The Effects of Immigration on Labour Tax Avoidance: An Empirical Spatial Analysis

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Abstract

We investigate whether the geographic concentration of non-EU immigrants in the various Italian provinces affects labour tax avoidance (LTAV) practices adopted by firms located in the same provinces, as well as in the neighbouring provinces, and operating in construction and agriculture industries that mostly employ immigrants in Italy. For this purpose, we develop a LTAV proxy based on the financial accounting information of a sample of 993,606 firm-years disseminated throughout 108 Italian provinces over the period 2008-2016.

Our results, based on a Spatial Durbin Model panel regression, reveal a statistically significant positive association between non-EU immigrant concentration and LTAV at province-level as well as the presence of spillover effects among neighbouring provinces. Our findings are robust to several additional analyses, including instrumental variable estimations to account for possible endogeneity.

Our study provides empirical support to previous structuralist or marginalization theories holding that socio-economically marginalized groups, such as non-EU immigrants, are more likely to be involved in undeclared work and/or other labour exploitation practices, which could underlie our LTAV outcomes. Furthermore, it supports the need for tax authorities to strengthen controls and labour inspections, especially in those contexts where non-EU immigrants are mostly employed. On the other hand, a greater social integration and recognition of rights of immigrants may help to alleviate their situation of weakness that makes them more vulnerable to labour exploitation practices. Finally, effectively tackling LTAV, associated with the underemployment of immigrants, may prevent its negative effects for society arising from the reduction of public resources to sustain the social welfare and finance public goods and services.

Keywords: immigration; labour tax avoidance; spatial analysis.

Abbreviations in the paper: *AbSSCs* (abnormal social security contributions); ISTAT (Italian Institute of Statistics); LTAV (labour tax avoidance); NSSCs (normal social security contributions); SAR (Spatial Autoregressive Model); SDM (Spatial Durbin Model); SEM (Spatial Error Model); SSCs (social security contributions); UDW (undeclared work).

1 Introduction

One of the most relevant demographic and socioeconomic changes in the world in recent decades has been the growth in the foreign-born population, particularly among developed countries (Longhi, Nijkamp, & Poot, 2010b). In this regard, recent estimates indicate that in 2015 about 244 million persons were international migrants in the world, resulting in an increase of more than 40% since 2000 (United Nations Department of Economic and Social Affairs (UNDESA), 2017). This provides further evidence of the new gateways that are opening as migrants search for economic opportunities or seek to escape armed conflict, political turmoil, and persecution (Theodore, Pretorius, Blaauw, & Schenck, 2018). In this line, in Italy, the non-EU resident immigrants amounted to 3.7 million (6.26% of resident population) in 2017, with an increase of 42% since 2008, when they represented 4.37% of resident population (Italian Institute of Statistics (ISTAT), 2018). Indeed, the geographic position of Italy, at the southern border of the European Union (EU) and at the crossroads of several Mediterranean migration pathways, makes it a natural bridge for the entry of migrants from North Africa and the Middle East into the European economy in general (Harney, 2011; Triandafyllidou & Maroukis, 2012). It is no accident that, second only to Spain, Italy is the European country that has received the most immigrants in the past twenty-five years, mainly from developing countries and Eastern Europe (Fullin & Reyneri, 2011). Furthermore, Italy is among the EU countries that over the period 2013-2015 have been most affected by the unprecedented inflow of refugees, asylum seekers and other undocumented migrants (Constant & Zimmermann, 2016; Dustmann, Fasani, Frattini, Minale, & Schönberg, 2017).

This increased relevance of the phenomenon of immigration and its socio-economic effects have become in recent years a source of concern to policy-makers and the public at large, with special regard to the issue of the integration of immigrants in the socioeconomic context of the host countries and specifically in their labour market (Longhi, Nijkamp, & Poot, 2010a) . In this respect, prior research documents that, in several price-competitive sectors with highly wavering demand, employers, willing to violate immigration and labour regulations, resort to undeclared immigrant workers and their exploitation to minimize labour costs (Maroukis, Iglicka, & Gmaj, 2011; Mayer, 2015; Theodore et al., 2018; Yea, 2017). Indeed, the scarce employment options due to their restricted or absent labour rights, the lack of information about their rights, the limited language skills, the non-recognition of qualifications and work experiences achieved in other countries, as well as other forms of discrimination may lead immigrants to accept substandard employment within the informal economy or more precarious, insecure and illegal working conditions, especially in sectors characterized by low-skilled jobs, mostly unattractive to nationals (Alho & Helander, 2016; Cappelen & Muriaas, 2018; Lewis, Dwyer, Hodkinson, & Waite, 2015; Strauss & McGrath, 2017). Therefore, for some immigrants a period of highly exploitative employment in the formal or informal economy may be the only viable option for meeting basic needs while establishing themselves within a host society (Lewis et al., 2015; Pajnik, 2016). In this regard, the International Labour Organization (ILO) (2013) underlines how their precarious legal status and engagement in non-standard and undeclared work make immigrant workers more vulnerable to extreme forms of labour exploitation such as forced or unfree labour, defined as: "*all work or service which is exacted from any person under the menace of any penalty and for which the said person has not offered himself voluntarily*".

Despite the current social relevance of the above issues, empirical studies, aiming to unveil the effects of immigration on labour market practices starting from data at microeconomic level, are relatively scarce (Cross & Turner, 2013; Yea, 2017). Hence, to address this research gap, in this paper we aim to assess whether the geographic concentration of non-EU immigrants[1] in the various Italian provinces significantly influences the labour tax avoidance (LTAV) practices adopted by firms located in the same provinces as well as in the neighbouring provinces. It is essential to clarify that, similar to prior definitions of tax avoidance (Hanlon & Heitzman, 2010; Ravenda, Argilés-Bosch, & Valencia-Silva, 2015), we broadly define LTAV as the reduction of firm's explicit labour tax liability through specific procedures. In this respect, we include in the labour tax definition all social security contributions (SSCs) and other insurances, computed on gross salaries of all workers, that the employers are legally required to withhold and pay to tax authorities to support the social protection of their employees (Ravenda et al., 2015). LTAV procedures may be unquestionably illegal, as in the case of the employment of undeclared workers, or, when their legality cannot be clearly assessed or questioned, they may, however, involve violations of the spirit of the law or practices generally considered as unethical and socially irresponsible. Specifically, labour tax may be avoided by abusing of subcontracted workforce, self-employed people or other forms of precarious, and in general non-standard employment arrangements, aiming to circumvent the social security regulations, when the working relationship should be regulated as standard subordinate employment according to the

[1] In our study, according to the official statistics, we consider an immigrant any resident with non-EU nationality, namely citizens of countries that do not belong either to the EU or the European economic area.

labour law (EC, 2014; Pfau-Effinger, 2009). Hence, LTAV is one of the primary objectives as well as the natural effect of the employment of undeclared work (UDW) and other labour exploitation practices. Importantly, we adopt a measure of LTAV based on some related accounting information included in the publicly available financial statements of the employing firms. More specifically, our LTAV proxy is based on the abnormal values of the ratio of SSCs paid to lagged total assets of 993,606 firm-years, disseminated throughout 108 Italian provinces over the period 2008-2016, in construction and agriculture industries. We specifically focus on construction and agriculture given that, on the one hand, they are among the industries with the highest employment of non-EU immigrants in Italy and other EU countries (Corrado, 2011; Directorate General of Immigration and Integration Policies, 2018; Pajnik, 2016; Prosser, 2016; Strauss & McGrath, 2017), and, on the other hand, they experience higher rates of UDW and other LTAV practices, compared to other industries (Buehn, 2012; Trinci, 2006; Williams, Nadin, & Windebank, 2011). In addition, the effects of recent labour reforms in several European countries, including Italy[2], aiming to bring greater flexibility to the labour market, with the consequent relaxation of the employment social protection, have particularly affected these industries and the involved migrant workers (Pajnik, 2016). It is noteworthy that our LTAV proxy may reflect not only illegal practices, but also a strategic use of the legal tools available to relieve the labour tax burden. However, we assume that, due to our research design that considers the peculiarities of each industry and year, the illegal forms of LTAV such as UDW may be the primary driver of the extremely abnormal values taken by our LTAV proxy. Indeed, the room to legally relieve labour tax is quite limited, quickly exhausted and UDW is the primary illegal means commonly employed to evade labour tax (Feld & Schneider, 2010; Williams & Nadin, 2012). In addition, although our measure of LTAV cannot capture all informal economic activity (e.g., unregistered firms are excluded), it may provide evidence of the relationship between non-EU immigration and LTAV within its validity boundaries and the results may be extrapolated to the general economic context.

