Abstract

In the ongoing 'era of mass migration' the economic hostility to immigration is driven by concern about their effects on public finances "as much as and probably more than by effects on labour market outcomes" (Preston, 2014, p.569). There are a number of transmission mechanisms going from immigration inflows to government spending. Also, population movements still featuring globalisation processes have affected the population composition of countries worldwide. In this paper we focus on the extent to which migration-driven diversity - the degree of birthplace heterogeneity that is caused by immigration, reduces government redistribution. Country level analyses have made a good deal of progress in exploring how cultural diversity can reduce the willingness to redistribute income and provide public goods; yet, cross-country studies have typically failed to find significant relations between diversity and transfers (e.g., Alesina et al. 2003). Remarkably, previous studies use time-invariant indeces based on language and ethnicity (see e.g., Desmet et al., 2017), which do not acknowledge how societal composition has changed following mass migrations. Against this background, first we use a comprehensive dyadic dataset on international migration between 1960 and 2013 for over 230 destination countries and compute time-varying indexes of birthplace fractionalization and polarization. Second, we explore whether changes in migration-fuelled diversity have an effect on the amount of transfers and subsidies, perhaps the most contentious form of public good. As individuals might sort themselves among governments based on local welfare generosity, we use a novel gravity-based instrumental variable approach. Our results are robust across specifications and suggest that birthplace diversity reduces government redistribution. The coefficient of polarization retains a similar magnitude but decreases in significance. These evidence stand in contrast to previous studies, which suggest instead that i) diversity does not actually have any effect on public spending unless we control for distances between subgroups (e.g., Desmet et al., 2009) and that ii) fractionalization and polarization have opposite impact on development indicators. Measurement errors due to both cross-sectional analysis and time invariant proxies of diversity could explain previous results. In particular, results suggest how it is the time dimension that allows birthplace diversity to capture the degree of social mistrust at play, that time-invariant measures of ethnicity and language fail to depict.

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