Diversity, Immigration, and Redistribution

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This Paper

New, simple, conceptual framework to model how perceptions of, biases and attitudes towards immigrants share redistributive preferences.

Review of the literature on i) racial diversity and ii) immigration and redistribution through the lens of this framework.

A Conceptual Framework

Immigrants and non-immigrants (or minorities/non-minorities) choose whether to work or not

pretax income is $z = 1$ if they work and zero otherwise

Linear tax rate on income τ; revenues rebated lump-sum to all agents to finance a transfer c_0

Disposable income is $c_1 = c_0 + (1 - \tau)$ for those who work, c_0 otherwise

Utility is $u(c - \theta z)$

θ is a parameter shaping the disutility of earning income

$P^N(\theta)$ is the CDF for non-immigrants and $P^I(\theta)$ the CDF for immigrants

The share of immigrants is α

The fraction of agents who work is $P(1 - \tau) = \alpha P^I(1 - \tau) + (1 - \alpha)P^N(1 - \tau)$

e is the elasticity of $P(1 - \tau)$ with respect to the net-of-tax rate $(1 - \tau)$.

Optimal Tax and Redistribution

Society assigns to each individual i a marginal social welfare weight g_i, embodying its redistributive preferences

The optimal tax is

$$\tau^* = \frac{1-\bar{g}}{1-\bar{g}+e} \quad \text{with} \quad \bar{g} = \frac{\int_i g_i z_i di}{\int_i g_i di \cdot \int_i z_i di}$$

$\bar{g}$ is the average income-weighted social marginal welfare weight

Because non-workers have $z_i = 0$ and workers have $z_i = 1$, and setting $P = P(1-\tau)$,

$$\bar{g} = \bar{g}_1 / [P \cdot \bar{g}_1 + (1-P) \cdot \bar{g}_0]$$

$\bar{g}_1$ is the average weight on workers, and $\bar{g}_0$ the average weight on non-workers

τ^* lower when the elasticity of income or of the share of people working e is higher

Also lower when $\bar{g}$ is lower, i.e., when preferences are less redistributive

Optimal Tax and Redistribution

Assuming that people dislike "free loaders" and only value the "deserving poor"

The "deserving poor" cannot work, even absent any tax and transfer

Agents with $\theta > 1$

There are $1 - P^I(1)$ deserving poor among immigrants and $1 - P^N(1)$ deserving poor among natives

"Free loaders" do not work because of the generosity of the transfer, but they would work if there were no transfers

Agents with $1 \geq \theta > 1 - \tau$

There are $P^I(1) - P^I(1 - \tau)$ of them among immigrants (analogous for natives) with tax τ

The distinction between the two types is critical when it comes to support for redistribution – one can be poor because of a lack of effort or because of bad luck

Actual Composition of Immigrants

Suppose that people care equally about non-immigrants and immigrants

Workers obtain a standard (utilitarian) weight equal to their marginal utility from consumption $g_i = u'(c_1 - \theta_i)$ if $z_i = 1$, as do the deserving poor with $g_i = u'(c_0)$ if $z_i = 0$ and $\theta_i \geq 1$

Free-loaders obtain a weight of $g_i = 0$ if $z_i = 0$ and $\theta_i < 1$

Then $\bar{g}_0 = u'(c_0) \cdot (\alpha(1 - P^I(1)) + (1 - \alpha)(1 - P^N(1))/(1 - P)$, as only a fraction of the non-workers are deserving.

$\Rightarrow$ The higher the share of deserving poor, the more transfers to those out of work are considered socially valuable, and the higher the optimal tax and thus redistribution are

$\Rightarrow$ The effect of an increase in immigration depends only on how it changes the composition of those out of work

Bias against immigrants

Suppose that people put lower social weight on immigrants who are deserving poor, equal to $\beta u'(c_0)$ with $\beta < 1$

Then $\bar{g}_0 = u'(c_0) \cdot (\alpha\beta(1 - P^I(1)) + (1 - \alpha)(1 - P^N(1)))/(1 - P(1 - \tau))$, the average weight on non-workers, is lower than before as the immigrant deserving poor are discounted

A rising share of immigrants can reduce support for redistribution, even if their composition in terms of deserving poor and free loaders is the same as that of natives

With a sufficiently small discount factor β, support for redistribution will always decrease with a rising share of immigrants, even if *all* immigrants are deserving poor

β may depend on characteristics of the immigrants (e.g. their religion or origin)

Misperceptions of immigrants

Social welfare weights and support for redistribution depend not on the *true* characteristics, but on the *perceived* ones (Alesina, Miano and Stantcheva (2018)).

