

# Immigrants Do Not Negatively Affect the Economic Institutions of American States

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# Immigrants Do Not Negatively Affect the Economic Institutions of American States\*

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## Abstract

Freer immigration could potentially lead to trillions of dollars in additional annual global output. However, the movement of many more immigrants could produce negative externalities that swamp the benefits, particularly if immigrants undermine productivity in their new countries by bringing with them the institutions or cultures that are responsible for low productivity in their home countries. We examine this by seeing how immigrants affect state budgets — a proxy for the quality of economic institutions — between 1970 and 2010 in the United States. We find that larger immigrant shares of the population produce large reductions in the growth of real per capita tax revenue and outlays in the short run that moderate to smaller longer-term growth declines in both.

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# 1 Introduction

Economists assume that voluntary exchange is mutually beneficial. A recent Gallup poll found that 750 million people worldwide would prefer to live in another country, but immigration restrictions enforced by virtually every government prevent them from moving.<sup>1</sup> Thus, immigration restrictions prevent many billions of such voluntary exchanges from occurring and produce an annual deadweight loss of tens of trillions of dollars. Global labor misallocation created by immigration barriers is likely the most economically destructive set of laws worldwide.

However, there are potentially negative externalities to freer immigration. Most immigration externalities can be corrected through keyhole reforms to public policies, such as reducing welfare access to immigrants or targeted immigration restrictions against criminals and terrorists, that would capture the large benefits of free immigration and reduce the external costs. However, perhaps the most important externality related to immigration is how immigrants impact institutions that are, at least partially, responsible for the prosperity in destination countries. If freer immigration negatively impacts these institutions, then perhaps, extensive immigration restrictions are justified on cost-benefit grounds. However, if immigration doesn't negatively impact these institutions, or even positively impacts them, then the cost-benefit case for free immigration becomes even stronger.

This chapter will consider whether immigrants reduce the quality of wealth-producing institutions in the countries where they settle<sup>2</sup> We take as our starting point the baseline estimates of the global gains from free immigration and estimates of place-specific productivity. Readers of this volume will be familiar with Michael Clemens 2011 survey of the literature on the gains from free immigration in an aptly titled article “Economics of Emigration: Trillion-Dollar Bills on the Sidewalk?”<sup>3</sup> The methodologies and assumptions in the studies vary, but they all estimate massive increases in gross world product (GWP) by abolishing immigration restrictions.<sup>4</sup> They range from a low of 67 percent to nearly a 150 percent increase in GWP,

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1. Esipova, N. and Pugliese, A. and Ray, J., [More Than 750 Million Worldwide Would Migrate If They Could](https://news.gallup.com/poll/245255/750-million-worldwide-migrate.aspx), 2018, <https://news.gallup.com/poll/245255/750-million-worldwide-migrate.aspx>.

2. Much of this chapter is adapted from our forthcoming Cambridge University Press book *Wretched Refuse? The Political Economy of Immigration and Institutions*.

3. Michael A. Clemens, [Economics and Emigration: Trillion-Dollar Bills on the Sidewalk?](#), *Journal of Economic Perspectives* 25, no. 3 (September 2011): 83–106.

4. Clemens, “[Economics and Emigration: Trillion-Dollar Bills on the Sidewalk?](#)”; B. Hamilton and J. Whalley, [Efficiency and distributional implications of global restrictions on labour mobility: Calculations and policy implications](#), *Journal of Development Economics* 14, no. 1 (1984): 61–75; J.W. Moses and B. Letnes, [The Economic Costs to International Labor Restrictions: Revisiting the Empirical Discussion](#), *World Development* 32, no. 10 (2004): 1609–1626; A. Iregui, [Efficiency Gains from the Elimination of Global Restrictions on Labour Mobility](#), in *Poverty, International Migration and Asylum*, ed. G. Borjas and J. Crisp (New York, NY: Palgrave Macmillian,

which dwarfs the gains of removing all remaining barriers to trade and capital mobility.<sup>5</sup> Since the gains estimated in those papers accrue annually, the present value of free immigration is potentially worth over a quadrillion dollars in additional global output.<sup>6</sup>

