

Migrations, Long- run Fiscal Sustainability and Economic Unions

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S V E R I G E S R I K S B A N K

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Discussion by Karl Walentin
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Summary

- The paper analyzes a relevant and understudied question -
Fiscal sustainability of countries in a world of international mobility
- More generally, it explores the macroeconomic and fiscal consequences of *economic* migration for heterogeneous countries
- The fiscal challenge is young people *leaving* the country
 - At some level capture similar positive fiscal effects on host countries as Storesletten (2000, JPE)
- Long-run analysis

Outline of framework and exercise performed

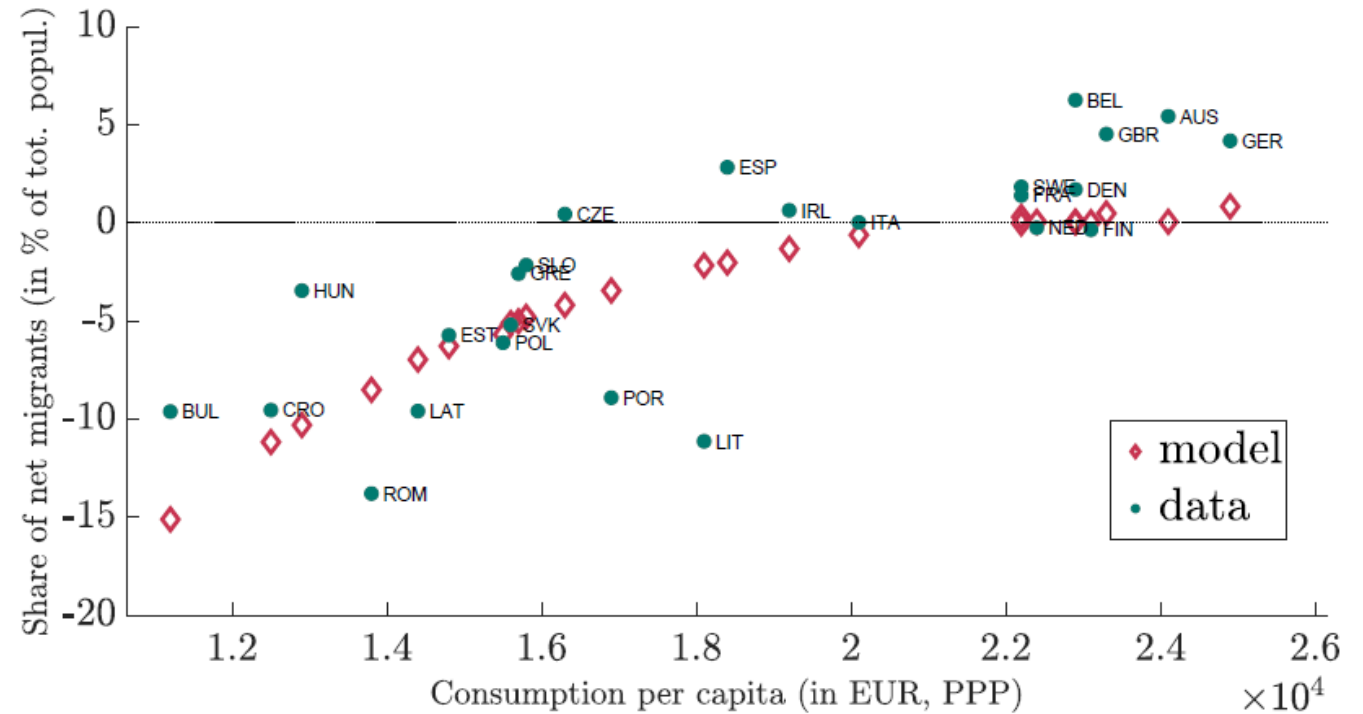
- Consider an economic union, EU, with approximately free mobility
- Countries differ in terms of productivity and government debt
- Young and old households
 - The young are internationally mobile
 - Will move to opportunity
- Outflow of young hurts a country fiscally:
 - Fewer people to pay off existing debt
 - Lower fraction of young per old
- The exercise performed is to compare situations with and without labor mobility