Even if people do not per se dislike immigrants ($\beta = 1$), misperceptions can reduce support for redistribution

- There can be misperceptions in the perceived share of immigrants $\hat{\alpha}$, and in the composition of immigrants $\hat{P}^I(\theta)$

If people perceive more free-loaders among immigrants and a higher reliance of immigrants on the welfare state, their support for redistribution will be lower

If people perceive a higher share of immigrants, support for redistribution will be lower as long as they also believe that there are more free-loaders among them

$(1 - \hat{P}^I(1)) < (1 - \hat{P}^N(1))$

Reinforcement between Misperceptions and Biases

Misperceptions and biases against immigrants can interact and reinforce each other

An increase in the share of immigrants reduces support for redistribution if $\beta(1 - \hat{P}^I(1)) < (1 - \hat{P}^N(1))$

- If bias already high (β low) $\rightarrow$ even a small over-estimation of the share of free-loaders can $\downarrow$ support for redistribution

- If bias or the perceived share of free-loaders already high $\rightarrow$ even small over-estimation of the share of immigrants $\hat{\alpha}$ can $\downarrow$ support for redistribution

Misperceptions against immigrants or minorities with no biases could in principle be corrected with better information

However, biases themselves could *generate* and *perpetuate* misperceptions

- Biases (e.g. racism) could be the reason perceptions about some minority or immigrant groups are different from those of natives

- Biases could prevent people from looking for accurate information

Racial Diversity and Redistribution: Giving to One's Own Racial Group

Studies have shown consistently that people prefer giving to their racial group

Luttmer (2001) uses the General Social Survey to establish that individuals increase their support for welfare spending if the share of local recipients from their own racial group is higher.

Fong and Luttmer (2009) show that racial group loyalty plays a role even in private charity.

> They vary the race, income, and worthiness of Hurricane Katrina victims shown (randomly) to a representative sample of US adults
>
> While race has no effect on giving, respondents who say they feel closer to their racial or ethnic group donate more when victims are shown to be of the same race.

Misperceptions of the Composition of Minority Groups

Gilens (1995) argues that white respondents oppose welfare and targeted transfers to low-incomes because of negative views of black Americans

> Respondents misperceive the association between race and poverty
>
> The median respondent believed that 50-55% of all poor are black, while only 29% truly are

Alesina et al. (2011) find, using the GSS, that white respondents are much less favorable to redistribution than black ones, controlling for socio-economic characteristics

Alesina, Ferroni and Stantcheva (2019) oversample black respondents to tease out their own considerations about redistribution and attitudes towards other groups.

$\Rightarrow$ White respondents seem to discount the welfare of racial groups other than their own ($\beta < 1$) and/or systematically perceive other racial groups to feature more free-loaders.

The Case of Public Goods

Boustan (2017) argues the "white flight" after the Great Migration was influenced by preferences for racially homogenous communities *and* fiscal considerations

> Suburbanization allowed whites to isolate themselves from changing bundle of local public goods and fiscal obligations in central cities

Alesina, Baqir and Hoxby (2004) show that the endogenous segmentation of cities is affected by the same two factors

> The effect of the desire for racial homogeneity on the formation of jurisdictions is shown to be stronger than the effect of income homogeneity

Alesina, Baqir and Easterly (1999) show that the provision of productive and redistributive public goods (roads, hospitals, schools, etc.) is lower in more racially and ethnically fragmented cities

Immigration and Redistribution

Mass migration of $\sim$ 30 million Europeans to the U.S. between 1850 and WWI.

Tabellini (2018) finds that cities which received more Catholic and Jewish immigrants in the period reduced their tax rates and public spending, especially on education

- Not the case for Protestant immigrants.

