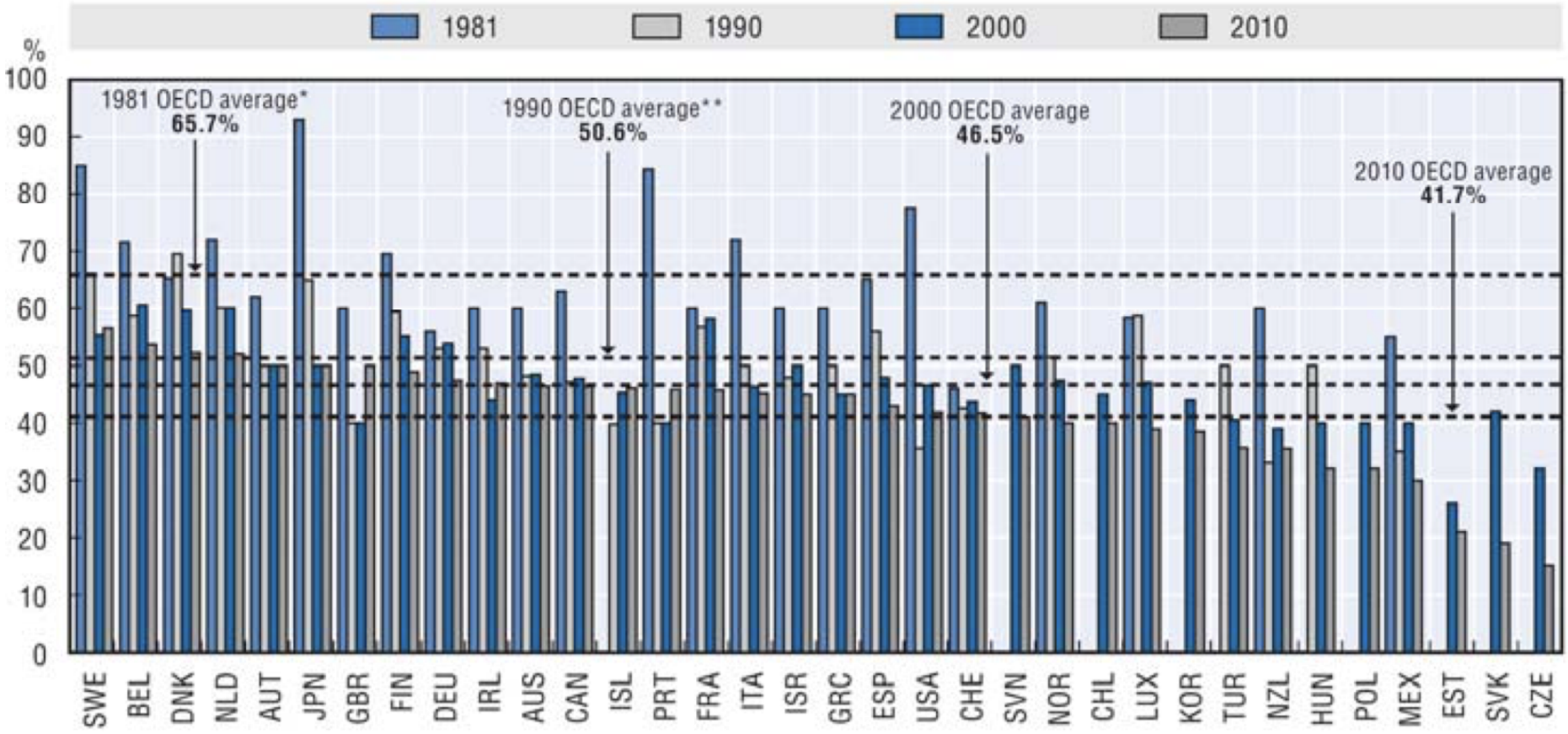
Policies: Borders & National Sovereignty

- Allocative Efficiency argument for price instr.
  - Selects individuals with highest valuation for being in particular community
  - But assumes otherwise complete & efficient markets
  - E.g. efficient K markets, no credit constraints, perfect information, etc.
- Morale argument against:
  - Individuals / citizenship are not commodities
  - Equity concerns

Policies: Borders & Global Inefficiencies

- But still missing global "market" for migration
  - No price mechanism on global migration flows
- Non-coordination creates global externalities
  - Each country puts in place own policies taking policies of all the other as given
  - Countries do not internalize external effects they have on other countries when choosing particular migration policy
- Global migration allocation = suboptimal
- E.g.: harmful global tax competition to attract top firms / top skilled workers

Top Combined Statutory Personal Income Tax Rate



Solving Coordination Issues

1. **Market**: Should we put in place global market for citizenships / migration?
   - Like cap & trade for pollution permits
   - Morale limits: Individuals are not commodities + morale obligation to help refugees
2. **Non-market based** coordination solutions:
   - Issues: what global objective function? How to also factor in utility of the migrants?
   - Potential efficient coordination mechanisms:
     - Example from refugee crisis
     - Mix coordination (global quotas) with incentives for countries to internalize costs/benefits of migration flows

Political Economy of Migration

Does Migration have any effect on electoral outcomes?

1. The Case of Golden Down
2. The Case of UKIP
3. Anna's will enlight us on a different case

The Case of Golden Down

Waking Up to a Golden Dawn: How Exposure to the Refugee Crisis Shapes Political Behavior

`https://docs.google.com/viewer?a=v&pid=sites&srcid=ZGVmYXVsdGRvbWFpbnxrb3N0YXNtYXRha29zfGd4OjM1ODVlY2U2MDYyZjZmNzU`

The Case of Brexit

Does Migration Cause Extreme Voting?orCan we blame Brexit on migration from Europe?

`https://www.dropbox.com/s/3xqiey2to9rdf83/UKIP-slides-20180207-UCL.pdf?dl=0`