Model overview

- Two representative agents: young and old, in each country
 - All young agents are identical
 - All workers living in a given country have the same productivity
- Benevolent government choose policy to maximize weighted utility of the two agents:
 - Tax rate and
 - Government spending: Only valued by old agents (health care, elderly homes)
 - Not transfers – government expenditures enters utility separately
- No capital taxation, only labor income can be taxed
- Agents can move (to opportunity) but face a cost in doing so
- Model is an extension of Song, Storesletten and Zilibotti (2012)

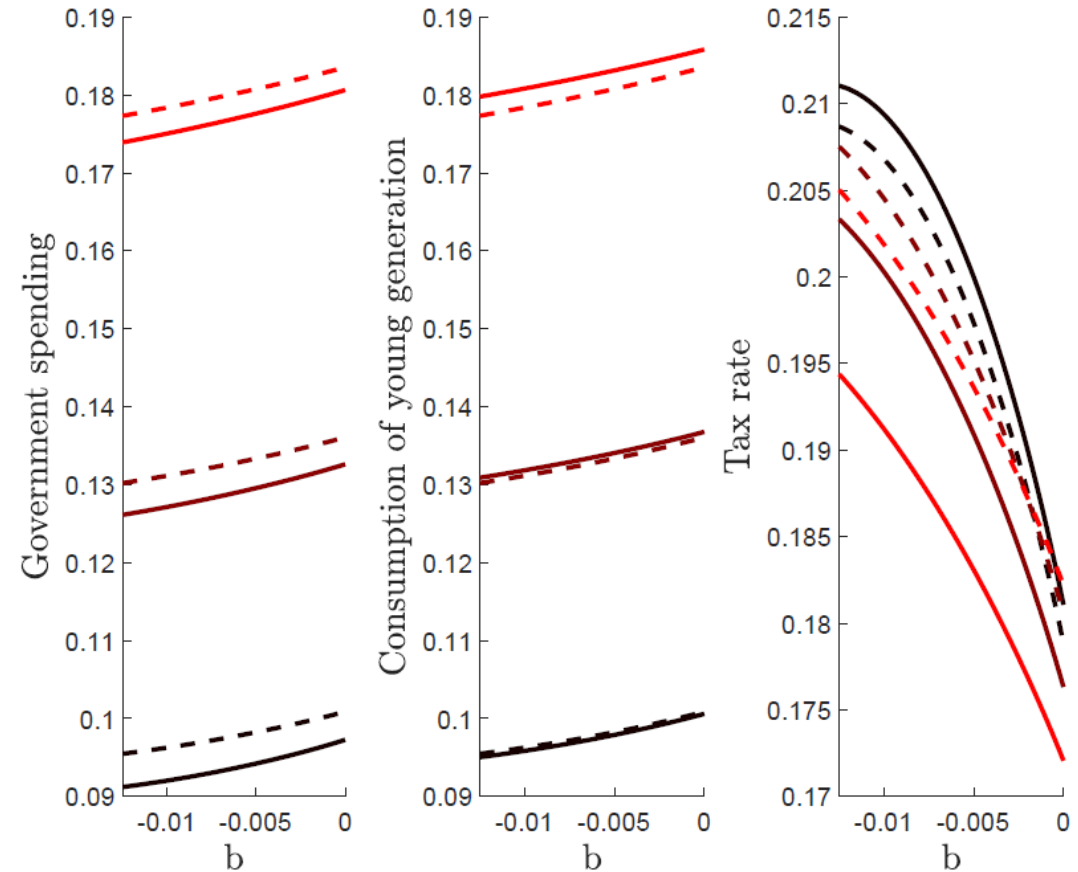
Data + Calibration

- Internal calibration: choose 3 parameters to fit the empirical relationship between:
 - Consumption and
 - Share of net migrants



