

The impact of immigration on local tax revenues and public expenditures in the United States*

Anna Maria Mayda,[†] Mine Senses [‡], Walter Steingress[§]

September 25, 2020

PRELIMINARY - PLEASE DO NOT CITE

Abstract

This paper studies the causal impact of immigration to the United States on local tax revenues and public expenditures using county-level data from 1990 to 2010. Our main contribution is to show that in the short-run an increase in high-skilled immigrants improves the fiscal health of local governments, while the arrival of low-skilled immigrants worsens it, although the latter effect is heterogeneous along several dimensions. These effects are consistent with a framework in which tax rates do not (fully) adjust to the arrival of immigrants, hence per capita tax revenues and benefits change, as predicted by the *benefit adjustment model*. One of the main channels through which county-level revenues are affected is property taxes. We also find that transfers to the county from the federal government partially offset the local impact of immigration.

JEL classifications: F22, H41, H7, J61, J68, R5

Keywords: Immigration, Welfare State, Tax Revenues, Public Expenditures, Fiscal Effects.

*The views expressed in this paper are those of the authors alone and do not reflect those of the Bank of Canada.

[†]Georgetown University and CEPR; email: amm223@georgetown.edu.

[‡]Johns Hopkins University; email: msenses@jhu.edu

[§]Bank of Canada - Banque du Canada; email: wsteingress@bank-banque-canada.ca.