In terms of methodology, we adopt a two-step regression procedure aiming to aggregate firm-level LTAV measures at province-level in the first step and to estimate a Spatial Durbin Model (SDM) regression (J. LeSage & Pace, 2009), across the 108 provinces for 9 years (2008-2016), in the second step. Importantly, the usage of a SDM panel fixed-effects regression allows accounting for spatial interdependence among province-level observations that, if unaddressed, may bias the estimations, and specifically unveiling not only the effect of non-EU immigrant

[2]The most recent labour market reform in Italy, the so-called Jobs Act, was enacted by the Renzi government in 2014.

concentration in a province on LTAV in the same province (direct effects), but also the effect of non-EU immigrant concentration in a province on LTAV in the neighbouring provinces (indirect or spillover effects). In this regard, it is plausible to assume that immigrants resident in a province may move to the neighbouring provinces for work within an affordable distance limit and that, in general, a province is influenced by its neighbouring provinces in several economic, demographic and social aspects (Bastida, Guillamón, & Benito, 2013).

Overall, our results support our hypothesis on the positive association between non-EU immigrant concentration and LTAV at province-level and reveal the presence of spillover effects among neighbouring provinces. Our findings are robust to several additional analyses, including instrumental variable estimations to account for any endogeneity that may arise from reverse causality or correlated omitted variable bias. Hence, our results may provide empirical support to previous structuralist or marginalization theories (Cappelen & Muriaas, 2018; Taiwo, 2013; Williams & Horodnic, 2015a), holding that spatially and socio-economically marginalized groups, such as non-EU immigrants, are more likely to be involved in UDW and/or other labour exploitation practices, which could underlie our LTAV outcomes. Furthermore, our findings may suggest that labour market competition, caused by increased immigration, may negatively affect working conditions and enhance LTAV also for low skilled/paid national workers, mostly employed in agriculture and construction industries.

Previous studies examine the effects of immigration on various aspects of the labour market of the host countries such as unemployment, wages, employment opportunities, working conditions, and labour productivity (Docquier, Ozden, & Peri, 2014; Dustmann, Glitz, & Frattini, 2008; Longhi et al., 2010a; Okkerse, 2008; Smith, 2012). In particular, other studies, more closely related to our paper, document the tendency of the immigrants to be underemployed in the informal economy of the host countries, using case studies, interviews, surveys, and macroeconomic statistics (Bohn & Owens, 2012; Cappelen & Muriaas, 2018; Pajnik, 2016; Theodore et al., 2018; Yea, 2017). In this research context, our study is, to our knowledge, the first attempt to provide empirical evidence of the impact of immigration on LTAV, the logical effect of UDW and other labour exploitative practice, by starting from firm-level accounting information to carry out a spatial econometric analysis. Hence, our paper contributes to the literature given that it empirically shows that, at least in certain industries dominated by low-skilled jobs, non-EU immigration may provide opportunities for LTAV practices, including UDW. These effects highlight the need for tax authorities to strengthen controls and labour inspections, especially in those contexts where non-EU immigrants are mostly employed. Furthermore, a greater social integration and recognition of rights of immigrants may help to alleviate their situation of weakness that makes them more vulnerable to labour exploitation practices. The alternative would be to allow LTAV practices to flourish, with the consequent negative effects for society in terms of reduction of public resources to sustain the social welfare and finance public goods and services.

The remainder of the paper proceeds as follows: section 2 examines the working conditions of immigrants in Italy; section 3 reviews the research theories supporting the main hypothesis; section 4 describes the research design and sample data; section 5 presents empirical results; section 6 includes concluding remarks.

2 Working Conditions of Immigrants within the Italian Context

Several previous studies examine the working conditions of immigrants, especially non-EU citizens, within the Italian context. In this regard, several scholars assert that Italy is an attractive transit or settlement country for non-EU migrants not only for its proximity to the hotspots of North Africa and the Middle East, but also for the relatively large informal economy that provides employment opportunities for undocumented immigrants, especially in Southern Italian regions (Corrado, 2011; Fullin & Reyneri, 2011; Harney, 2011; Triandafyllidou & Maroukis, 2012). However, although the occurrence of some clandestine entries along Italy's extensive coastline, most of the non-EU immigrants enter Italy legally documented, as refugees or asylum seekers, and subsequently they over-stay their visa or breach its conditions by working (Dustmann et al., 2017; Harney, 2011). Indeed, in Italy immigrants applying for asylum are not allowed to legally work for the first 6 months following their application or before their claim is positively evaluated by the immigration authorities (Constant & Zimmermann, 2016; Dustmann et al., 2017). As this evaluation process may take far more than 6 months (Dustmann et al., 2017), in the meantime, several asylum seekers are absorbed in the underground economy, where they can find additional financial support to the modest allowance (pocket money) they receive from the government (Harney, 2011). In addition, as most of asylum applications end up being denied (Commissione Nazionale per il Diritto di Asilo, 2018; Seifert & Valente, 2018), working informally represents the only available option for the significant proportion of immigrants that, after the asylum denial, decide to remain in the country illegally (Hatton, De Haas, & Egger, 2017). On the other hand, the *Bossi-Fini* Law (law 189/2002), enacted in 2002, requires that the non-EU immigrant should have a long-term work contract ("residence contract") to be entitled to renew her/his stay permit for a 2-year period (Paparusso, Fokkema, & Ambrosetti, 2017). Nonetheless, this provision contrasts sharply with the temporality of the Italian labour market, especially in the sectors where immigrants are mostly employed such as construction and agriculture, among others. Therefore, it is quite common for the immigrants to lose their permit and be engaged in the informal economy as a unique alternative (Triandafyllidou & Ambrosini, 2011). In this regard, Corrado (2011) suggests that, in Southern European Mediterranean countries, the seasonality and high labour-intensity of leading economic sectors (agriculture, fishing, construction, and tourism) lead to a demand for a flexible, less qualified and poorly paid labour force which escapes the regulated nature of unionized, formal sector employment and is available only when needed by employers (King, 2000). Hence, Italian agriculture, mostly represented by medium and small-sized farms, highly seasonal and widely exposed to global competition, greatly relies, for its subsistence, on the underemployment of cheap and undeclared labour force, mostly consisting of irregular immigrants, asylum seekers, and refugees (Corrado, 2011; Maroukis et al., 2011). In this respect, labour controls on employers aiming to combat and discourage the irregular employment have been relatively weak, compared to the restrictions imposed on the immigrants' access to social rights and benefits (Triandafyllidou & Ambrosini, 2011; Trinci, 2006). It is worth mentioning that a severely exploitative labour practice, mostly involving immigrants, widespread in the Italian agriculture and construction sectors and carried out by Italian Mafias is the so-called *Caporalato*. More specifically, *Caporalato* is a crime provided for by the Italian penal code (article 603-bis), consisting in the illicit brokering and exploitation of workforce. Specifically, illegal labour brokers called *caporali*, often associated with Mafia organizations, hire, on behalf of farmers or builders, migrant workers to be illegally exploited and retain, as compensation, about half of the daily salary of the workers, as well as charging them for additional service fees (Flai-Cgil, 2014; Seifert & Valente, 2018). It is noteworthy that, despite the relatively high unemployment, especially in Southern Italy, immigrants do not usually compete for the same jobs with nationals in the labour market (Fargues, 2009). Indeed, young Italians, mostly affected by unemployment and highly educated, prefer emigrating elsewhere (Corrado, 2011) or waiting for employment opportunities that match their skills, whilst financially supported by their families, to taking up what they consider to be low-prestige, low-skilled and low-paying jobs (Triandafyllidou & Maroukis, 2012). Hence, as previous studies suggest, it is mostly due to the need to meet the vast and increasing demand for cheap and low-qualified labour that, in the last decades, Italy is the EU country that has granted the largest number of regularizations of illegal immigrants, through six amnesties in 22 years, as well as enacting several times an annual quota system for the admission of foreigners for work-related reasons (Ambrosini, 2013; Paparusso et al., 2017; Triandafyllidou & Maroukis, 2012).

In summary, our overview of the working conditions of non-EU immigrants in Italy provides concordant arguments that may support a research hypothesis on the existence of a significant positive association between the spatial presence of non-EU immigrants and LTAV practices adopted by firms of industries that mostly employ immigrants.

3 Theoretical Research Background and Hypothesis

In addition to some obvious conclusions that can be drawn from the analysis of the specific Italian context, other theories, suggested in prior research, may support our hypothesis on the role of non-EU immigration in fostering LTAV practices. In this regard, based on 74 semi-structured interviews conducted with Polish labour migrants in Norway, Cappelen and Muriaas (2018) show that the involvement of immigrants in insecure, precarious and undeclared work is mainly triggered by a combination of voluntary exit from the formal labour market, to achieve higher net income, as well as structures, such as the immigrants' social life (e.g., lack of social networks and integration within the native community) or their work life (e.g., difficulties in getting legally declared work), that make it more likely for this type of workers to be forced to accept these working conditions. Nonetheless, the authors consider the influence of external societal structure more determinant and then call for more research on how to best integrate labour migrants into the civil society of the host country. In summary, the authors suggest that both the structuralist and the individualistic neo-liberal perspectives are applicable to explain the UDW of Polish labour migrants in Norway.

