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Abstract

According to the World Migration Report 2020, the number of international migrants increased from 84 million in 1970 to 272 million in 2019, accounting for 3.5% of the world's population. This paper investigates the aggregated effect of emigration on the tax revenue of sending countries with a focus on developing nations. Using a gravity approach, we construct a time-varying exogenous instrument out of geographic time-invariant dyadic characteristics that allow us to estimate the predicted emigration rate for every country. Then, we follow an instrumental variable approach where we use our predicted emigration rate as an instrument of the observed migration rate. The results show that the predicted emigration rate is a good instrument of the current emigration rate for developing countries, and that there is a positive aggregated effect of emigration on tax revenue of sending countries. The results vary depending on the type of tax: emigration increases goods and services tax revenue, but it decreases income, profit, and capital gains tax revenue.