

## The fiscal impact of immigration: Empirical evidence at the local level

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Migration continues to be a salient and controversial issue in migrant host countries around the world. Research on the impact of migration at destination can play an important role in this respect, providing fact-based evidence that can inform the political debate. The academic literature has primarily focused on the labor market as a mechanism of impact, yet other economic channels are equally important. In particular, the literature on attitudes towards immigration has shown that concerns related to the fiscal effects of immigration are key drivers of public opinion on immigration. For example, voters worry that they may end up paying higher taxes when (low-skilled) immigrants arrive. Another frequently heard concern is that immigrants may compete with natives in terms of access to public goods and services, such as public schools, day-care centers, and housing for low-income families.

Broadly speaking, the fiscal effects of immigration relate to its impact on public (mostly tax) revenues, public expenditures that finance the provision of public goods and services and the size of the welfare state. The fiscal effects of immigration are likely to be different depending on the level of government considered (local vs. central/federal government level). This is because the type of taxes paid and the programs provided by governments are different at the various levels.

In recent work with coauthors, we have empirically analyzed the fiscal impact of immigration at the most disaggregated geographical level, that is, at the level of local governments. The practical advantage of doing so is that there is substantial variation at the local level that can be exploited to estimate these fiscal effects. In addition, importantly, local effects matter a lot for voters' opinions, since they tend to be visible and more directly linked to policymakers' actions. We investigate the fiscal impact of immigration at the local level on two high-income destination countries, the United States and Italy (counties for the United States and municipalities for Italy). The two analyses show that the fiscal effects of immigration are context-specific and that certain characteristics of the functioning of the tax and welfare system are especially relevant.

Immigrants are likely to have an impact on the tax base of different types of tax revenues. If that happens, local governments will have an incentive to offset some of these effects by adjusting local tax rates. Other levels of government can also intervene through transfers to the local governments. To the extent tax revenues change on net and given that balanced budget requirements often hold at the local level, we would expect public expenditures to change in the same direction. This will in turn affect the



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provision of public goods and services that are paid for by public expenditures.

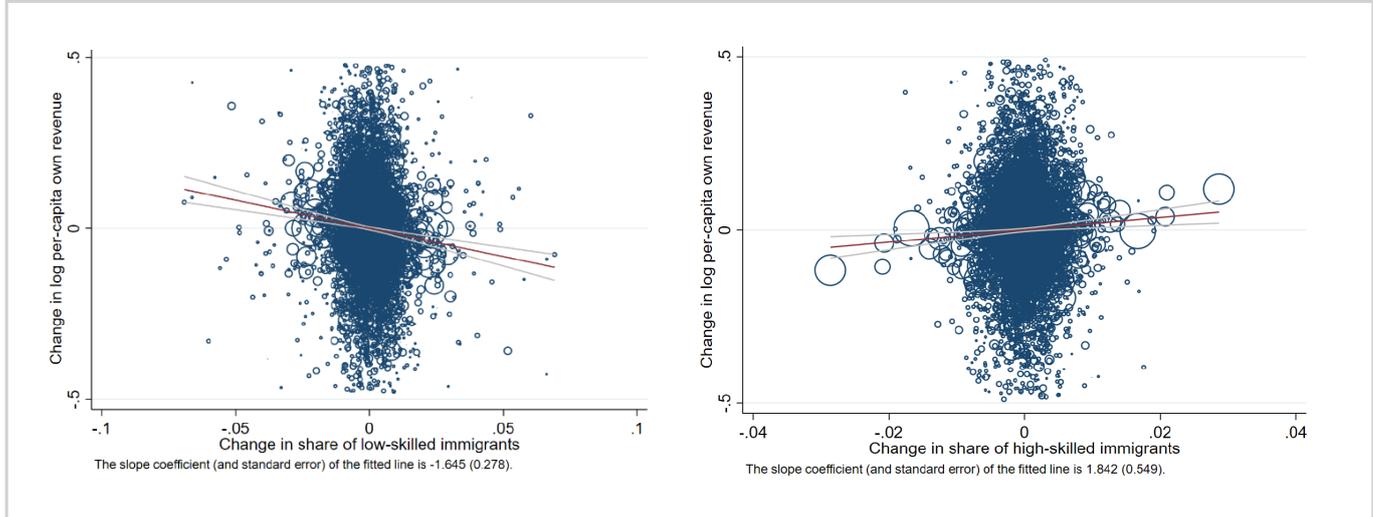
Our first finding is that, in the United States, all the immigrants who arrived between 1990 and 2010 had on average an impact that was close to zero on per capita public expenditures per year. However, this average effect hides substantial heterogeneity by skill level and, in turn, by space. Indeed, we find that the fiscal impact of immigration to the United States differed substantially by the skill level of immigrants. The arrival of low-skilled immigrants decreased per capita yearly public revenues and expenditures, while the inflow of high skilled immigrants had the opposite effect ([see Figure 1](#)). We show that these effects work through changes in the per capita tax base, and they are driven by the lower-than-average (higher-than-average) income of low-skilled (high-skilled) workers. Hence these impacts are likely to be similar if it were low-skilled vs. high-skilled Americans who arrived, instead of immigrants.