Indeed, in structuralist theories, UDW is mainly driven by *poverty escape* (Pfau-Effinger, 2009) and survival motivations of marginalised populations such as the immigrants. Specifically, these population groups are necessarily excluded from the formal labour market and related state benefits according to the logic of the modern globalized capitalism, which leads employers to reduce labour costs through labour exploitation practices, including informal waged work and dependent or false self-employment, a form of work which is largely unregulated, low-paid, precarious and insecure (Adom, 2014; Cappelen & Muriaas, 2018; Williams & Round, 2010). UDW is also viewed to be a direct outcome of the demise of the intended full-employment/comprehensive formal welfare state regime characteristic of the Fordist and socialist era (Hudson, 2005; Williams & Round, 2010). On the other hand, according to neo-liberal theories, UDW is an outcome of people voluntarily exit the formal labour market to achieve more autonomy, flexibility, better remuneration, and avoidance of taxes and inefficient labour over-regulation (Cappelen & Muriaas, 2018; Gërxhani, 2004; Williams & Round, 2010). Hence, participants in UDW are seen as microentrepreneurs choosing to operate off-the-books and outside the law in order to avoid the costs of market over-regulation and establish a real free market (Williams & Round, 2010). Finally, in more recent years, post-structuralist theories suggest that UDW is the result of voluntary exit rather than exclusion, although the decision, conducted for and by kin, neighbours, friends and acquaintances, is mostly driven by social and redistributive rationales rather than by financial gain purposes (Williams & Round, 2010). In addition, UDW is seen as a way to escape the exploitation of workers in the neoliberal global economic system and the corruption and bribes that can be part and parcel of the formal economy (Adom, 2014; Biles, 2009; Round, Williams, & Rodgers, 2008).

The relevance of these theories depends on the considered population group and socioeconomic context. In this regard, some scholars argue that the structuralist perspective, supporting "forced exclusion", is more applicable to waged undeclared work of relatively deprived populations, whereas the neo-liberal perspective, supporting "voluntary exit", is more applicable to own-account informal workers that are relatively more affluent (Gurtoo & Williams, 2009; Williams & Round, 2010). In this regard, two contrasting perspectives on the socio-economic and spatial variations in UDW are prevalent in the literature, namely the marginalization and reinforcement theories. Specifically, the dominant marginalisation theory holds that informal work mostly involves low-paid, insecure, unregulated and low-qualified jobs carried out by spatially and socio-economically marginalized people with fewer opportunities in the labour market, including immigrants and less affluent population groups, to cope with poverty (Beręsewicz & Nikulin, 2018; Williams & Horodnic, 2015b, 2015c). In this line, previous studies find that marginalized and low skilled immigrants are more likely to be underemployed in the informal economy of the host countries especially in low skilled labour intensive industries (Bohn & Owens, 2012; Theodore et al., 2018; Venkatesh & Fiola, 2006). In addition, Beręsewicz and Nikulin (2018) find that an increase in the share of long-term unemployed in sub-regions in Poland is associated with a higher probability that people from these sub-regions will be working informally.

On the other hand, the more recently developed reinforcement theory assert that participation in UDW is lower among marginalized populations, implying that undeclared economy enhances the socio-economic and spatial disparities produced by the formal economy (Williams & Horodnic, 2015b, 2015c). In this respect, Williams & Nadin (2014) find that, in East-Central Europe and Western European nations, the marginalization and reinforcement perspectives co-exist given that marginalised groups, such as the unemployed, are more likely to be involved in UDW but gain significantly less and are more vulnerable to labour exploitation than those working undeclared as a complement to declared jobs. On the other hand, based on surveys conducted in various EU countries, other studies find that the marginalization thesis may only be valid for some marginalized populations but not for others (Williams & Horodnic, 2015b, 2015c). These conflicting results highlight the need of a more nuanced interpretation of the marginalisation thesis that should consider the socioeconomic context, the industry, as well as the peculiarities of the population group under analysis.

Specifically, in our study we consider that a structuralist perspective may be applicable to the non-EU immigrants in their employment in the agriculture and construction industries in Italy. Indeed, their previously described marginalized status, in terms of labour and social rights, economic conditions, and social integration, may make them vulnerable and forced victims of a capitalist exploitation, aiming at reducing labour cost, including related taxation, and enhancing competitiveness of the employing firms in the global market.

Finally, restrictive migration regimes, aiming to reduce immigrant rights in the host country, may even be used by employers and governments to undermine wages, terms and rights of all workers broadly (Strauss & McGrath, 2017). Indeed, immigrant and national workers cannot remain conceptually and spatially compartmentalized from one another (Rogaly, 2015; Strauss & McGrath, 2017). Hence, a higher presence of immigrants within the local workforce may also affect the labour practices, including LTAV, for national workers that may need to compete in the labour market with less demanding and more easily exploitable immigrants (Bohn, 2010). In this regard, prior research on immigration in EU countries finds that immigration can negatively impact the working conditions of previous immigrants and low paid/skilled native workers, that are close substitutes for immigrants, especially in sectors such as agriculture and construction (D'Amuri, Ottaviano, & Peri, 2010; Dustmann, Frattini, & Preston, 2013; Manacorda, Manning, & Wadsworth, 2012; Prosser, 2016). In summary, all our previous arguments lead the following main hypothesis of our study:

Hypothesis: *Ceteris paribus*, non-EU immigrant concentration is positively associated with LTAV intensity across Italian provinces.

4 Research Design

4.1 Data and Sample Selection

To estimate our main LTAV proxy we use annual accounting data of all firms located in 108 Italian provinces and available in the AIDA database[3] over the period 2007-2016. The period 2007-2016 is constrained both by the availability of accounting data in AIDA, that are limited to a 10-year history[4], and by the availability of data on non-EU immigration in Italy[5], needed for our analysis, restricted to the 2007-2017 period. Consistent with the scope of our study, the final sample is reduced to Construction (NACE[6] codes: 41, 42, 43) and Agriculture (NACE code: 01) industries and finally consists of 167,920 firms and 993,606 firm-years. It should be noted that the fiscal year 2007 observations are lost in the analysis given that, to compute several variables needed for the estimations, we include one year lagged data. Panel A of Table 1 (Sample composition) summarizes the distributions of our sample firm-years by industry and Italian region[7]. Furthermore, the table classifies the Italian regions into their higher first-level NUTS[8] (North West; North East; Centre; South; Islands) and indicates the provinces included in each of the 20 Italian regions. On the other hand, Panel B of Table 1 shows the distribution of sample firm-years by province by ordering provinces in decreasing order of number of firm-years hosted.

(Insert Table 1 here)

It is noteworthy that 89.22% of firm-years belong to Construction industry, whereas only 10.78% belongs to Agriculture industry. The predominance of Construction in our sample should be considered in assessing the relevance of our study outcomes for policy makers and tax authorities as well as when extrapolating the results to the general economic context. Furthermore, northern Italian regions (North West and North East) host the highest number of

[3]AIDA is a database managed by Italian Bureau Van Dijk, which includes financial statements and other relevant details of 1 million companies in Italy, with up to ten years of history.
[4]We extracted the accounting data from AIDA over the first 5 months of 2018, when accounting data for fiscal year 2017 were not available yet.
[5]Data on immigration in Italy are provided by the Italian Institute of Statistics (ISTAT) and publicly available on: http://stra-dati.istat.it/
[6]NACE (for the French term: nomenclature statistique des activités économiques dans la Communauté européenne) is the industry standard classification system used in the European Union. The current version is revision 2 and was established by Regulation (EC) No 1893/2006.
[7]The regions of Italy are the first-level administrative divisions of Italy, constituting its second NUTS (Nomenclature of Territorial Units for Statistics) administrative level. Each of the 20 regions is divided into provinces.
[8]NUTS (Nomenclature of Territorial Units for Statistics) is a geocode standard, developed by the European Union, for referencing the administrative divisions of EU countries for statistical purposes.

firm-years (40.74%), compared to the centre regions (26.07%) and *Mezzogiorno*[9] (South and Islands) regions (33.19%). This is consistent with the traditional greater economic development and performance of Northern Italy compared to the rest of Italy (Jayet, Ukrayinchuk, & De Arcangelis, 2010). Finally, Rome (127,341), Milan (56,932) and Naples (44,430) are the provinces that host the highest number of firm-years, with Rome significantly outrunning the others, consistent with their greater population and density, whereas Biella (1,325), Carbonia-Iglesias (1,178), and Medio Campidano (775) are the provinces with the lowest number of firm-years.