In another approach that readers of this volume are also likely familiar with, economists Michael Clemens, Claudio Montenegro, and Lant Pritchett measure the place premium, the extra productivity due to working in the United States, by comparing individual real purchasing power parity (PPP) adjusted wages from 42 poorer countries with individual wages in the United States, controlling for observable differences in age and education.<sup>7</sup> The place premiums they estimate range from a high factor of 16.4 for Yemen to a low of 1.7 for Morocco. The lower-bound place premium for the median country is a factor of 3.95. The lower-bound place premium is a factor of 5.65 for the average country weighted by working age population. This translates into a lower-bound estimate of the average real wage (PPP) gain of \$13,600 for immigrants from the median country and an average of \$13,700 across the 1.5 billion working-age people from these 42 countries.

Under either approach above the estimated gains from free immigration should easily swamp the costs imposed by any negative externalities that could emerge. Even if free immigration imposed some negative externalities on the native born, the gains from free immigration would essentially eliminate extreme poverty by massively expanding global output. It is hard to imagine such a policy not passing a cost-benefit test if the production functions of destination countries, which are largely a result of their economic institutions, are not themselves damaged.

The new economic case for immigration restrictions posits that immigrants could transmit the traits responsible for low productivity in their countries of origin to their destination countries and thus lower productivity there.<sup>8</sup> If the transmission of these low productivity

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2005), 211–38.; J. Kennan, *Open borders*, *Review of Economic Dynamics* 16, no. 2 (2013): L1–L13.

5. Clemens, “*Economics and Emigration: Trillion-Dollar Bills on the Sidewalk?*”

6. A more recent paper by Klaus Desmet, David Krisztian Nagy, and Esteban Rossi-Hansberg built an endogenous growth model with spatial heterogeneity, costly trade, local amenities that determine a place’s desirability, and place-specific productivity levels. In their model, free immigration would increase real world income by a present discounted value of 126 percent, boost global welfare by 306 percent, and result in about 70 percent of the world’s population emigrating. The two downsides of their paper are that their model goes far in the future, about 600 years, and the increase in the number of immigrants all happens within year one of free immigration becomes law. Klaus Desmet, Dávid Krisztián Nagy, and Esteban Rossi-Hansberg, *The Geography of Development*, *Journal of Political Economy* 126, no. 3 (2018): 903–983

7. M.A. Clemens, C.E. Montenegro, and L. Pritchett, *The Place Premium: Bounding the Price Equivalent of Migration Barriers*, *The Review of Economics and Statistics* 101, no. 2 (May 2019): 201–213.

8. M.A. Clemens and L. Pritchett, *The new economic case for migration restrictions: An assessment*, *Journal of Development Economics* 138 (2019): 153–164; George J. Borjas, *Immigration and Globalization: A Review Essay*, *Journal of Economic Literature* 53, no. 4 (December 2015): 961–74; G. Jones, *Do immigrants import their economic destiny?*, 2016, <http://economics.com/do-immigrants-import-their-economic-destiny-garrett-jones/>; Louis Putterman and David N. Weil, *Post-1500 Population Flows and The Long-Run Determinants of Economic*

traits to richer destination countries occurs then the economic gains from free immigration could shrink, disappear, or even turn negative.