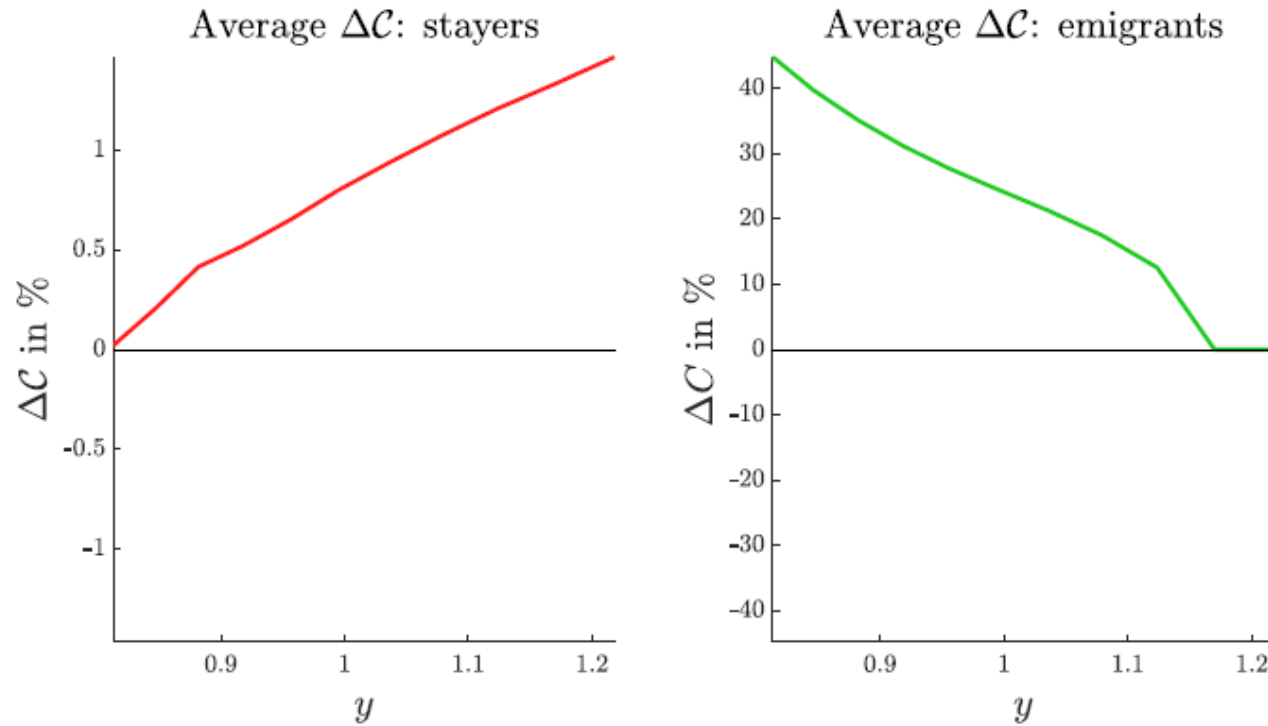
Findings (cross-country, quantitative)

- **Migration disciplines fiscal policy**
 - Must make policy attractive for young as they are the mobile agents
 - Reduce G and taxes
- Low productive countries are hurt, have to increase taxes
- ...but highly productive countries benefit and can reduce taxes substantially (by 1 percentage point)



Welfare of young increase from mobility

Figure 5: Welfare gains of stayers and emigrants



My comments

1. Where's the economic union?
2. Are all workers the same?
3. Measurement of migration
4. Elasticity of migration
5. Extension: "temporary" mobility
6. A microdata perspective

