

# **Returns to Skill, Tax Policy, and North American Migration by Skill Level: Canada and the United States 1995-2001**

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## **Abstract**

Higher after-tax returns to skill in U.S. states compared to Canadian provinces have raised the issue that higher skilled Canadian workers especially will find migration to the U.S. economically attractive, and especially so after the North American Free Trade Agreement (NAFTA), provisions of which facilitate such cross-country migration through special visas. In this study we develop, estimate, and simulate a nested logit model of migration among 59 Canadian and U.S. sub-national areas using over 70,000 microdata observations on workers across all deciles of the skill distribution obtained from the U.S. and Canadian censuses of 2000/2001. Combining microdata on individual workers with area data, including estimates of after-tax returns by skill decile based on standardized wage distributions and large scale microsimulation tax models for Canadian provinces and U.S. states, we are able to consider the effects of tax policy differences across countries on worker migration. Our ability to identify highly skilled individuals using these data enables us to simulate the effects of changes to taxes (under balanced budget conditions) on the migration propensities of individuals as well as the magnitude of the aggregate migration streams. Simulations suggest that increasing Canadian after-tax returns to skill and implementing fiscal equalization (reducing the average Canadian tax rate to the average U.S. level with offsetting expenditure reductions to maintain budget neutrality) would effectively reduce southward migration and especially so amongst highly skilled workers. The required reductions in tax rates and public expenditures are relatively large however and therefore would be expected to raise other substantial public policy concerns.

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