Economist Paul Collier was the first to make the new economic case for immigration restrictions.<sup>9</sup> He worries that immigrants could import institutions, dysfunctional social models, and cultural characteristics that are responsible for the poverty of their homelands.<sup>10</sup> Collier offers anecdotes of these impacts in Great Britain, many of which are centered around the culinary fusion between Indian and British cuisine, but provides no evidence of a deleterious effect on economic productivity.<sup>11</sup> George Borjas added a formal theoretical model to augment Collier's argument that showed how immigrant-induced degradation of productive institutions could significantly undermine the economic gains of free immigration or perhaps even turn them negative.<sup>12</sup> Collier relies on a cultural model of economic development while Borjas adds the argument that immigrants could degrade the quality of economic institutions by increasing the role of the government in the economy and otherwise worsening the quality of economic institutions by making them less inclusive.<sup>13</sup>

We believe that Collier's and Borjas' conjectures are the most important challenges to the case for free immigration. However, these challenges are essentially empirical conjectures that require systematic empirical evidence. A forthcoming book authored by Alex Nowrasteh and Benjamin Powell titled *Wretched Refuse? The Political Economy of Immigration and Institutions* collected the evidence that attempted to empirically assess whether immigration degrades formal or informal institutions in destination countries that affect economic productivity.<sup>14</sup> We direct readers interested in the full assessment of this empirical question to that work.

In this chapter we expand our empirical analysis to the impact of immigration on economic institutions and public policy in the United States. If immigrants carry with them the traits responsible for the poor economic institutions in their origin countries then they could plausibly transmit those traits to their destination country and undermine economic freedoms there. Examining how immigrants affect state-level policies in the United States helps to an-

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Growth and Inequality, *The Quarterly Journal of Economics* 125, no. 4 (November 2010): 1627–1682; P. Collier, *Exodus: How Migration Is Changing Our World* (New York, NY: Oxford University Press, 2013); G. Borjas, *Immigration Economics* (Cambridge, MA: Harvard University Press, 2014).

9. Collier, *Exodus: How Migration Is Changing Our World*.

10. Collier, p. 34.

11. Collier, p. 100.

12. 149 Borjas, *Immigration Economics*; Borjas, "Immigration and Globalization: A Review Essay."

13. Borjas, "Immigration and Globalization: A Review Essay."

14. A. Nowrasteh and B. Powell, *Wretched Refuse? The Political Economy of Immigration and Institutions* (New York, NY: Cambridge University Press, forthcoming).

swer whether such a phenomenon occurs by relying on the differences in state-level economic policies and the radically different immigrant settlement patterns inside of the United States. Specifically, we will analyze how immigration affects state-level economic state-level spending which is a proxy-measurement for economic freedom.<sup>15</sup>

## 2 Immigration’s Effect on State-Level Economic Institutions

Economist Marco Tabellini investigated how immigrants in the late 19th and early 20th centuries affected municipal tax rates, total city tax revenue, and the government supply of services during the 1910 to 1930 period in the United States.<sup>16</sup> He focused on cities and municipalities because they supplied most government goods and services in the early 20th century. Tabellini used a shift-share instrument that uses immigrants’ past settlement patterns interacted with national inflows to predict immigration across U.S. cities. He found that European immigrant populations on the city level, especially if they were from Eastern and Southern Europe, resulted in lower municipal tax rates, less tax revenue, and less government supply of services during the 1910 to 1930 period. Specifically, he found that a one-standard deviation increase in the immigrant population (about five percentage points) reduced per capita government spending by 5 percent and property tax rates by 7.5 percent on the city level.

In a later working paper, Tabellini and economist Paola Giuliano used the same shift-share instrument to gauge how the long-run effects of European immigrants in the later 19th and early 20th centuries affected public support for the Democratic Party and redistribution on the county level during the 2006-2018 period.<sup>17</sup> They found that more European immigrants in the past led to more support for the Democratic Party and for redistribution on the country level today. The major weakness of this second paper is that it does not measure the actual effect on government spending and tax policies because counties do not supply many government services nor do they levy many taxes, in contrast to the early 20th century. Thus, any analysis of how immigrant settlement patterns on the county level in the past affected county-level

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15. J.C. Hall and R.A. Lawson, *Economic Freedom of the World: An Accounting of the Literature*, *Contemporary Economic Policy* 32, no. 1 (2014): 1–19; Nathan J. Ashby, *Economic Freedom and Migration Flows between U.S. States*, *Southern Economic Journal* 73, no. 3 (January 2007): 677–697, <https://ideas.repec.org/a/sej/ancoec/v733y2007p677-697.html>; Nathan J. Ashby, *Freedom and International Migration*, *Southern Economic Journal* 77, no. 1 (July 2010): 49–62.