Alesina and Glaeser (2004) argue that Western Europe has a more generous welfare state than the US because of the relative ethnic homogeneity of European countries

- Recent inflows may have changed attitudes towards redistribution

Immigration and Redistribution: Natural Experiments

Endogeneity issues posed by the "welfare magnet" effect.

Dahlberg, Edmark and Lundqvist (2012) take advantage of the refugee placement program which randomly assigned refugees in various localities in Sweden

- They identify a negative impact of refugees on support for redistribution, especially among high-income earners

Chevalier et al. (2018) exploit the arrival of eight million forced immigrants in West Germany after WWII that were on average poorer and had full voting rights

- In response, local governments persistently raised local taxes and welfare spending, but reduced spending on infrastructure and housing

Perceptions of Immigration and Redistribution

Alesina, Murard and Rapoport (2019): new dataset on number and origins of immigrants for 140 regions in 16 European countries + survey data from European Social Survey (ESS)

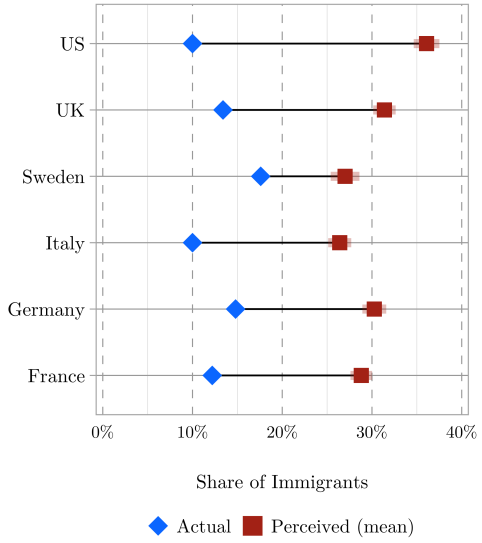
Exposure to immigrants at the regional level increases the perceived number of immigrants at the national level

Natives' support for redistribution is strongly and negatively correlated with share of immigrants in their region, but only for center or right-wing respondents

A one-quintile increase in the regional immigrants' share reduces support for redistribution half as much as a one-quintile increase in household income

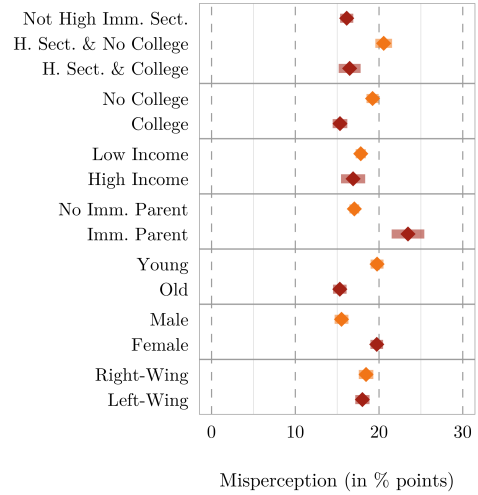
- Effect is larger for immigrants from Middle East and North-Africa, and in countries with already existing more generous welfare states

Perceived vs. Actual Number of Immigrants (By Country)



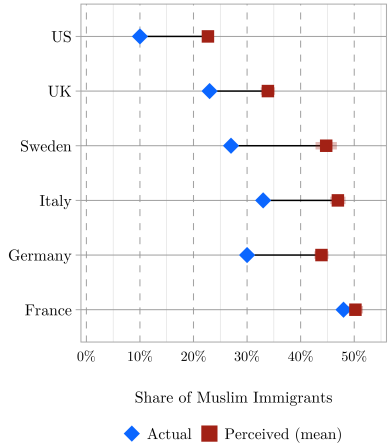
▸ Including Second Generation Imm.

