

Comment on Eskil Wadensjö: Immigration, the labour market and public finances in Denmark

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Immigration may affect the income conditions of the native population in many ways. There may be effects on the markets. Immigration may have an influence on relative factor prices, on employment opportunities for natives and on economic growth. The literature about these issues is voluminous, see Borjas (1994). However, these effects may arise not only through the markets but also through the publicly financed redistribution of incomes. The direction of this distribution depends on whether the immigrants make more or less use of the public sector than they contribute to the taxation system. If the immigrants contribute more/less in taxes than they receive from the public sector there are positive/negative income effects for the native population. The literature about this issue is still rather scarce but is growing. The direction of the redistribution effect is also often a matter for political debate and among the general public.

There are two major determinants of the immigrants' net contribution to the public sector. The first one is their age composition, the second one their employment situation. Immigrants have a higher proportion at economically active ages (20-60 years) than the native population. Therefore, in a situation with full employment for immigrants, it is expected that the immigrants' contribution to taxes would be higher than the public expenditure that they have incurred. However, the employment situation among immigrants has deteriorated in many countries during the past 15 years. This will counterbalance the effects of the immigrants' favourable age structure. To what extent this occurs is an empirical question.

Wadensjö's paper is interesting and of great value in this field. I will concentrate my comment on the following topics: 1) The role of indirect taxes and social security charges in the calculations; 2) The role of different kinds of public consumption and transfers to companies; and 3) The interpretation of the results.

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1. Indirect taxes and social security fees

From his data set Wadensjö has obtained information on individual payments of direct taxes. The immigrants' contribution to other taxes (indirect taxes, social security fees) must be estimated. There is no clear presentation of these estimations. The paper gives only the information that indirect taxes can be allocated in proportion to the consumption level of different individuals or households, and social security fees in proportion to the individuals' incomes from work. Wadensjö allocates indirect taxes from the demand side and social security charges from the supply side. The allocation of indirect taxes to immigrants in proportion to their share of consumption is a standard method used in this kind of estimate. However, I am not sure that the method is always the most suitable one. Immigrant groups with high unemployment rates receive public transfer payments and their net contribution to the public sector is negative. Their private consumption is partly financed by the host population (reduction of native private consumption level due to the presence of these immigrants). Another approach would therefore be to allocate both payments of indirect taxes and social security fees from the supply side. Indirect taxes are based on value added. The immigrants' contribution to the sum of value added in the economy can be assumed to correspond to their share of the sum of work incomes and capital incomes in the total population. An allocation of indirect taxes in proportion to the immigrants' share of value added would probably make the negative transfer for first and second generation immigrants from non-western countries somewhat more negative and the positive net transfer for first and second generation immigrants from western countries somewhat more positive.

2. Public consumption and transfers to companies

The data set provides information on public consumption expenditure that is allocated to individuals. Public consumption expenditure is also available for collective purposes. Some of these expenditures are largely unaffected by an increase in population, e.g. expenditure on defence and border control. Other forms of joint expenditure are dependent on the size of the population although they probably do not increase in proportion to an increase in the population. This is for instance the case with public expenditures on infrastructure. It is not clear how the latter type of expenditure is treated in Wadensjö's esti-

mations. One important question is whether the immigrant population in Denmark is so large that it is reasonable to regard it as being not marginal. There is no discussion of this issue. To what extent are the results sensitive to the use of different assumptions regarding the relationship between population increase and these kinds of public expenditure?

Public transfer payments to companies are obviously not allocated between immigrants and natives in Wadensjö's calculations. These transfers may indirectly affect the welfare of the individuals through their effects on employment and on the prices of goods and services. There is, however, no data or other information on how the benefits from these subsidies are allocated between immigrants and natives. It is probably reasonable to assume that the immigrants' share of these benefits correspond to their share of the total population.

Wadensjö's results in relation to a comparison between the groups would therefore be about the same even if public transfer payments to companies had been allocated between immigrants and natives.

3. Interpretation

Immigrants from western countries receive positive net transfers while immigrants from non-western countries experience negative net transfers for each year covered by Wadensjö's study (1991, 1995, 1996 and 1997). This is mainly attributable to differences in the labour market position of the various groups. The importance of immigrant integration in the labour market for the results of this kind of calculation has also been pointed out in studies for Sweden, see Ekberg (1983, 1999), Gustafsson & Larsson (1998) and Storesletten (1996).

For the whole immigrant population in Denmark there are negative transfers amounting to between .41 per cent (1991) and .81 per cent (1996) of GDP. How should these results be interpreted? The underlying question in Wadensjö's paper is: "What effect does an influx of immigrants have on the population already residing in the country in terms of the income and expenditure of the public sector." I am not sure that these negative transfers can be interpreted as amounts redistributed via public sector from the population already residing in Denmark to the immigrants. The interpretation depends to a great extent on how public consumption expenditure that is not directly linked to individuals is expected to increase due to immigration.

There is also another point of view. In some sense the calculations may somewhat overestimate the negative income effect of immigra-

tion on the native Danish population. There has also been an economic recession in Denmark, especially in the early 1990s. Investigations show that a depression usually redistributes the burden of unemployment. New people in the labour market, i.e. young people and immigrants, are more affected by a recession than others. The immigrants may have a buffer function. The unemployment rate among native Danes would possibly have been somewhat higher without the immigrants. In this sense, the immigrants' presence is expected to somewhat change the use of public expenditure by the host population and their contribution to the public sector.

References

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