16. M. Tabellini, *Gifts of the immigrants, woes of the natives: lessons from the age of migration*, *The Review of Economic Studies* 87, no. 1 (January 2020): 454–486.

17. Paola Giuliano and Marco Tabellini, *The Seeds of Ideology: Historical Immigration and Political Preferences in the United States*, Working Paper, Working Paper Series 27238 (National Bureau of Economic Research, May 2020).

spending policies today would not be that meaningful. Therefore, we decide to meld the methods employed by Tabellini and Giuliano in their papers to examine how recent waves of immigrants since 1960 affected state-level government spending today.

### 3 Immigration’s Effect on State Government Revenue and Spending: Data and Methods<sup>18</sup>

This section focuses on the relationship between changes in states’ foreign-born shares of the population and growth in real state-level outlays per capita because it is a major component of government priorities and correlated with the quality of other economic institutions such as private property rights and regulation.<sup>19</sup> We rely upon state-level decadal panel data for state budgets and immigrant population shares over the period 1960-2010 for all 50 states and the District of Columbia. Data on state government expenditures come from the Government Finance Database (GFD), which compiles government financial data collected by the U.S. Census Bureau and harmonizes the data for state, county, and local governments.<sup>20</sup> We specifically exclude federal grants to the states because those spending decisions are not made by state governments and we need to focus on how immigrants in states affect state-level spending and tax decisions only. GFD data include detailed public financial data on revenues and expenditures broken down by type and function. Specifically, we focus on four variables of interest in the GFD dataset:

1. General revenues: State revenues from all sources, including federal grants and any other intergovernmental revenue sources.
2. General revenue from own sources: Revenues from state taxes, fees, returns on state-run insurance schemes, and revenues from state-owned/regulated enterprises like utilities and liquor stores.
3. Total expenditures: All state expenditures such as wages, capital outlays, construction expenditures, and intergovernmental transfers.

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18. Some of this section and the following section is based off of questions posed in this blog post: A. Nowrasteh and A.C. Forrester, [Do immigrants make the United States more left-wing?](https://www.cato.org/blog/do-immigrants-make-united-states-more-left-wing), 2020, <https://www.cato.org/blog/do-immigrants-make-united-states-more-left-wing>

19. J. Ott, [Measuring economic freedom: better without size of government](#), *Social Indicators Research* 135 (2016): 479–498.

20. Hand M. Pierson K. and Thompson F., [The Government Finance Database: A Common Resource for Quantitative Research in Public Financial Analysis](#), *PLoS ONE* 10, no. 6 (2015): 479–498.

4. Direct expenditures: All state expenditures such as wages, capital outlays, and construction expenditures.

Using intercensal data, we convert the expenditures into per capita terms and adjust for inflation using the personal consumption expenditures (PCE) price index.<sup>21</sup> Data on the foreign-born share of the population by state are taken from the 1960-2000 decennial Censuses and the 2008-2012 American Community Survey from IPUMS.<sup>22</sup> These data include the total population and foreign-born stock for each decade for each state for 1960-2012.<sup>23</sup>

