



Unauthorized immigration and fiscal competition[☆]

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ABSTRACT

Reflecting upon recent enforcement policy activism of US states and countries within the EU towards unauthorized workers, we examine the overlap of centralized (federal) and decentralized (state or regional) enforcement of immigration policies in a spatial context. Among other results, we find that if interstate mobility is costless, internal enforcement is overprovided, and border enforcement and local goods are underprovided when regions take more responsibility in deciding policies. This leads to higher levels of unauthorized immigration under decentralization. Interregional migration costs moderate such over/underprovision. Moreover, income distributive motives in the host country may shape the design of immigration policies in specific ways. The basic model is extended in several ways. First, we study how the policies change when regions can exclude unauthorized immigrants from the consuming of regionally provided goods or services. Second, we assume that the potential number of unauthorized immigrants is endogenous. And finally, we examine the effect of considering an alternative spatial configuration that includes border and “interior” regions.

1. Introduction

Enforcement of immigration policies has traditionally been the exclusive responsibility of federal and central governments. However, a few states in the US (Arizona, Alabama, and South Carolina, among others) have recently promoted state level initiatives against the employment of unauthorized immigrants. The decentralized implementation of such policies brings an intra-national spatial dimension to the discussion of unauthorized immigration that has not been previously explored in the literature. Similar situations are observed elsewhere, for instance, in the European Union (EU). Because of a commitment to free mobility of labor in

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the EU, once an unauthorized immigrant enters the EU through a bordering nation, the immigrant can move between EU member nations with relative freedom from border detection.¹ The economic drivers of such mobility and their consequent international spillovers share many similarities with state to state migration of unauthorized immigrants in the US. Just like US federal policies interact with state level policies, the common EU immigration policies overlap with policies in the national domain of EU members.² Reflecting these realities, we develop a model that allows us to evaluate and understand, in a spatial framework, the extent to which a shift towards a more decentralized implementation of immigration enforcement affects the effectiveness of these policies. While empirical studies on this subject are rapidly emerging, the development of a concise theoretical framework of analysis that can complement the empirics has not kept pace. The current work should serve as one of the first attempts (to our knowledge) to address this gap.

Specifically, the paper considers the case in which workers can migrate between a source and a host country, where the latter consists of two regions that share their borders with the source country.³ There are, however, legal restrictions to the movement of labor across countries. Workers in the source country face the following decisions: (i) Move to the host country as an undocumented worker or stay in the source country; and (ii) Stay and work in the region of entry or move elsewhere in the host country considering that moving entails a cost. The host country enforces immigration laws by devoting resources to apprehend unauthorized immigrants at the border (preventing them from entering the country), and/or by choosing different levels of internal enforcement to determine whether firms employ unauthorized immigrant workers. Internal and border enforcement may, in principle, differ across regions (i.e., enforcement levels can be regionally targeted). Residents in each region also have access to locally provided goods and services, such as schools and hospitals. Unauthorized immigration in our model affects residents in the host country in conflicting ways. First, it reduces the return to domestic factors of production that are substitutes to unauthorized immigration (wages), and increases the return to those factors that are complements (rents on fixed factors or profits). Overall, even though income is higher in the host country, unauthorized immigration generates a redistributive effect. Second, a higher number of unauthorized immigrants increase the cost of providing the regional goods and increase deportation costs, leading to a rise in taxes paid by domestic residents.

Within this analytical framework, the paper examines how the provision of enforcement (both border and internal) and the levels of the publicly provided regional goods vary under alternative institutional arrangements that grant the central and regional governments different degrees of responsibility in implementing the policies. While a centralized choice of policies would internalize the impact that unauthorized immigration has in all regions within the host country, decentralized decisions could potentially encourage regional governments to behave strategically, initiating a process generally referred to as fiscal competition. In this context, the paper evaluates how interregional migration costs and redistributive considerations in the host affect the policy outcomes.⁴ A proper analysis of these issues within a well-developed public economics model would shed light on the implications of decentralizing enforcement activities.

The main findings of the study can be summarized as follows. In the basic model, as the provision of enforcement is more decentralized, enforcement levels will tend to depart from the centralized solution due to the effect of several opposing externalities. To the extent that targeted regional border enforcement reduces the overall pool of unauthorized immigrants, it would generate a positive externality on the other region. Higher levels of targeted regional internal enforcement, on the other hand, would generate a negative externality by diverting unauthorized immigrants from one region to the other. Additionally, the decentralized provision of the regional good would also contribute to attract or deter unauthorized immigrants affecting other regions accordingly. Unambiguous conclusions can be derived under certain assumptions. For instance, when moving across regions within the host country is costless for unauthorized immigrants, border enforcement and regional goods tend to be underprovided in the decentralized case, while internal enforcement tends to be overprovided. Indeed, optimal internal enforcement is zero under centralization, but in spite of this fact, the equilibrium level of unauthorized immigration is lower under centralization compared to the decentralized case. As inter-regional mobility costs rise, internal enforcement efforts tend to decline while border enforcement tends to increase in the decentralized cases. In the extreme case of complete immobility, internal enforcement becomes completely irrelevant in all cases, and the levels of both border enforcement and the regional good could even be higher when decisions are completely decentralized compared to the fully centralized outcome.

We also examine the implications of changing some of the model's underlying assumptions not only to check the robustness of our conclusions, but also to characterize the policy outcomes arising in alternate realistic settings. We modify the assumptions in three different ways.⁵ First, we assume that governments can restrict the access of unauthorized immigrants to certain regional

¹ See [Orrenius and Zavodny \(2016\)](#) for a discussion of unauthorized immigration into the EU, its border and internal enforcement efforts, and a comparison with the US system. The discussion clearly points to many parallels between the US and the EU, and while our analysis is not limited only to these two contexts, we provide a useful benchmark for thinking of immigration policies for these entities.

² The EU has been developing common immigration rules for its member nations since 1999, although their effective implementation varies from nation to nation. However, distinct from the US case, individual EU nations retain authority on several aspects of immigration policy, particularly related to immigration from non-EU nations. For example, each EU country decides: (1) The total number of migrants that can be admitted to the country to look for work; (2) All final decisions on migrant applications; (3) Rules on long-term visas (stays for periods longer than three months); and, (4) Conditions to obtain residence and work permits when no EU-wide rules have been adopted (see URL http://ec.europa.eu/immigration/who-does-what/more-information/explaining-the-rules-why-are-there-eu-rules-and-national-rules_en).

³ Throughout the paper we use the general term “region”, but the analysis applies to alternative jurisdiction levels, including states and countries.

⁴ In the paper, central and regional governments refer interchangeably to federal and sub-national (state) governments, respectively, or to supra-national and national governments, respectively. We also consider mixed cases in which each level of government is responsible for implementing specific policies.

⁵ We consider a fourth variation in [Appendix D](#). In that version, we assume that the responsibility of deporting unauthorized immigrants falls entirely on the central

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