4.2 Measure of LTAV

In Italy a social security statutory flat rate ranging from approximately 29% to 32% of each employee gross remuneration (payroll costs) is charged to the employer as SSCs[10]. Specifically, the actual rate depends on: the nature of the activity performed by the company, the number of employees of the company, the legal form of the company, and the employee's position, legal status and type of labour contract. Furthermore, some remuneration concepts are completely or partially excluded from the social security tax base[11], namely fringe benefits, meal, travel and transfer allowances, proceeds received as compensation for damages, disbursements for education and training for employees, among others. Within this legal framework, employers may opportunistically and even fraudulently reduce the social security tax base below the reported employee gross remuneration to avoid SSCs. In this scenario, the variability of the effective rate of SSCs to gross salaries, reported in the income statement according to Italian accounting regulation[12], may provide evidence of LTAV across firms, similar to the effective rate of income taxes to pre-tax income, widely used to measure income tax avoidance in previous research (Lanis & Richardson, 2012a). Nonetheless, a LTAV proxy based on effective rate of SSCs to gross salaries may provide biased LTAV results as it may be significantly affected by factors, possibly unrelated to LTAV, such as industry peculiarities, firm size and

[9] *Mezzogiorno* or *Meridione d'Italia* is an economic macro-region traditionally comprising the territories of the former Kingdom of the two Sicilies (all the southern section of the Italian Peninsula and Sicily) as well as the island of Sardinia.

[10] The reference legislation on social security contributions, including their computation rules and settlement, includes law n° 335 of August 8th, 1995 and other following circulars of INPS (the national social security institute).

[11] The social security tax base is defined by the Legislative Decree n. 314 of 1997.

[12] Italian accounting regulation is based on the Italian Civil Code (articles from 2423 to 2429), compliant with 2013/34/UE Directive, and accounting standards issued by Organismo Italiano di Contabilità (Italian Accounting Standard Setter).

capital intensity, year-specific macroeconomic and regulatory conditions. More importantly, this proxy cannot signal LTAV through the underreporting of salaries for undeclared workers.

To address these concerns, we develop a measure of LTAV based on the ratio of SSCs paid[13] to lagged total assets. More specifically, we follow the intuition of Seifert and Valente (2018) who assume that illegal employment (UDW) displacing legal workforce may lead to underreported labour input and overreported labour productivity. Specifically, they find that the 2011 Non-EU migrant wave in southern Italy caused a statistically significant increase of labour productivity of around 11% in 2011 and 2012 in vineyard farms of Sicily and Apulia regions. They show that this effect corresponds to around 10 million hours irregularly worked in the treated regions in each year, or around 21,000 full-time employees. Similarly, we assume that UDW may lead to abnormally low reported payroll costs relative to sale revenues, which is equivalent to higher reported labour productivity. Hence, our LTAV proxy is abnormal level of the ratio SSCs to lagged assets (*AbSSCs*), computed as the residuals of Eq. (2) model, simultaneously estimated with Eq. (1) for each of the 36 two-digit NACE industry-year[14], using a cross-sectional two-stage least square procedure (Cameron & Trivedi, 2010). Specifically, the predicted dependent variable of the Eq. (1) is included as covariate in Eq. (2).

$$\frac{PAYR_{i,t}}{ln(TA_{i,t-1})} = \beta_0 + \beta_1 \frac{1}{ln(TA_{i,t-1})} + \beta_2 \frac{SALES_{i,t}}{ln(TA_{i,t-1})} + \beta_3 \frac{\Delta SALES_{i,t}}{ln(TA_{i,t-1})} + \beta_4 \frac{\Delta INV_{i,t}}{ln(TA_{i,t-1})} + \varepsilon_{i,t} \tag{1}$$

$$\frac{SSC_{i,t}}{ln(TA_{i,t-1})} = \beta_0 + \beta_1 \frac{1}{ln(TA_{i,t-1})} + \beta_2 \left[\frac{\widehat{PAYR}_{i,t}}{ln(TA_{i,t-1})} \right] + \varepsilon_{i,t} \tag{2}$$

Where $SSC_{i,t}$ is expenses for SSCs in year t; $ln(TA_{i,t-1})$ is the natural logarithm of total assets in year $t-1$[15]; $SALES_{i,t}$ is the net sales in year t; $\Delta SALES_{i,t}$ is the change in net sales from year $t-1$ to t ($SALES_{i,t} - SALES_{i,t-1}$); $\Delta INV_{i,t}$ is change in finished product and work-in-process inventories from year $t-1$ to t[16]; and $PAYR_{i,t}$ is total payroll costs in year t, excluding SSCs. Hence, *AbSSC* is the difference between reported SSC_t (deflated by $ln(TA_{t-1})$) and normal SSCs

[13]Most of SSCs reported as expenses in the income statement are likely to be fully paid given that Italian social security regulation obliges the employer to pay them within the 16th day of the month following the last salary payment period.

[14]We repeat our estimations using three-digit NACE rather than two-digit NACE and the results obtained are qualitatively analogous to those presented.

[15]We deflate all variables by natural logarithm of lagged total assets to address the nonlinearity of the model. An untabulated analysis of residuals shows that this expedient significantly improves the explanatory power of the model.

[16]We include this variable to exclude inventory adjustments from the possible determinants of the regression residuals ultimately affecting our LTAV measure.

(NSSCs) corresponding to the fitted values of Eq. (2). Our estimation model in Eq. (1) is consistent with models adopted in several prior accounting studies to estimate normal and abnormal production costs and discretionary expenses (J. B. Kim & Sohn, 2013; Ravenda, Valencia-Silva, Argiles-Bosch, & García-Blandón, 2018; Zhao, Chen, Zhang, & Davis, 2012). Furthermore, our proxy may resemble that proposed by Badertscher et al. (2017), to measure income tax avoidance, which is based on the abnormal values of the ratio of income taxes paid to lagged total assets to account for tax avoidance carried out through the underreporting of the accounting income as well as of the taxable income. Nonetheless the estimation procedure and the predictors of their regression model are completely different from those of our LTAV model as they are more tailored to the peculiarities of corporate income tax.

Importantly, we assume that firms engaging more actively in LTAV practices are more likely to exhibit lower and negative values of *AbSSC*, and vice versa. Indeed, lower *AbSSC* may arise from lower SSCs relative to reported payroll costs, as result of a strategic reduction of the tax base, and/or from higher predicted payroll costs, based on Eq. (1), compared to actual payroll costs, which may provide evidence of their underreporting due to the employment of undeclared workers.

4.3 Hypothesis-Related Spatial Regression Model

Our LTAV proxy based on *AbSSCs* is initially estimated at firm-level. However, to test our main hypothesis, we need to build a measure of LTAV at province-level to be regressed on our measure of non-EU immigrant concentration, available for each province, as well as on other province-level macroeconomic control variables that may spatially explain LTAV. Indeed, previous studies (Moulton, 1990; Okkerse, 2008) show that a regression model including individual-level variables jointly with regional-level variables may be misspecified and bias downward the standard errors of the variables measuring regional characteristics. Furthermore, such a comprehensive regression model could not account for spatial effects. Therefore, following prior research (Dickens & Katz, 1987; Easton, 2001; Fairlie & Meyer, 2003; Gavosto, Venturini, & Villosio, 1999), we adopt a two-step estimation approach to aggregate firm-level LTAV measures at province-level. Specifically, in the first step, we run a cross-section regression for each year of the period 2008-2016 with a basic set of firm-level control variables, that previous studies show to be associated with tax avoidance practices within firms (C. Kim & Zhang, 2016; Lanis & Richardson, 2012b, 2012a, 2015; Ravenda et al., 2015), and a full set of 107 regional dummies (*PROVINCE*) by province and industry dummies (*INDUSTRY*) by three-digit NACE codes. We omit the province of Rome[17] as a base regional dummy in the model. Hence, the coefficients on province dummy variables provide an average measure of LTAV for that province relative to the province of Rome, corrected for differences in the firm group composition among provinces. Therefore, we estimate the following Eq. (3) model, whose control variables (*CONTROLS*) are defined in the Appendix A:

$$AbSSCs_{i,t}=\beta_0+\sum_{r}\beta_r\, PROVINCE^{r}_{i,t}+\sum_{k}\beta_k\, CONTROLS^{k}_{i,t}+\sum_{s}\beta_s\, INDUSTRY^{s}_{i,t}+\varepsilon_{i,t} \qquad (3)$$

Subsequently, in the second step, we regress the estimated coefficients of the province dummies on a measure of non-EU immigrant concentration (*IMMIGR*) for each province and year, representing our hypothesis-related independent variable, and on province-level controls that may be associated with LTAV such as unemployment rate, population density, PIB growth, reported crimes, hourly gross wage.