Leveraging the panel structure of our data, we estimate fixed effects regressions that regress the log difference in per capita expenditures on the foreign-born share. In each model we control for state and region-by-year fixed effects.<sup>24</sup> This implies that the correlation between spending and the foreign-born share is estimated from changes in the foreign-born shares within a state over time relative to other states in the same region and year. Furthermore, we use a shift-share style instrumental variable approach to test the correlation between state government expenditures and a state’s foreign-born share. We are interested in the following dynamic specification:

$$\Delta y_{st} = \alpha_s + \lambda_t + \beta_1 X_{st} + \beta_2 X_{st-1} + \varepsilon_{st}, \quad (1)$$

where  $\Delta y_{st}$  is the log change in spending in state  $s$  in year  $t$ . The main variable of interest  $X_{st}$  is the state’s foreign-born share. Following Jaeger, Ruist, and Stuhler<sup>25</sup> we are interested in both the contemporaneous and lagged value of the foreign-born share. The coefficient  $\beta_1$  captures the short-run effect impact of immigration on government spending while  $\beta_2$  captures long-run adjustment. We partition the unobserved heterogeneity into additive state and interacted region-by-year fixed effects, denoted by  $\alpha_s$  and  $\alpha_t$  respectively. This specification implies that the correlation between state government growth and the foreign-born share is estimated by comparing within-state variation within the same region and year.  $\varepsilon_{st}$  is the structural error term. Standard errors are clustered at the state level to allow for arbitrary

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21. The first year of available for most states in the GFD is 1972. For simplicity, we backshift the 1972 data to represent 1970. Since the District of Columbia reports data directly for 1970, we use the provided 1970 data.

22. S. Ruggles et al., *IPUMS USA: Version 10.0 [dataset]*, 2020, <https://doi.org/10.18128/D010.V10.0>.

23. We pool the 2008-2012 ACS 5-year estimates for the year 2010.

24. U.S. Census Bureau, *Census Regions and Division of the United States*, [https://www2.census.gov/geo/pdfs/maps-data/maps/reference/us\\_regdiv.pdf](https://www2.census.gov/geo/pdfs/maps-data/maps/reference/us_regdiv.pdf).

25. D.A. Jaeger, J. Ruist, and J. Stuhler, *Shift-Share Instruments and the Impact of Immigration*, Working Paper, Working Paper Series 24285 (National Bureau of Economic Research, February 2018).

serial correlation in the error term.

Immigrant settlement patterns may reflect other local factors that are uncaptured by fixed effects. For instance, immigrants may be attracted to states that provide larger safety nets over time. Similar to the approach used by Tabellini and Giuliano, we use a shift-share style instrumental variable to partially address the endogeneity concerns.<sup>26</sup> In particular, we follow the method described by Adão, Kolesár, and Morales<sup>27</sup> to construct an instrument that apportions national immigrant inflows into the United States to states according to the shares that settled in each state in 1960. We instrument the foreign-born share with the shift-share instrument:

$$Z_{st} = \sum_o sh_{ost_0} \frac{\Delta Imm_{ot}}{Imm_{ot_0}}. \quad (2)$$

In this formulation,  $sh_{ost_0}$  is the initial share of immigrants from origin  $o$  living in state  $s$  in a baseline year  $t_0$ .  $\frac{\Delta Imm_{ot}}{Imm_{ot_0}}$  is the shifter, where  $\Delta Imm_{ot}$  is the number of immigrants arriving from origin  $o$  between years  $t$  to  $t - 10$  and  $Imm_{ot_0}$  is the number of immigrants from origin  $o$  in baseline year  $t_0$ .<sup>28</sup> In each dynamic specification we instrument the current and lagged foreign-born share with the current and lagged instrument.

## 4 Immigration’s Effect on State Government Tax Revenue

Table 1 presents estimates from our dynamic regressions of log per capita revenue growth and the foreign-born population share.<sup>29</sup> Columns 1 and 2 report our benchmark OLS estimates for growth in total revenue and revenues from the state’s own sources, respectively. In each specification we find negative short run effects of immigration on state per capita revenue growth. For a percentage point in the foreign-born share we find a short-run decline in per capita spending of 6.2 percent for both general revenues and 6.3 percent for revenues from own sources conditional on fixed effects. Each estimate is significant at the 1 percent level. In the

26. Giuliano and Tabellini, *The Seeds of Ideology: Historical Immigration and Political Preferences in the United States*.

