Tax Burden and Migration: A Political Economy Theory and Evidence
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Abstract

The extent of taxation and redistribution policy is generally determined as a political-economy equilibrium by a balance between those who gain from higher taxes/transfers and those who lose. The standard theory of the size of government in a representative democracy links the tax burden to measures of the pre-tax income inequality. We develop in this paper a theory which encompasses the existing literature, and provides a complementary channel linking the tax burden in the presence of migration to the “fiscal leakage” from native-born to the migrants. In a stylized model of migration and human capital formation, we show, somewhat against the conventional wisdom, that low-skill immigration can lead to a lower tax burden and less redistribution than would be the case with no immigration, even though migrants (naturally) join the pro-tax/transfer coalition. Data on 11 European countries over the period 1974 to 1992 are consistent with the implications of the theory: a higher share of low-education immigrants in the population leads to a lower tax rate on labor income and less generous social transfers.

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