1. Where's the economic union?

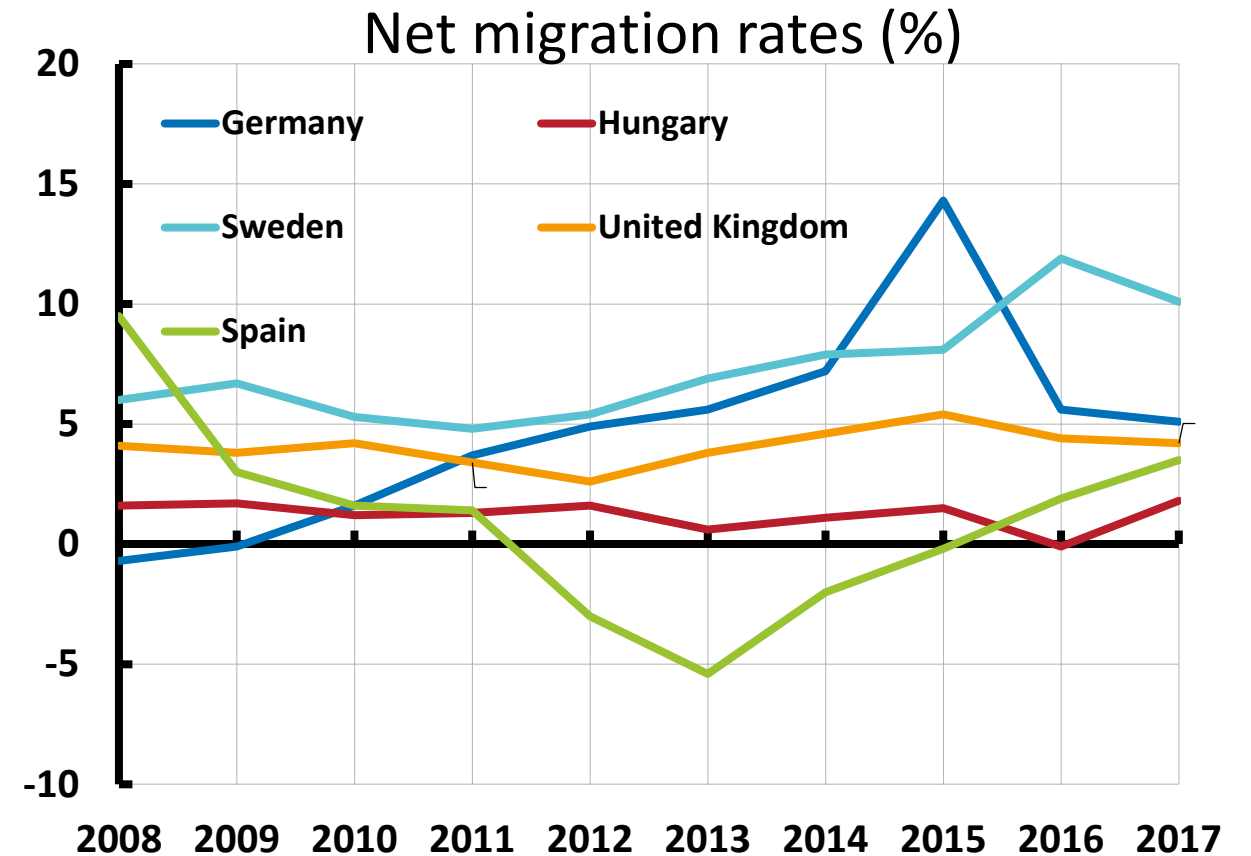
- This is not a model of economic unions
 - No union-wide policy
 - No trade or dependency between countries other than migration
 - No coordination at all between countries

2. Are all workers the same?

- Model implies all young agents benefit from international mobility
- Could this result be reversed by heterogeneity among workers?
 - What if it is the most productive workers who tend to leave?
 - Seems plausible if labor tax is proportional (or convex/progressive) and some country end up indebted
 - This might create poverty traps / countries “left behind”

3. Measurement of migration

- Current calibration uses one year (2017) of Eurostat data for net migration
- Migration is volatile – use a mean of a decade or so to capture structural factors
- Yields very different net migration numbers than in Figure 1
 - Reversals in relationships when using mean of 2008-2017:
 Sweden=7,3 > 4,7=Germany
 Sweden=7,3 > 4,1=Great Britain
 Hungary=1,2 > 1,0=Spain