27. Rodrigo Adão, Michal Kolesár, and Eduardo Morales, *Shift-Share Designs: Theory and Inference*, *The Quarterly Journal of Economics* 134, no. 4 (August 2019): 1949–2010.

28. Since the composition of countries of origin reported in the decennial Census changes between decennial census rounds, we opt to aggregate individual countries of origin into regions. This ensures that our measures are not driven by the composition of specific origin countries in the Census data.

29. Table A1 presents the summary statistics.

long run, we find a slight positive readjustment of around 5.3 to 5.5 percent for revenue from own sources and general revenue, respectively. Thus, increases in the immigrants share of a state's population is associated with a large temporary decline in state-government revenue that becomes a smaller long term decline.

Next, we use the shift-share instrument. Columns 3 and 4 instrument the present and lagged foreign-born share with the shift-share instrument described in the previous section. Each instrument boasts a Kleibergen-Paap robust F-statistic of 65.8 for the present instrument and 60.4 for the past instrument, providing evidence of strong instrumentation. Our 2SLS results are relatively close in magnitude to our OLS estimates. We similarly find negative short-run impacts from a 1 percent increase in immigration of 7.9 to 8.7 percent on revenue growth from own sources and general revenues, respectively. We again find positive long run readjustments of around 6 percent for each form of revenue growth, showing that state-government revenue rebounds but is still lower in the long run after the increase in the share of immigration.

## 5 Immigration's Effect on State Government Spending

Next we consider growth in real per capita state-government expenditures measured by total and direct expenditures. Recall that total state-government expenditures are spent on wages, capital outlays, construction, and intergovernmental transfer payments. Direct expenditures include those outlays minus intergovernmental transfer payments. Our results are displayed in Table 2. Comparable to our results with revenues, our OLS results show negative short-run impacts and smaller net-negative long-run adjustments between immigration and expenditure growth that are all significant at the 1 percent level. For short-term impacts, our estimates suggest that a one percent increase in immigration is correlated with declines in expenditure growth of 8.7 percent for total expenditures and 9.8 percent for direct expenditures. As we found with the revenue decline, we again find positive, long-run readjustments of 8.1 to 9.1 percent that do not entirely make up for the initial decline in outlays.

Columns 3 and 4 present the lagged immigrant shares using the shift-share instrument described above. We find similar negative short-term effects and positive readjustments. In each instance we find larger magnitudes for short-term effects than for long-term impacts. Most significantly, our 2SLS estimates show that a percentage increase in the immigrant share correlates with a short-run decline in per capita direct expenditure growth of about 13 to 15

percent compared to 9 to 10 percent using OLS.

## 6 Discussion

Our main finding is that increases in the share of the foreign-born population on the state level is associated with slower growth in real per capita tax revenue and outlays in those states. In both cases, we find evidence that the short-term decline is not fully offset by long-term adjustments meaning that the effects are long-term. State level taxes and outlays are important indicators of the quality of economic institutions in and of themselves and the latter measure is correlated with other important economic institutions.<sup>30</sup> There are at least two major reasons why increases in a state’s foreign-born share of the population could slow growth in tax revenue and outlays.

The first potential explanation is that growth in state-level taxes and outlays slows when immigration increases because the immigrants increase the ethnic and racial diversity of the states where they settle which reduces overall public political support for government spending. In other words, increased diversity reduces social solidarity to the extent that it makes voters and politicians less willing to increase government spending and taxes to supply goods and services to a more diverse population.<sup>31</sup> For instance, respondents’ support for redistribution and welfare shrinks considerably on surveys when they are asked to consider that immigrants will also benefit from these programs.<sup>32</sup> The empirical economics literature finds that immigration-induced diversity decreases support for government spending on redistribution and welfare to the extent that it slows growth in these programs *but* that it rarely if ever causes them to shrink.<sup>33</sup> Over time, slower growth in redistribution and the size of welfare state payments results in large differences in the size of these programs across countries. These findings aren’t just confined to support for welfare and redistribution as they also affect other government outlays.<sup>34</sup> Our finding that increases in the immigrant share of a state’s population reduces

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30. Ott, “Measuring economic freedom: better without size of government.”

