

Can altruism invert low-skilled immigrants' negative impact on sustainable fiscal policy?

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Abstract

Population ageing has become a common concern among welfare states, including Canada and most of the OECD countries. Immigration has been identified as a solution to help sustain labour-force growth in industrialized countries, and as the factor most able to mitigate dire predictions of future fiscal imbalances. Since the 1990s, theoretical and empirical research has found that immigration of low-skilled workers imposes a burden on the welfare state, while skilled-migration contributes to sustainable fiscal policy. This paper examines the impact of low-skilled immigration on an altruistic host country with pay-as-you-go pension systems that support the elderly. It demonstrates that low-skilled immigration does not harm the welfare of the domestic population. We use an overlapping-generations model similar to the work of Razin and Sadka (2000) but introduce pure altruism, in the form of linkages between each agent's economic planning horizons, into the life-cycle framework. Within this context of inter-generational altruism and pay-as-you-go pension systems, we find that immigrants need not necessarily be skilled in order to contribute to the sustainability of the host country's fiscal policy; the altruistic linkages and the bequest motive compensate for the initial negative fiscal impact of low-skilled migrants, thus, all income groups (high and low) and all age groups (young and old) benefit from migration. Since offspring generally retain socio-economic characteristics, by the following period all generations are net benefactors (Pareto improving).