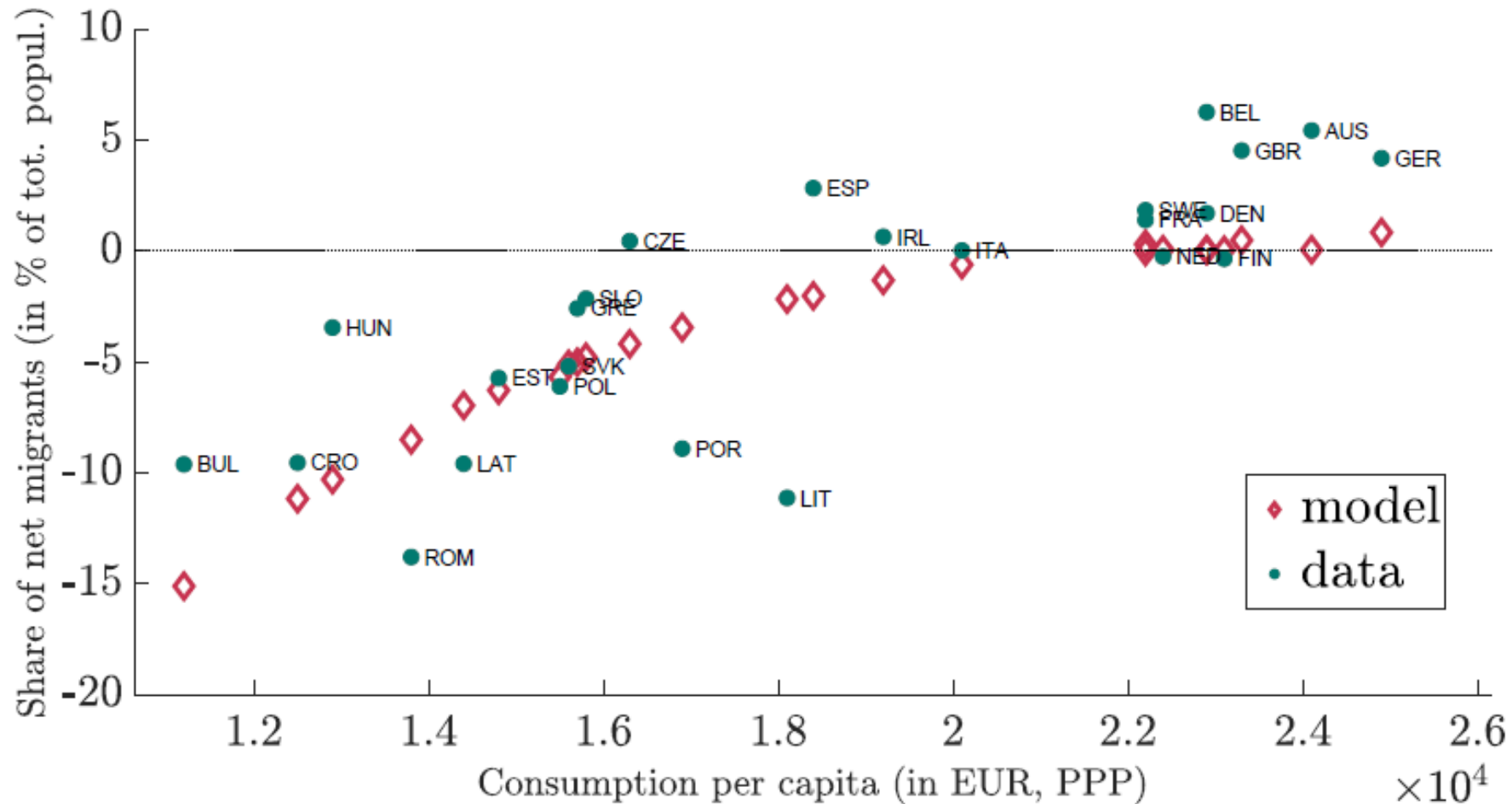


Eurostat: Crude rate of net migration plus statistical adjustm.

4. Elasticity of migration

- “Opportunity to move”-function is a black box
- Elasticity of migration to tax rate (or vice versa) appears excessive
 - What is the elasticity of net migration to taxes?
 - Elasticity with respect to country productivity?
- Consider making use of gravity-type model for quantifying cost of migration for an individual
- Where did everyone go?
 - In the model it appears that global net migration is negative
 - Differently from the empirical values

Where did everyone go?