31. J. Roemer, W. Lee, and K. Van der Straeten, *Racism, Xenophobia, and Distribution: Multi-Issue Politics in Advanced Democracies* (Cambridge, MA: Harvard University Press, 2007).

32. Alberto Alesina, Armando Miano, and Stefanie Stantcheva, *Immigration and Redistribution*, Working Paper, Working Paper Series 24733 (National Bureau of Economic Research, June 2018).

33. S. Soroka, K. Banting, and R. Johnson, *Immigration and Redistribution in a Global Era*, in *Globalization and Egalitarian Redistribution*, ed. P. Bardhan, S. Bowles, and M. Wallerstein (Princeton, NJ: Princeton University Press, 2006), [https://www.researchgate.net/publication/228353731\\_Immigration\\_and\\_redistribution\\_in\\_a\\_global\\_era](https://www.researchgate.net/publication/228353731_Immigration_and_redistribution_in_a_global_era).

34. A. Alesina, R. Baqir, and W. Easterly, *Public goods and ethnic divisions*, *Quarterly Journal of Economics* 114, no. 4 (November 1999): 1243–1284; William Easterly and Ross Levine, *Africa’s Growth Tragedy: Policies and Ethnic Divisions*, *The Quarterly Journal of Economics* 112, no. 4 (November 1997): 1203–1250.

growth in state outlays and tax revenue is consistent with the existing empirical literature on how immigration-induced diversity reduces growth in many types of government outlays.

Immigration could also slow growth in government spending and taxes by undermining unionization. Unions are at the forefront of lobbying for more government intervention in the economy, spending on redistribution, and additional welfare benefits. Thus, weaker unions mean less political support for welfare and redistribution.<sup>35</sup> Seymour Lipset and Gary Marks hypothesized that the American labor movement was weaker than in other developed countries because immigration increased the level of ethnic, racial, and religious heterogeneity in the United States.<sup>36</sup> That increase in diversity raised the transaction costs and the costs of collective action to such a degree that labor unions had difficulty organizing and successfully striking. Mass unionization without government support is difficult enough in near-homogeneous nation-states and that much more difficult in diverse countries because it is harder for organizers to overcome the free-rider problem, which is that workers get the benefits of unionization even if they don't join the union, that then undermines the creation of unions to begin with,<sup>37</sup> American unions tried to overcome this free-rider problem by supplying excludable goods to members but it was more difficult to supply those goods when the workforce was diverse. For instance, immigrants from a society with a tradition of mutual aid might be reluctant to buy union-sponsored accident insurance schemes while union-sponsored Christmas parties wouldn't appeal to non-Christian workers.<sup>38</sup> After the union is formed, collective bargaining is more difficult with a diverse workforce. For instance, deciding which holidays or days of the week should be days off of work is more difficult with a religiously heterogeneous workforce that celebrates different holidays and honors the sabbath on different days of the week.<sup>39</sup> By undermining worker solidarity by increasing diversity, immigration could undermine the formation, growth, and success of labor union that in turn reduces their effectiveness at lobbying and voting for increased government spending.

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35. S.M. Lipset and G. Marks, *It Didn't Happen Here: Why Socialism Failed in the United States* (New York, NY: W.W. Norton & Company, 2001).

36. Lipset and Marks.

37. M. Olson, *The Logic of Collective Action: Public Goods and the Theory of Groups* (Cambridge, MA: Harvard University Press, 1965), 76.