Importantly, to account for spatial interdependence among province-level observations, that, if unaddressed, may bias the estimations (Anselin, 2010), we adopt a Spatial Durbin Model (SDM) panel fixed-effects regression (Elhorst, 2014b; J. LeSage & Pace, 2009). SDM is a global spillover specification. This means that changes in one region spill over into not only the neighbouring regions, but also the neighbours of the neighbours, and so on, such that a new long-run steady state equilibrium arises (J. P. LeSage, 2014). Therefore, this approach allows us to exploit and capture both the effect of non-EU immigrant concentration in a province on LTAV in the same province (direct effects), and the effect of non-EU immigrant concentration in a province on LTAV in the neighbouring provinces (indirect or spillover effects). Specifically, SDM, introduced by LeSage and Pace (2009), includes spatial lags of both the dependent variables and explanatory variables. Spatially lagged variables contain for each regional-level observation the weighted sum of the corresponding variable values of neighbouring regions and they are practically computed by multiplying each variable by a spatial weight matrix (W). W is a diagonal matrix of dimension $n \times n$, where n is the number of observations, and each observation represents a location. Non-zero elements in the i, j row and column positions of the matrix W, based on distance metrics, indicate that region/observation j is a neighbor to i (J. P. LeSage, 2014). LeSage and Pace (2009) assert that SDM offers several advantages over other spatial regression models that, for example, only include a spatial

[17]We repeat the analysis by omitting Milan or Florence and the results obtained are qualitatively analogous to those presented.

autoregressive process in the error term (spatial error model (SEM)) or a spatially lagged dependent variable as an additional explanatory variable (spatial autoregressive model (SAR)). Specifically, SDM produces unbiased coefficient estimates even when the true data-generating process (DGP) is simply a SAR or a SEM. Therefore, in the presence of uncertainty about the form of spatial dependence in the underlying DGP, SDM is always the best option. Furthermore, SDM does not impose any prior restrictions on the magnitude of spillover effects, which can also be different for different explanatory variables (Elhorst, 2014b). Finally, SDM is preferable over alternative spatial regression models given that ignoring spatial dependence in the dependent variable and/or in the independent variables, if present, will lead to biased and inconsistent coefficient estimates for the variables included in the regression equation. In contrast, ignoring spatial dependence in the disturbances will only cause a loss of efficiency (Elhorst, 2010).

We consider that SDM methodology may be appropriate for our study due to the importance of immigration networks, the plausible assumption that immigrants resident in a province may commute to the neighbouring provinces within certain distance limits, and the fact that a province may be influenced by its neighbouring provinces in several economic, demographic and social aspects, including LTAV practices (Bastida et al., 2013). For example, spatial clusters in terms of LTAV practices may arise from an emulation behaviour of the neighbour adopted by firms engaging in LTAV to compete through the reduction of labour costs. Therefore, it is very likely the presence of spatial spillover effects across provinces in terms of immigrant concentration impact on LTAV, as well as the existence of a strong spatial autocorrelation of non-EU immigrant concentrations and LTAV practices across regions, so that we can expect random terms of our regression model to exhibit spatial autocorrelation (Jayet et al., 2010). In this respect, the validity of our assumptions justifying the adoption of panel fixed-effects SDM for our analysis is supported by several statistical tests, on the presence of either a spatially lagged dependent variable and/or spatially lagged residuals, that we present in the results section of this paper.

In summary, our second step SDM regression, used to test our hypothesis, is the following:

$$LTAV\_PROV_{i,t} = \rho W\, LTAV\_PROV_{i,t} + \beta_0 + \beta_1 IMMIGR_{i,t} + \\ + \sum_k \beta_k CONTROLS^k_{i,t} + \theta_1 W\ IMMIGR_{i,t} + \sum_k \theta_k W\, CONTROLS^k_{i,t} + u_i + v_{i,t} \qquad (4)$$

Where $LTAV\_PROV_{i,t}$ is LTAV, in terms of *AbSSCs*, at province *i* level in year *t*, measured as the estimated coefficients of province dummies in Eq. (3); *W* is the spatial weight matrix, with elements equal to the reciprocal of distance between provinces (before normalization)[18], by which covariates are premultiplied to compute their spatially lagged version; *IMMIGR*, the independent variable of interest, is the non-EU immigrant concentration, computed as the fraction of non-EU residents per 1,000 residents in each province and year, restricted to the working-age population (between 18 and 59 years of age)[19]; u_i are unobserved province fixed-effects arising from the panel data nature of our sample. The rest of province-level control variables (*CONTROLS*), defined in the Appendix A, are spatially differentiated from the reference province of Rome[20] for each year, consistent with the reference to Rome of coefficients on province dummies.

5 Empirical Results and Analysis

5.1 Estimation of Firm-Level LTAV

Table 2 shows the results of Eq. (2) regression estimations, whose fitted values are NSSCs and residuals (*AbSSCs*) are used as firm-level LTAV proxy. Following the Fama and MacBeth's (1973) procedure, the reported coefficients and R^2 are mean values of cross-sectional estimations across 36 two-digit NACE industry-years. Furthermore, the significance levels of the coefficients are calculated using the standard errors of the coefficients across industry-years. Given the industry heterogeneity of the sample, we also report the results separately for construction and agriculture. Finally, to mitigate the influence of outliers, all variables of Eqs. (1) and (2) are winsorized at the top and bottom 1 percent of their distributions, before running the estimations.

(Insert Table 2 here)

It should be noted that all the estimated regressions are significant at the 0.01 level according to the F tests. In addition, the average coefficient on variable $[PAYR_{i,t}/ln(TA_{i,t-1})]$, the fitted value of Eq. (1) model, is positive and significant ($p<0.01$), as expected. More importantly, an average R^2 of 0.573 indicates that the explanatory power of the model is very satisfactory. Specifically,

[18]We adopt a threshold distance of 57.14 km, beyond which the elements of *W* are set to 0. This is the best threshold distance based on the results of a Lagrange multiplier test. *W* is spectrally normalized so that its largest eigenvalue is 1. The choice of the spatial weight matrix is justified based on a theoretical argument on the mobility pattern and possibilities of immigrants.
[19]This age restriction is also motivated by the related data availability from the Italian Institute of Statistics (ISTAT).
[20]Using Milan or Florence as a reference province, rather than Rome, leads to qualitatively similar results to those presented in this study.

untabulated values of R^2, across the 36 estimations, range from a minimum of 0.436 for NACE code 01 (Crop and animal production, hunting and related service activities) and year 2008 to a maximum of 0.753 for NACE code 42 (Civil engineering) and year 2008. Indeed, this model fit significantly improves the R^2 of 0.29 recorded by the different regression model used by Ravenda et al. (2015) in their first attempt to estimate the abnormal level of SSCs as a measure of LTAV. Furthermore, it outperforms the goodness of fit of other regression models adopted to estimate income tax avoidance through abnormal book-tax differences (Desai & Dharmapala, 2009; C. Kim & Zhang, 2016) and abnormal cash taxes paid to lagged total assets (Badertscher et al., 2017), whose R^2 are below 0.30. Finally, the estimation results by industry show that mean R^2 for construction (0.616) is higher than mean R^2 for agriculture (0.444), providing evidence that the unexplained variation of paid SSCs, which may also be attributed to unobserved LTAV practices, is greater in the agriculture industry.

5.2 Descriptive Statistics and Province-Level LTAV Estimation

Table 3 reports descriptive statistics for the variables included in the Eq. (3) regression model that is estimated cross-sectionally for each year of the period 2008-2016 and whose coefficients on province dummy variables are used as province-level LTAV measures. Variable values are showed for the years 2008 and 2016 as well as the total period 2008-2016. In addition, we carry out the non-parametric comparison tests to determine if the variables significantly differ between 2008 and 2016 (Wilcoxon test) as well as throughout the whole period 2008-2016 (Friedman test[21]). All continuous variables are winsorized at the top and bottom 1 percent of their distributions to avoid the influence of outliers.

(Insert Table 3 here)

As expected, the mean of variable *AbSSCs* is very close to 0 in each year of the period 2008-2016[22], consistent with its cross-sectional estimation for each industry-year (see Eq. (2)). More importantly, the results of Wilcoxon and Friedman tests show that the distribution of *AbSSCs*, and then its median, significantly changes over the examined period, providing evidence of a longitudinal variability in LTAV practices. Specifically, the lower negative median in 2008 compared to 2016 may suggest more widespread LTAV practices across firms in the former

[21]We specifically apply the Skillings-Mack (SM) test (Skillings & Mack, 1981), which is a generalization of the Friedman test in the presence of missing data. This test may be suitable for our analysis given that several firms do not appear in the observations of all years of the period 2008-2016.

[22]Untabulated t-tests show that variable *AbSSCs* is not significantly different from 0 in any year of the period 2008-2016.

year, which may be associated with the start of the global economic downturn[23]. As regards the control variables, the comparison tests also show their significant variability over the analysed period.

Table 4 presents descriptive statistics of variable *AbSSCs* by Italian region, classified into their higher first-level NUTS (North West; North East; Centre; South; Islands), to produce a first overview of the spatial distribution of LTAV practices across the Italian territory.

