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The indirect fiscal benefits of low-skilled immigration

Abstract:

We explore how low-skilled immigration indirectly affects public finances through the effect on wages and tax payments of natives. We derive a simple transparent formula for this indirect fiscal effect for the canonical model (college and high school labor as imperfect substitutes) but also for alternative settings that have been considered in the empirical immigration literature. Based on existing estimates of the wage effects and a careful calibration of marginal tax rates, we show that one low-skilled immigrant adds between \$500 and \$1,500 annually to U.S. public finances through this channel.