38. Olson, 74.

39. M. Olson, *The Rise and Decline of Nations* (New Haven, CT: Yale University Press, 1982), 24-5.

## 7 Conclusion

Taken together, our regression results suggest that a larger share of immigrants at the state level is correlated with slower state revenue and spending growth in the short-term, measured by total per capita government revenue and expenditure growth. We also find that while state spending tends to readjust in the long run, the short run decline in government growth tends to be greater in magnitude than the long-run adjustment. This result suggests that the short run impact of immigration on state government growth are not offset in the long-run and may result in permanent downward adjustments in state per capita revenue and spending. Our findings are consistent with the economic literature on how increases in diversity, whether immigrant-induced or otherwise, causes lower support for government spending and results in slower growth in welfare and redistribution spending. This chapter presents further evidence that immigrants do not reduce the quality of government institutions and that there really are trillion-dollar bills laying on the sidewalk.

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## Tables

**Table 1. State Revenue Growth and the Foreign-Born Share**

Table reports regressions of log differences in revenue per capita growth on the present and lagged foreign-born share. Columns (1) and (2) report results from OLS regressions on state foreign-born shares. Columns (3) and (4) report results from 2SLS regressions that instrument the current and lagged foreign-born share using a present and lagged shift-share instrument using initial shares in 1960 interacted with national immigrant inflows. Robust standard errors are clustered by state and reported in parentheses. Significance levels are coded \*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$ .

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	<i>Dependent variable:</i>			
	General	Own Sources	General	Own Sources
	(1)	(2)	(3)	(4)
FB (t)	-0.062*** (0.010)	-0.063*** (0.010)	-0.087*** (0.010)	-0.079*** (0.010)
FB (t-1)	0.055*** (0.012)	0.053*** (0.013)	0.063*** (0.011)	0.061*** (0.010)
Estimation	OLS	OLS	2SLS	2SLS
KP F-Stat (t)			65.795	65.795
KP F-Stat (t-1)			60.371	60.371
Observations	204	204	204	204

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**Table 2. State Expenditure Growth and the Foreign-Born Share**

Table reports regressions of log differences in expenditure per capita growth on the present and lagged foreign-born share. Columns (1) and (2) report results from OLS regressions on state foreign-born shares. Columns (3) and (4) report results from 2SLS regressions that instrument the current and lagged foreign-born share using a present and lagged shift-share instrument using initial shares in 1960 interacted with national immigrant inflows. Robust standard errors are clustered by state and reported in parentheses. Significance levels are coded \*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$ .

	<i>Dependent variable:</i>			
	Total	Direct	Total	Direct
	(1)	(2)	(3)	(4)
FB (t)	-0.087*** (0.011)	-0.098*** (0.012)	-0.128*** (0.019)	-0.151*** (0.021)
FB (t-1)	0.081*** (0.014)	0.091*** (0.015)	0.087*** (0.022)	0.099*** (0.023)
Estimation	OLS	OLS	2SLS	2SLS
KP F-Stat (t)			65.795	65.795
KP F-Stat (t-1)			60.371	60.371
Observations	204	204	204	204

### Appendix Table A1. Summary Statistics

Table reports summary statistics from our primary estimation sample. The revenue and expenditures variables are expressed as the log growth rate of each per capita measure in real 2019 dollars adjusted by PCE. Percent foreign-born denotes the foreign-born population share. Revenue and expenditure variables are from the Government Finance Database (GFD). Data on the foreign-born population are from the 1960-2000 Decennial Censuses and the 2008-2012 data from IPUMS.

Statistic	N	Mean	St. Dev.	Min	Pctl(25)	Median	Pctl(75)	Max
Revenue, All	204	1.010	0.361	0.393	0.703	1.013	1.292	2.347
Revenue, Own Sources	204	0.998	0.415	0.166	0.638	1.001	1.358	2.678
Expenditures, All	204	1.009	0.315	0.316	0.733	0.950	1.264	1.791
Expenditures, Direct	204	1.024	0.317	0.242	0.761	0.954	1.276	1.781
Percent Foreign-Born	204	6.918	5.504	0.976	2.778	4.782	9.396	28.118
Percent Imputed FB	204	0.625	1.839	0.003	0.041	0.127	0.400	14.973