Our first finding implies that between 1990 and 2010 the “average” county, which is the county that experienced the same changes in low-skilled and high-skilled immigrants as the United States as a whole,— experienced a fiscal impact which was close to zero. However, almost all counties in the United States do not look like the average county. Some counties mostly received low-skilled immigrants between 1990 and 2010 and some others high-skilled ones instead. This means that the fiscal effect of immigration differed from the average effect in most counties in the United States ([see Figure 2](#)). For example, in Presidio county, Texas, that mostly received low-skilled immigrants in the two decades, per capita expenditures per year decreased by 15 percent according to our calculations. In Monterey county, California, that

mainly experienced high-skilled migrant inflows, per capita expenditures per year increased by 14 percent. These uneven effects can in part explain the different attitudes towards immigrants in different parts of the United States, for example in Texas where many low-skilled immigrants arrive from the U.S.-Mexico border vs. large rich cities, which receive both low-skilled and high-skilled immigrants.

Importantly, given our first finding, if the fiscal gains of counties that received high-skilled immigrants had been redistributed to counties that experienced fiscal losses due to the arrival of low-skilled immigrants, the fiscal effects of immigration would have been close to zero everywhere in the United States. This is clearly important from a policy point of view. It suggests that redistribution can be carried out, by the federal government, to make every county as well off, from a fiscal point of view, as before the arrival of immigrants.

In the United States, the arrival of low-skilled immigrants decreased per capita public revenues and expenditures, while the inflow of high-skilled immigrants had the opposite effect

