



Financing public goods and attitudes toward immigration [☆]



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ABSTRACT

We study a model where individuals choose both the level of provision of a public good and the quota of low-skilled immigrants that are allowed into the country. Individuals can supplement the public good in the private market. Immigrants affect natives through three channels: (i) the labor market; (ii) tax collection; (iii) the quality of the public good. We find that the higher the political weight of the rich (highly skilled) is, the less tolerant the poor and the middle-class are toward immigration and the more demanding they are toward increasing public spending. The rich are the most favorable to immigration. As they have more weight, the political outcome is closer to their preferences and further from the preferences of the other groups. We use data from the European Social Survey to test the implications of our model.

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1. Introduction

Several socioeconomic factors determine native attitudes toward immigrants and hence toward immigration policies. Native workers can be reluctant to receive more immigrants due to concerns about labor market competition from foreigners.¹ Another economic issue is whether immigration causes an increased tax burden on natives. That is, whether immigrants are net beneficiaries of the welfare system (Kerr and Kerr, 2011). It is this impact that has raised recently a great deal of concern regarding immigration in several European countries, particularly due to the economic crisis.² On top of these traditional factors that work through the labor market and the welfare state, it is also important to consider how the political process affects public opinion about immigrants. Political competition leads politicians to implement immigration policies that satisfy the interest of a majority, which in turn may foster hostile attitudes toward foreigners among those in a minority. That is, we claim that a great deal of

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¹ Jean and Jimenez (2011) provide evidence on the effects of immigration on natives' employment for various OECD countries over the period 1984–2003. See Blau and Kahn (2012) for a recent survey on the impact of immigration on income distribution.

² In fact, it is the perception by natives, not the true effect, what matters. For example, Cunningham (2006) demonstrates that, contrary to popular perceptions, communities in the US with high use of emergency departments have fewer immigrants.

variation in attitudes toward immigration is left unexplained by the aforementioned traditional factors. Two identical individuals (in observable characteristics) may have very different attitudes toward immigration simply because they live in regions with different types of political majorities.

The aim of this paper is to assess, theoretically and empirically, to what extent labor-market concerns, welfare state considerations, and political competition drive native attitudes toward immigration. We develop and test a model in which the interplay between immigration process, labor-market concerns, and welfare-state considerations determine the shape of native preferences regarding immigration and social (tax-expenditure) policies. Our model embeds the political economy model of public provision of private goods developed by [Epple and Romano \(1996\)](#) into a setting where agents also decide on immigration quotas. We consider three groups of natives who differ in their skill levels (low-, medium-, and highly skilled) and their political preferences. Natives first decide how much to supplement a public good by private purchases and, second, they choose by majority vote an immigration policy and a tax-expenditure policy. To obtain a voting equilibrium we use a version of the probabilistic voting model by [Lindbeck and Weibull \(1987\)](#).³ We use this model as it guarantees the existence of a political equilibrium in multi-dimensional models. It is particularly useful when citizens can be partitioned into different groups, as is our case.

An interesting implication of our model is as follows. We find that low- and medium-skilled natives living in countries where the highly skilled group is larger than the other two groups are: (i) more willing to restrict immigration and (ii) more willing to raise taxes and spending, compared to low- and medium-skilled natives living in countries where the highly skilled is not larger than the other groups. In other words, we find greater polarization of opinions on immigration in those countries in which the highly skilled group dominates. The intuition is simple. Where the rich are decisive, the political outcome is close to their bliss point. That is, a high immigration quota and a low level of public good provision. Yet this political outcome is far away from the bliss point of the other two groups, compared to countries in which the highly skilled are not decisive.

To test these implications we use data from the 2008 wave of the European Social Survey (ESS).⁴ The ESS contains several questions in which individuals express their attitudes toward immigrants, together with many other individual and socio-economic data. There is also information on attitudes toward public expenditure. Individuals answer whether or not they are willing to raise spending and taxes.⁵ We use the education levels of individuals as a proxy for skill. Individuals with higher education will be the highly skilled (the rich), individuals with at most secondary education will be the middle-skilled, and individuals with at most primary education will be the low-skilled. We compute the fractions that the three groups represent in each country, identifying the countries in which the highly skilled have a higher weight than the other two groups.

We want to explain individual preferences regarding both immigration and public spending. In fact, we claim that these preferences are jointly determined. The natural alternative is, therefore, to use a model in which this is explicitly taken into account. Since both variables of interest are dummy variables, we estimate a bivariate Probit model. In line with the previous literature we find evidence in favor of the labor market and the welfare state hypothesis. But we also find some evidence in favor of the “political process” channel. In particular, after fitting the model we calculate for each educational group average attitudes toward immigration and spending, but differentiating between whether those individuals live in a country where the highly skilled group is larger than the others groups or not. At this stage we have controlled for a number of observable characteristics, as well as for regional dummy variables.⁶

With respect to the attitude toward immigration our empirical evidence is in line with our theoretical prediction for both middle-skilled and highly skilled individuals, although not for the low-skilled. Consider first middle-skilled individuals. Among those who live in countries where the highly skilled are a majority, a 41% of them are favorable to immigration, compared to a 47% among those who live where the highly skilled are not a majority. For the highly skilled, differences are much bigger since the corresponding percentages are 45% and 65%. On the contrary, low-skilled individuals seem less favorable to immigration in countries where the highly skilled are not a majority (29%) than where they are a majority (36%).⁷ With respect to the attitude toward public spending the evidence is in line with our theoretical predictions for the three groups. Among the low-skilled, we find that they are more willing to support an increase in spending if they live in a high-skilled country (43%) than if they live in a country where the highly skilled are not a majority (36%). For the middle-skilled, the corresponding numbers are 34% and 30%, while for the highly skilled they are 36% and 34%.⁸

[Ortega \(2010\)](#) develops a theoretical model to analyze the political sustainability of the welfare state. In his model agents choose redistribution and immigration policy by majority vote. He shows that unskilled voters use unskilled immigration policy as a device that allows them to guarantee a higher degree of redistribution in the future.⁹ [Llavador and Solano-García \(2011\)](#)

³ See also [Persson and Tabellini \(2000\)](#).

⁴ ESS Round 4: European Social Survey Round 4 Data (2008). Data file edition 4.1. Norwegian Social Science Data Services, Norway — Data Archive and distributor of ESS data.

⁵ The reason for using only the 2008 wave is that in the other waves individuals are not asked about their attitudes regarding public expenditure.

⁶ Regions are defined at the NUTS-1 level and the dummy variables aim to control for the average differences across regions in any unobservable characteristics.

⁷ Differences are statistically significant for the three groups, at least at the 0.1% level of significance.

⁸ Regarding opinions about public spending, differences are statistically significant for low- and middle-skilled groups (p-value < 0.001 in both cases). For the high-skilled, the difference is not statistically significant (p-value is 0.214).

⁹ See [Gaston and Rajaguru \(2013\)](#) for an empirical analysis of the effects of (unskilled) immigration on welfare state spending.

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