(Insert Table 4 here)

It is noteworthy that the means of variable *AbSSCs* by region are all significantly ($p<0.01$) different from 0, based on two-tailed t-test, except for region Tuscany. Furthermore, the means are all positive for northern Italian regions, whereas they are all negative for southern Italian regions and islands. These results provide preliminary evidence of the spatial heterogeneity of LTAV across the Italian regions over the period 2008-2016 and, specifically, suggest that LTAV may be on average more intensive in southern Italy, including islands, compared to northern Italy. These outcomes confirm previous studies (Confcommercio Studies Office, 2017) suggesting that informal labour is more widespread in southern Italian regions, consistent with the historical dualism between northern and southern Italy in terms of socio-economic development (Jayet et al., 2010).

Table 5 presents the results of Eq. (3) regression estimations following the Fama and MacBeth's (1973) procedure. Specifically, the reported coefficients and R^2 are mean values of cross-sectional estimations across the 9 years of the period 2008-2016. Therefore, the significance levels of the coefficients are computed using the standard errors of the coefficients across years.

(Insert Table 5 here)

It is noteworthy that all the estimated regressions are significant at the 0.01 level according to the F tests. As regards the control variables, most of them are significant at conventional levels ($p<0.05$), except variables *ROA*, *GROW*, and *AbSERV*. Furthermore, their sign is mostly consistent with our predictions, made based on previous studies on labour and income tax avoidance (C. Kim & Zhang, 2016; Lanis & Richardson, 2012b, 2012a, 2015; Ravenda et al., 2015), with the relevant exception of variable *CAPINT* (capital intensity). Specifically, its negative sign suggests that more capital-intensive firms are more likely to engage in LTAV. These firms may also be more indebted and incur higher interest expenses as well as higher depreciation expenses. Therefore, they could underreport payroll costs to avoid payments of

[23]In 2008, Italian GDP dropped by 1.05% (The World Bank, 2018).

SSCs, without significantly increasing the accounting income that in Italy is the basis for the computation of the taxable income[24] (Gavana, Guggiola, & Marenzi, 2013). In this regard, it should be mentioned that, as almost all the firms in our sample are not listed on the stock exchange, their tax minimization incentives, through the underreporting of earnings, may prevail over capital market considerations that are commonly more relevant for listed firms and may, conversely, lead to upward manage earnings (Coppens & Peek, 2005; Marques, Rodrigues, & Craig, 2011).

Figure 1 and Figure 2 show the maps of province-level LTAV distribution for 2008 and 2016, respectively, based on the results of Eq. (3) regression estimations.

(Insert Figure 1 and Figure 2 here)

It is noteworthy that, in both years, LTAV is more intensive (lower *AbSSCs*) in southern Italian provinces relative to northern Italian provinces, consistent with the descriptive statistics of variable *AbSSCs* by Italian region shown in previous Table 4.

On the other hand, the maps in Figure 3 and Figure 4 highlight the sharp contrast in the spatial distribution of non-EU immigrant concentration (*IMMIGR*) by province between Northern and Southern Italy in 2008 and 2016, respectively.

(Insert Figure 3 and Figure 4 here)

Specifically, the higher presence of immigrants in Northern Italy may be due to the greater economic development and employment opportunities of Northern Italy compared to Southern Italy. Importantly, the previous maps provide a visual confirmation of the presence of spatial clusters at province-level in non-EU immigrant concentrations and LTAV practices. These clusters may lead to a spatial autocorrelation in our data that can be specifically addressed by using a SDM regression for our hypothesis-related estimations.

Finally, Table 6 displays the variance inflation factor (VIF) for all explanatory variables included in the final Eq. (4) regression model as well as Pearson correlations between the same variables. The mean VIF for the full model is 1.83 with individual variable VIFs ranging from 1.02 to 2.84, which is far below the value of 10, a generally accepted maximum threshold to rule out multicollinearity issues in the model (Hair, Black, Babin, & Anderson, 2010). These VIF results may also relieve some multicollinearity concerns arising from relatively high correlations coefficients between *UNEMPL* and *IMMIGR* (-0.706) and *UNEMPL* and *HGRSAL* (-0.710).

[24]The Italian Tax Code (Presidential decree 22, December 1986) sets the derivation principle in the Article 83, stating that taxable income is computed based on the accounting income that should only be adjusted, when accounting standards differ from tax rules.

(Insert Table 6 here)

5.3 Hypothesis-Related Spatial Regression Results

The decision to estimate our Eq. (4) regression model using a spatial econometric approach (SDM) is supported not only by theoretical arguments, but also by the results of several statistical tests. Specifically, we first employ the Moran's I test (Kelejian & Prucha, 2001), based on the residuals of the OLS model, to determine whether a spatial autocorrelation is present in our data and then a spatial model, rather than a non-spatial model, is appropriate. In addition, we follow the specific-to-general approach, suggested by Elhorst (2010), consisting in estimating first a non-spatial linear regression model (OLS model) and then testing whether the spatial autoregressive model (SAR) or the spatial error model (SEM) is more appropriate to describe the data. For this purpose, we use Lagrange multiplier (LM) tests for a spatially lagged dependent variable (LM Spatial Lag) and/or for spatial error autocorrelation (LM Spatial Error), as well as the robust LM tests which test for a spatially lagged dependent variable in the local presence of spatial error autocorrelation and for spatial error autocorrelation in the local presence of a spatially lagged dependent variable (Elhorst, 2014b). These tests are based on the residuals of the OLS model and follow a chi-squared distribution with one degree of freedom (Anselin, Bera, Florax, & Yoon, 1996; Burridge, 1981). Table 7 shows the results of all theses tests.

(Insert Table 7 here)

It is noteworthy that the tests reject the null hypotheses of no spatial autocorrelation in the error (Moran's I and LM Spatial Error tests) and no spatial autocorrelation in the spatial lagged dependent variable (LM Spatial Lag tests) below the 1% level, suggesting that a spatial model, rather than the OLS model, is the appropriate model to use. In this scenario, J. LeSage and Pace (2009) recommed to first consider the SDM. Therefore, we estimate the fixed-effects[25] panel data SDM of Eq. (4) and, following the general-to-specific approach (Elhorst, 2014a), we determine whether SDM is actually a better choice than the SAR and SEM models by testing the hypotheses: H_0: $\theta = 0$ and H_0: $\theta + \rho\beta = 0$. Specifically, the first hypothesis examines whether the SDM can be simplified to the SAR, and the second hypothesis whether it can be simplified to the SEM (Burridge, 1981). If both hypotheses are rejected, then the SDM best describes the data (Elhorst, 2014a). Table 7 shows the results of the Wald tests used to corroborate these hypotheses. As both hypotheses are rejected below the 1% level, we can conclude that the SDM

[25]The Hausman test ($\chi 2(12) = 109.65$; $p<0.01$) suggests that the fixed effect specification is more adequate than the random effect.

best describes the data (Elhorst, 2014a). Finally, Table 8 shows the estimation results of the Eq. (4) fixed-effects panel data SDM.

(Insert Table 8 here)

First, it is noteworthy that the estimated regression is significant at the 0.01 level according to the Wald χ^2 test. Importantly, the spatial coefficient, ρ, on (*W*LTAV_PROV*), displayed in the first row of Table 8, is positive and highly significant ($p<0.001$), suggesting that our estimation strategy is appropriate. Specifically, LTAV intensity in a province is positively associated with LTAV intensity in the neighbouring provinces because of spatially clustered determinants of LTAV, including social, cultural and economic factors, that may lead labour-intensive neighbouring firms to compete through LTAV practices aiming to reduce their labour costs. Turning to the explanatory variables, the SDM methodology allows the estimation of their direct effect (feedback), indirect effect (spillover), and total effect as the sum of the previous two effects (J. LeSage & Pace, 2009). In our specific context, the direct effect records the impact of an explanatory variable in a specific province on LTAV in the same province, whereas the indirect effect measures the impact of the explanatory variable on LTAV in surrounding provinces. As regards our hypothesis-related variable of interest *IMMIGR*, both its direct effect and indirect effect are negative and significant ($p<0.01$), suggesting that the non-UE immigrant concentration in a province is positively associated with the level of LTAV in that province and in the neighbouring provinces. These results fully support the hypothesis of our study and may provide empirical evidence of how the underemployment of non-EU immigrants in agriculture and construction industries under precarious, exploitative and even illegal working conditions may allow employers to avoid the payment of SSCs.