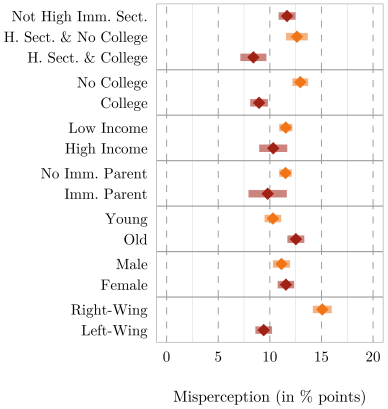
Misperception of Number of Immigrants



Who misperceives more? Those 1) in high immigration sectors with low education, 2) without college, 3) who are young, 4) who have an immigrant parent, 5) women. ▸ US Sectors

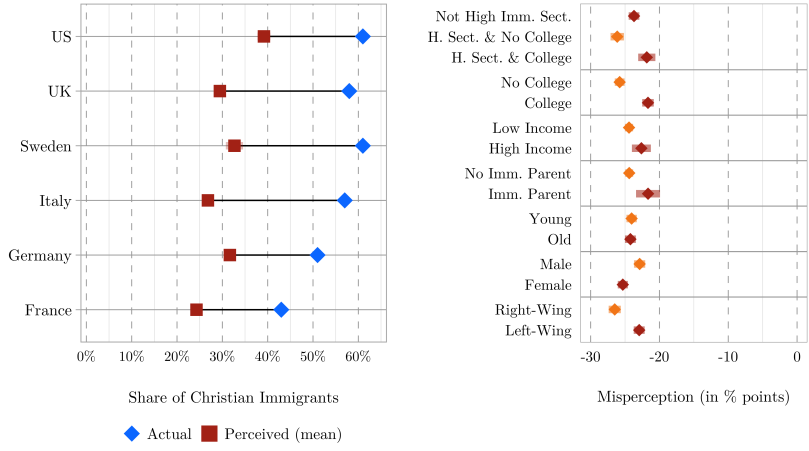
Perceived vs. Actual Share of Muslim Immigrants





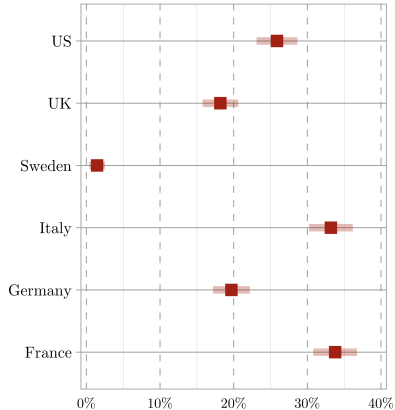
▸ Middle East ▸ North Africa

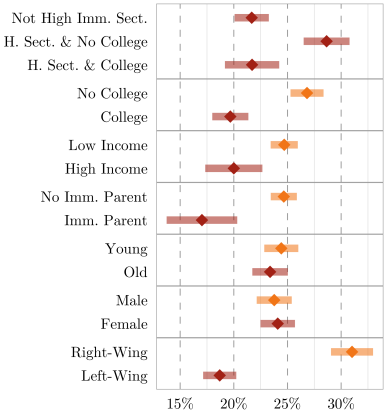
Perceived vs. Actual Share of Christian Immigrants



In all countries, respondents vastly underestimate the number of Christian immigrants. Those who have smallest misperception (smallest negative number) are 1) college educated, 2) those with immigrant parent, 3) men, 4) left-wing.

“Bias”: Does Mohammad Get More Transfers and Pay Less Taxes all Else Equal?





Across all countries, and respondent characteristics, a non trivial share think all else equal Mohammad gets more transfers and pays less taxes. France and Italy are most “biased.” Low educated in high immigrant sectors, non college educated, the poor, and right wing are most biased.

Main Findings: Effects of Information, Anecdotes and Priming

Just making people think about immigrants ("order treatment") generates a strongly negative reaction in terms of redistribution.

Factual information on share and origins has no effect.

Anecdotes work somewhat: "Hard work" on its own can generate some more support for redistribution.

> However, if people are also prompted to think in detail about immigrants' characteristics (which they are wrong about), priming effect dominates.

Conclusion

Results consistent with misperceptions about the share and composition of immigrants, their poverty and reliance on the welfare state, but also with a bias against immigrants per se

Interplay between misperceptions and bias highlighted in model are apparent as well

In Alesina, Miano, Stantcheva (2019), respondents given opportunity to pay to receive accurate information about immigrants

Even conditional on individual characteristics, those with largest misperceptions are less willing to pay for information, which could explain their misperceptions to start with

Right-wing respondents are also less willing to pay

While misperceptions could in principle be corrected, biases pose a much larger challenge and can perpetuate misperceptions

Future research in how to correct misperceptions in light of existing biases is needed