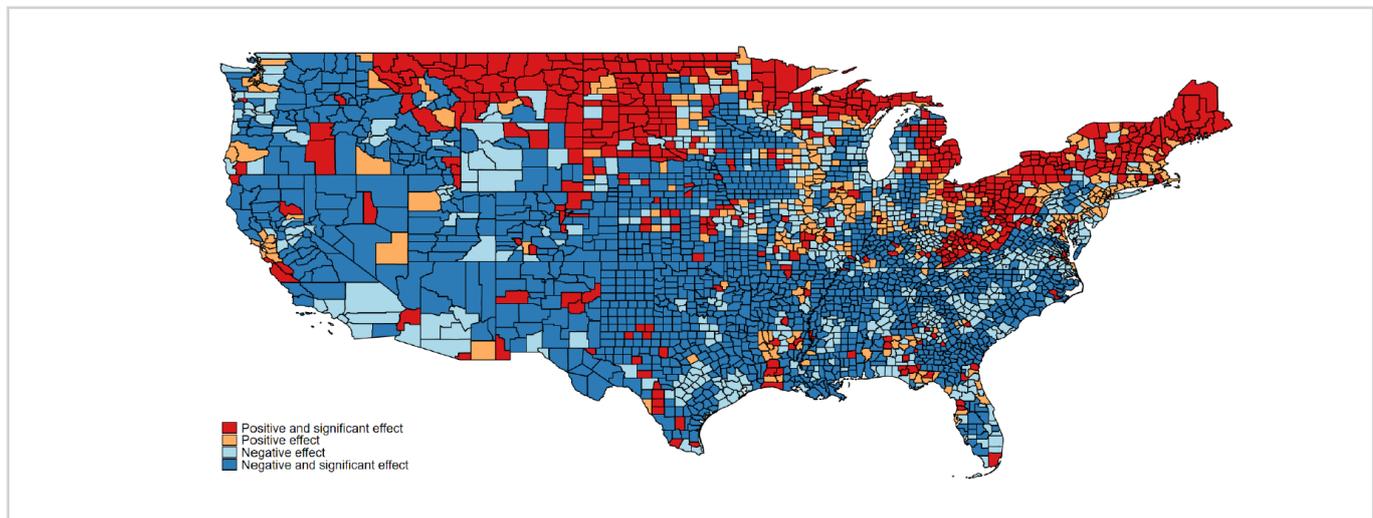


**Figure 1: Change in local revenues per capita and immigration by skill level**

*Note: The plots display the relationship between changes in local revenues per capita and changes in low-skilled immigrants (on the left) and high-skilled immigrants (on the right).*

**Figure 2: The effect of immigration on local revenues, 1990-2010**

*Note: The map displays the estimated effect of immigrants on local revenues per capita across US counties*



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Some of our results on the impact of immigration on the per capita tax base are interesting in and of themselves. For example, we find that the arrival of low-skilled immigrants leads to a relative decrease in housing prices while the inflow of high-skilled immigrants gives rise to a relative increase. In turn, this implies that per capita property tax revenues, which are the most important source of revenues of local governments in the United States, increase in counties where high-skilled immigrants go and decrease where low-skilled immigrants arrive. In terms of provision of public goods, we estimate that neither low-skilled nor high-skilled immigrants changed per capita (or per pupil) public expenditures on education, which are the most important item of spending of local governments in the United States. We also estimate that, in counties where high-skilled immigrants went, per capita public expenditures on police decreased, which is in line with the fact that overall and property crime rates decreased in per capita terms in those locations. In counties with inflows of low-skilled immigrants, there were no significant changes in either

crime rates nor public expenditures on law and order.

Turning to Italy, we analyze the fiscal impact of immigration in Italian municipalities between 2008 and 2015. Immigrants to Italy are low skilled, more so than in the United States, being much more likely than Italians to be employed in low-skilled occupations. Hence, based on the results of the United States, one could expect a negative average fiscal impact of immigration in Italy. This is not what the data say. We estimate that immigration to Italy, between 2008 and 2015, led to an improvement in the fiscal conditions of local Italian governments. The arrival of immigrants led to an increase in per capita revenues, with no change in total per capita expenditures, hence the deficit of affected municipalities decreased.

In Italy, the arrival of immigrants led to an increase in per capita revenues on average due to higher property tax revenues and transfers from the central government

When we look at current revenues, we find that they increased due to higher property tax revenues, fees and other revenues, as well as transfers to the municipality from the central government. We also see that income tax revenues were unaffected by the arrival of immigrants. The increase in property tax revenues was due to a

peculiar feature of the local tax system in Italy. In 2008, the newly elected government led by Prime Minister Silvio Berlusconi abolished the property tax on the “main dwellings,” leaving in place the property tax on “secondary residences.” It is the latter group that drives the increase in property tax revenues. We hypothesize that, since immigrants are more likely to rent than to purchase houses, they increase the fraction of long-term rentals. The latter cannot be declared as main dwellings, but rather as secondary residences, which are subject to higher taxation. Finally, we also estimate that, as a consequence of immigration, affected Italian municipalities experienced an

increase in total expenditures and on specific items of spending, such as garbage collection, municipal police, culture and religion, and public transport.

To conclude, the empirical evidence shows that the fiscal effects of immigration at the local level are, on average, either close to zero (in the United States) or positive (in Italy). While these effects can hide heterogeneity across localities, the zero (or positive) average effects make sure redistribution can take place so that no place is worse off from a fiscal point of view after immigrants arrive.

## Based on:

This policy brief is based on two joint works with several coauthors:

Anna Maria Mayda, Mine Z. Senses, and Walter Steingress (2022). The fiscal impact of immigration in the United States: Evidence at the local level. *CEPR working paper* No. 18054.

Rama D. Mariani, Anna Maria Mayda, Furio C. Rosati, and Antonio Sparacino (2023). *Do immigrants hurt local public finances? Evidence from Italy*. Manuscript.