Turning to the other control variables, all their coefficients (direct and total effects) are significant at conventional levels although only variables *CRIME* and *UNEMPL* show significant indirect effects. Specifically, it is noteworthy that positive macroeconomic trends suggested by lower unemployment (*UNEMPL*) and higher GDP growth (Δ*GDP*) are associated with higher LTAV. Indeed, in these scenarios, greater opportunities for higher quality jobs for nationals may increase the availability of more precarious and low-qualified jobs, mostly unattractive to nationals, for immigrants, especially in labour-intensive agriculture and construction industries that mostly include those types of work. To the extent that our LTAV proxy reflects the employment of UDW, our results contradict some prior studies finding a positive association between UDW and unemployment even in Mediterranean countries such as France, Spain and Greece (Buehn, 2012; Dell'Anno, Gómez-Antonio, & Pardo, 2007; Haigner, Jenewein, Schneider, & Wakolbinger, 2013). Finally, within their socioeconomic context, the outcomes of our study provide empirical support for structuralist and marginalization theories predicting that marginalised and more disadvantaged populations such as the immigrants are more likely to be involved in the informal labour market and being victims of labour exploitation practices.

5.4 Additional Analyses and Robustness Checks

If immigrants are attracted to provinces where they have more opportunities to work informally, and then LTAV is higher, an endogeneity problem, in the form of reverse causality between our LTAV proxy and non-EU immigrant concentration variable (*IMMIGR*), may arise and bias our estimations. Specifically, this selective settlement would lead to an upwardly biased estimate of the effects of immigrants' concentration on province-level LTAV (Okkerse, 2008). To address this concern, an instrumental variable (IV), highly correlated with endogenous *IMMIGR* but uncorrelated with LTAV (exogenous instrument), is needed. Previous studies mostly use as an instrument the immigrant concentration at some time in the past, under the assumption that immigrants tend to settle where they can find support from previously established clusters and networks of immigrants with the same cultural and linguistic background as themselves (Dustmann et al., 2017). On the other hand, pre-existing immigrant concentrations are unlikely to be correlated with current economic shocks (pull factors), if measured with a sufficient time lag, unless local economic shocks are strongly persistent (Okkerse, 2008). Our endogeneity concern is confirmed by the results of the Durbin–Wu–Hausman test for endogeneity ($F(1,209) = 8.58$), which lead to the rejection of the null hypothesis of exogeneity of variable *IMMIGR* with a p-value<0.01, thus confirming the need to account for endogeneity in our model. Therefore, we use the 6-year lag non-EU immigrant concentration (*Lag6_IMMIGR*) as an instrument for contemporary variable *IMMIGR*. This new variable has a very high correlation (0.968) with *IMMIGR* as it is needed of an instrument to be valid. We then estimate a two-stage least-squares (2SLS) SDM panel regression (Anselin & Lozano-Gracia, 2008) by including in the second-stage SDM panel regression the predicted value of *IMMIGR* (*Pred_IMMIGR*) based on a first-stage regression of *IMMIGR* on the instrumental variable *Lag6_IMMIGR* and the other control variables of the SDM. Table 9 shows the results of our estimations.

(Insert Table 9 here)

It is noteworthy that the results of the first-stage regression show that the instrumental variable *Lag6_IMMIGR* is relevant, namely it is a strong and significant determinant of the endogenous variable *IMMIGR*. Indeed, the coefficient on *Lag6_IMMIGR* is positive, as expected, statistically significant ($p<0.01$), and the F-test on the significance of the instrument is equal to 129.59, far above the value of 10, the minimum relevance threshold typically used in the academia (Cameron & Trivedi, 2010; Staiger & Stock, 1997). Regarding the second-stage SDM panel regression, both direct and indirect effects on variable *Pred_IMMIGR* are negative and significant ($p<0.01$ and $p<0.05$, respectively), confirming the results of our previous non-instrumented estimations that fully support the hypothesis of our study.

Finally, we carry out other, untabulated, additional robustness analyses that provide results qualitatively analogous to our presented estimations. Specifically, we repeat our estimations by excluding provinces of Mezzogiorno that may distort our results because of its historical economic underdevelopment, compared to Northern Italy, and the strong dominance of Mafia organizations that foster the illegality in the socioeconomic fabric (Ravenda, Valencia-Silva, Argilés-Bosch, & Garcia-Blandon, 2018). Furthermore, we adopt a spatial weight matrix without any threshold distance for the computation of the spatially lagged dependent variable (*W*LTAV_PROV*) to consider that LTAV practices, unlike immigrants, may potentially spill over not only into surrounding provinces, but also into higher-order neighbouring provinces (neighbours to the neighbours) without any defined distance limit.

6 Conclusions and Discussion

In this study, we investigate whether the geographic concentration of non-EU immigrants in the various Italian provinces is positively associated with LTAV practices adopted by firms located in the same provinces of residence of immigrants, as well as in the surrounding provinces, and operating in construction and agriculture industries that mostly employ immigrants in Italy. For this purpose, we develop a LTAV proxy, based on the financial accounting information of the employing firms, and specifically consisting in the abnormal values of the ratio of SSCs paid to lagged total assets, computed with a sample of 993,606 firm-years spread over 108 Italian provinces over the period 2008-2016. Our results provide empirical support for the hypothesis that a higher non-EU immigrant concentration in a specific province enhances the opportunities for LTAV in that province as well as in the neighbouring provinces.

Indeed, because of their unprotected legal status and generally disadvantaged situation, non-EU immigrants may be more vulnerable to labour exploitation practices and more likely to be absorbed in the informal labour market which is sometimes their only opportunity to get paid work. In this regard, previous studies (Frantz, 2013; Pajnik, 2016; Strauss & McGrath, 2017) highlight the role played by the states in facilitating and enforcing labour exploitative practices involving immigrants through the adoption of restrictive migration regimes, often presented as a means of protecting the national labour force. In particular, these restrictions reduce migrant access to social rights, foster the precariousness and informality of their work relations, and place them in a weaker and marginalized position in the society more generally (Lewis et al., 2015; Vosko, MacDonald, & Campbell, 2009). Therefore, immigration controls and enforcement give employers mechanisms of control over immigrants that they do not have over citizens by creating a group of workers for specific unskilled occupations that are more vulnerable, exploitable and then desirable as employees (Anderson, 2010). This situation may be aggravated by the lack of labour controls and inspections on the employers. Especially in this context, employers praise migrants' reliability and call for an increase in numbers even at times of high unemployment (Anderson, 2010).

The partisans of an open policy towards immigration argue that immigrants, by mostly undertaking jobs which natives refuse and would otherwise be unfilled, may support the solvency of European social security systems that suffer from significant reductions of SSCs because of population ageing, changes in labour market structure, and financial globalization (French & Jones, 2012; Okkerse, 2008). However, this positive effect may be undermined by LTAV practices associated with the employment of immigrants. Furthermore, although immigrants may not be perfect substitutes for native workers, they may partially compete with low paid/skilled native workers whose working conditions may also deteriorate because of the increased immigration, especially in periods of high unemployment and in the poorest regions. Therefore, keeping immigrants in the country without legalising their status creates dangerous illegitimate competition in the labour market and threatens the socio-economic rights of the native population as well as of legal immigrants (Triandafyllidou & Maroukis, 2012). In this regard, a greater social integration and recognition of rights of immigrants may allow for better policy planning in all domains (e.g., employment, health and education), and at the same times safeguard the rights of citizens and legal migrants (Triandafyllidou & Maroukis, 2012).

In addition, immigration is also an important political issue, with growing anti-immigrant sentiment worldwide (Breunig, Deutscher, & To, 2017). Specifically, on the one hand, political elites must respond to public opinion and electorates unprepared and fearful for massive immigration influxes. In this regard, right-wing politicians sometimes encourage irrational phobias, often unjustified, towards immigrants with the aim of gaining consensus, setting themselves up as defenders of citizens against the "barbarian invasion"(Mudde, 2013). On the other hand, politicians have to deal with a socioeconomic context culturally tolerant with the informal employment and where small and medium-sized enterprises and families employ illegal immigrants (Triandafyllidou & Maroukis, 2012). Indeed, some scholars assert that irregular migration is deliberately sought by political and economic actors to have cheap workforce that is not socially protected by law or by collective agreement (Ambrosini, 2012). In this respect, our study, providing empirical evidence of the perverse effects of immigration on the labour market, support the legalisation of the status of the immigrants and their employment relationships as measures that could benefit both the interest of immigrants and the interests of nationals.

Our findings, however, are subject to some limitations. Specifically, the validity of our results depends on the ability of our proxy to properly measure LTAV variability. Furthermore, we do not account for the heterogeneity within non-EU immigrants in terms of origin, education, skills, culture, motivation and socioeconomic status that may moderate their impact on the labour market and LTAV. Finally, as suggestions for future research, our results may be corroborated by using other estimation methodology of UDW, our study may be replicated for other industries and national contexts, and additional spatial models may be tested by incorporating additional sources of territorial heterogeneity that may affect LTAV.