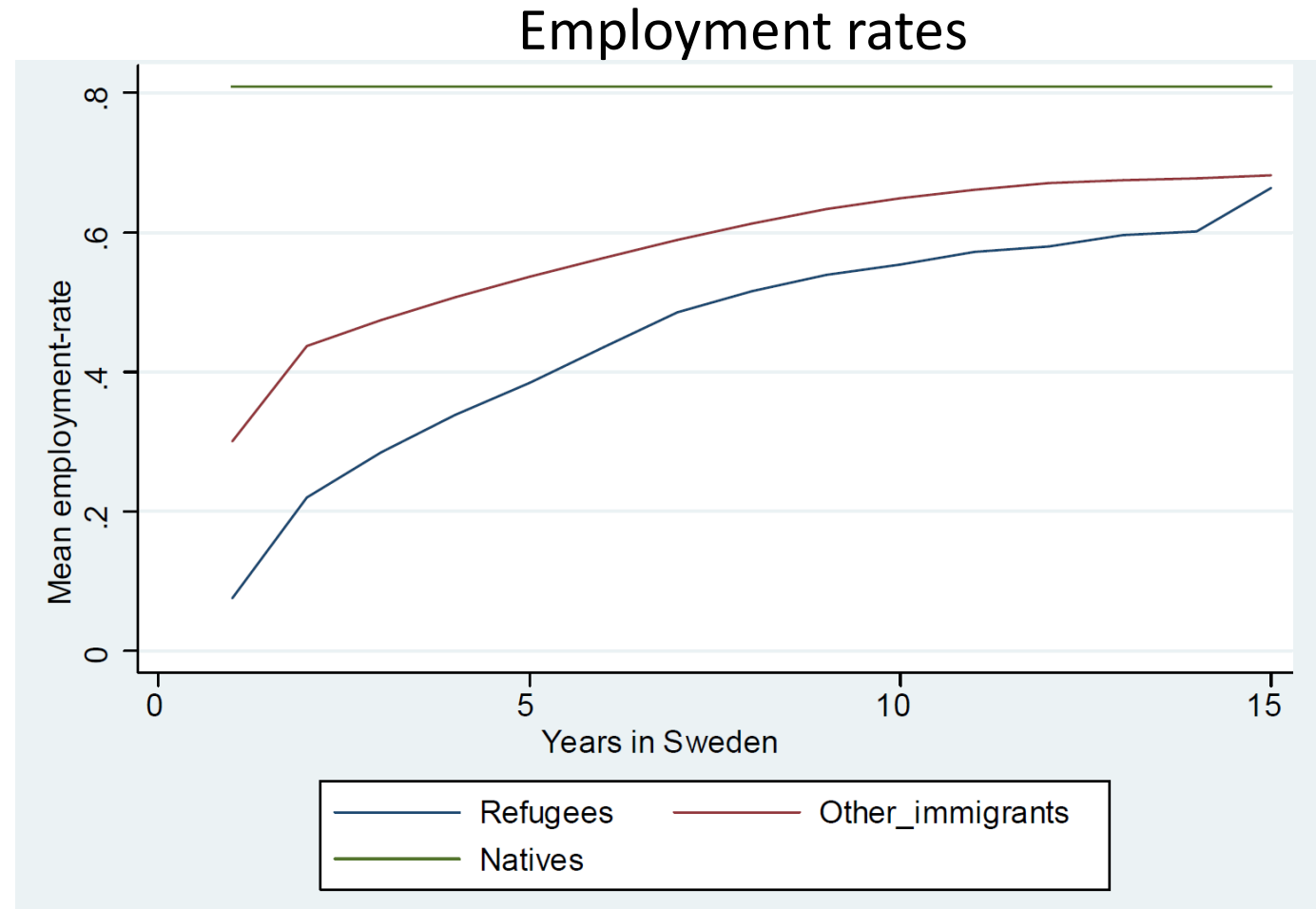


5. Extension: “Temporary” mobility

- An extension to consider is “temporary” (<30 year) migration, i.e. to move but return home before retirement
 - Separation of which country to live in as old vs. young might reduce fiscal discipline from migration
 - Reducing G (and debt) doesn’t affect attractiveness of temporary living in a country as young (**IF** old age benefits is based on current residency, not entire work history per country)

6. Microdata perspectives from Sweden

- In Sweden, substantial labor market differences depending on country of origin. E.g.:
 - Productivity
 - Non-natives estimated to be 73% as productive as natives (Ek, 2019)
 - Employment rates differ
- Olovsson, Walentin and Westermark explore dynamic consequences of immigration accounting for these differences



Concluding remarks

- A nice paper on an important, understudied topic
- Obtains clean analytical results
- The main novel result is emigration as a disciplining device for governments
- Maybe some empirical work + validation remains
 - For example, did the fiscal situation in the UK improve after EU enlargement in 2004?

Feedback for authors' eyes only

Mixed comments 1

- About Figure 1: Why consumption and not GDP? Could consider a migrant to gain ownership of fraction of the output of a country
 - Good for consistency to use GDP – you already use it to calibrate the productivity process
- Is abstracting from individual risk problematic? Does the government provide insurance?
 - I think you might be overlooking a positive aspect of taxes and transfers in this regard

Mixed comments 2

- In the context of “matching”/opportunity to move, given that you don’t draw utility for technical reasons, I would just work with the consumption metric throughout
- Regarding measurement of net migration, maybe you want to consider zooming in more on within-EU migration or at least on economic migration (i.e. exclude refugee migration) to line up better with the phenomenon covered by your model
 - If this more detailed data is available for sufficiently many countries