Appendix A. Definition of Variables

Variable definition of Eq. (3):

$$AbSSCs_{i,t}=\beta_0+\sum_{r}\beta_r\, PROVINCE^{r}_{i,t}+\sum_{k}\beta_k\, CONTROLS^{k}_{i,t}+\sum_{s}\beta_s\, INDUSTRY^{s}_{i,t}+\varepsilon_{i,t} \qquad (3)$$

AbSSCs = abnormal SSCs equal to residuals from Eq. (2) simultaneously estimated with Eq. (1)

PROVINCE: dummy variable for each of 107 Italian provinces

CONTROLS = firm-level control variables of Eq. (3) regression model:

SIZE = natural logarithm of total assets in thousands of euros

AGE = age of the firm in years

LEVER = total debt divided by total assets

CAPINT = net fixed assets and net intangible assets divided by total assets

ROA = net income divided by total assets

LOSS = dummy variable that takes a value of 1 if the firm had two or more consecutive years of negative income including the current and 0 otherwise

GROW = percentage change in net sales relative to previous year

DAC = discretionary accruals estimated based on the performance-adjusted modified Jones model (Ravenda, Valencia-Silva, Argilés-Bosch, et al., 2018)

AbMATL = abnormal material costs equal to residuals from the following Eq. (5) with material costs (*MAT*), including both raw materials and merchandise, as dependent variable, estimated cross-sectionally for each two-digit NACE industry-year

$$\frac{MAT_{i,t}(SERV_{i,t})}{ln(TA_{i,t-1})}=\beta_0+\beta_1\frac{1}{ln(TA_{i,t-1})}+\beta_2\frac{S_{i,t}}{ln(TA_{i,t-1})}+\beta_3\frac{\Delta S_{i,t}}{ln(TA_{i,t-1})}+\varepsilon_{i,t} \quad (5)$$

AbSERV = abnormal service costs equal to residuals from Eq. (5) with service costs (*SERV*) as dependent variable, estimated cross-sectionally for each two-digit NACE industry-year

CASHTA = cash and cash equivalents divided by total assets

ETR = abnormal effective tax rate equals to industry- and size-matched GAAP ETR minus firm's GAAP ETR, where GAAP ETR is the total tax expense divided by pre-tax income. Industry- and size-matched GAAP ETR is the average GAAP ETR for the portfolio of firms in the same quintile of total assets and the same two-digit NACE industry-year

SD_ROA = standard deviation of *ROA* over the past four years

INVENTA = inventory divided by total assets

INDUSTRY: dummy variable for each three-digit NACE industry

Variable definition of Eq. (4):

$$LTAV\_PROV_{i,t}=\rho W\,LTAV\_PROV_{i,t}+\beta_0+\beta_1 IMMIGR_{i,t}+$$
$$+\sum_k\beta_k CONTROLS^k_{i,t}+\theta_1 W\ IMMIGR_{i,t}+\sum_k\theta_k W\,CONTROLS^k_{i,t}+u_i+v_{i,t} \quad (4)$$

LTAV_PROV = LTAV at province-level, measured as the estimated coefficients of *INDUSTRY* in Eq. (3)

W = inverse distance spatial weight matrix with a threshold distance of 57.14 km, spectrally normalized

IMMIGR = non-EU immigrant concentration, computed as the fraction of non-EU residents per 1,000 residents in each province and year, restricted to the population between 18 and 59 years of age (source: ISTAT)

CONTROLS = province-level control variables of Eq. (4) regression model:

DENSITY = province population per km^2, spatially differentiated from the province of Rome (source: ISTAT)

CRIME = natural logarithm of crimes reported by police forces to judicial authorities per 1,000 residents, spatially differentiated from the province of Rome (source: ISTAT)

UNEMPL = annual unemployment rate, spatially differentiated from the province of Rome (source: ISTAT)

HGRSAL = employee hourly gross salary, harmonized to 2016 cost of living, spatially differentiated from the province of Rome (source: ISTAT)

ΔGDP = gross domestic product growth rate, spatially differentiated from the province of Rome (source: ISTAT)

u: province fixed-effects (*PROVINCE FE*)

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Table 1. Sample composition

Panel A: Distribution of sample firm-years by Italian region and industry for the period 2008-2016

Regions (Provinces)	**Agriculture**		**Construction**		**Total**	
	Firm-years	**%**	**Firm-years**	**%**	**Firm-years**	**%**
North West						
Lombardy (Bergamo; Brescia; Como; Cremona; Lecco; Lodi; Mantua; Milan; Monza e della Brianza; Pavia; Sondrio; Varese)	9,882	0.99%	147,018	14.80%	156,900	15.79%
Piedmont (Alessandria; Asti; Biella; Cuneo; Novara; Turin; Verbano-Cusio-Ossola; Vercelli)	4,448	0.45%	41,068	4.13%	45,516	4.58%
Liguria (Genova; Imperia; La Spezia; Savona)	767	0.08%	16,490	1.66%	17,257	1.74%
Aosta Valley (Valle d'Aosta/Vallée d'Aoste)	137	0.01%	2,245	0.23%	2,382	0.24%
North East						
Veneto (Belluno; Padua; Rovigo; Treviso; Venice; Verona; Vicenza)	7,898	0.79%	68,979	6.94%	76,877	7.74%
Emilia-Romagna (Bologna; Ferrara; Forlì-Cesena; Modena; Parma; Piacenza; Ravenna; Reggio nell'Emilia; Rimini)	8,633	0.87%	64,199	6.46%	72,832	7.33%
Trentino-South Tyrol (Bolzano/Bozen; Trento)	1,834	0.18%	15,611	1.57%	17,445	1.76%
Friuli-Venezia Giulia (Gorizia; Pordenone; Trieste; Udine)	2,023	0.20%	13,573	1.37%	15,596	1.57%
Centre						
Lazio (Frosinone; Latina; Rieti; Rome; Viterbo)	11,533	1.16%	146,767	14.77%	158,300	15.93 %
Tuscany (Arezzo; Florence; Grosseto; Livorno; Lucca; Massa-Carrara; Pisa; Pistoia; Prato; Siena)	10,224	1.03%	49,126	4.94%	59,350	5.97%
Marche (Ancona; Ascoli Piceno; Fermo; Macerata; Pesaro e Urbino)	2,564	0.26%	23,457	2.36%	26,021	2.62%
Umbria (Perugia; Terni)	2,621	0.26%	12,728	1.28%	15,349	1.54%
South						
Campania (Avellino; Benevento; Caserta; Naples; Salerno)	8,660	0.87%	88,381	8.89%	97,041	9.77%
Apulia (Bari; Barletta-Andria-Trani; Brindisi; Foggia; Lecce; Taranto)	11,502	1.16%	54,957	5.53%	66,459	6.69%
Abruzzo (Chieti; L'Aquila; Pescara; Teramo)	2,078	0.21%	25,211	2.54%	27,289	2.75%

Table 1. Sample composition

Panel A: Distribution of sample firm-years by Italian region and industry for the period 2008-2016

Regions (Provinces)	**Agriculture**		**Construction**		**Total**	
	Firm-years	**%**	**Firm-years**	**%**	**Firm-years**	**%**
Calabria (Catanzaro; Cosenza; Crotone; Reggio di Calabria; Vibo Valentia)	3,979	0.40%	21,942	2.21%	25,921	2.61%
Basilicata (Matera; Potenza)	1,994	0.20%	8,669	0.87%	10,663	1.07%
Molise (Campobasso; Isernia)	682	0.07%	4,417	0.44%	5,099	0.51%
Islands						
Sicily (Agrigento; Caltanissetta; Catania; Enna; Messina; Palermo; Ragusa; Syracuse; Trapani)	12,366	1.24%	56,873	5.72%	69,239	6.97%
Sardinia (Cagliari; Carbonia-Iglesias; Medio Campidano; Nuoro; Oristano; Sassari)	3,269	0.33%	24,801	2.50%	28,070	2.83%
Total	**107,094**	**10.78%**	**886,512**	**89.22%**	**993,606**	**100%**

Table 1. Sample composition

Panel B: Distribution of sample firm-years by province for the period 2008-2016

Province	Firm-years	Province	Firm-years	Province	Firm-years	Province	Firm-years
Rome	127,341	Cagliari	10,436	Trapani	5,891	Rovigo	3,643
Milan	56,932	Frosinone	10,355	Viterbo	5,852	Lecco	3,628
Naples	44,430	Messina	10,046	Forlì-Cesena	5,824	Cremona	3,605
Bergamo	24,718	Parma	9,306	Alessandria	5,822	Massa-Carrara	3,376
Turin	22,084	Reggio nell'Emilia	9,251	Barletta-Andria-Trani	5,688	Campobasso	3,330
Bari	22,016	Trento	9,092	Lucca	5,609	La Spezia	3,037
Brescia	21,112	Bolzano/Bozen	8,353	Syracuse	5,581	Sondrio	2,957
Caserta	20,984	Udine	8,122	Mantua	5,561	Nuoro	2,801
Salerno	19,597	Genova	7,881	Ravenna	5,407	Rieti	2,692
Verona	16,941	Taranto	7,718	Benevento	5,386	Lodi	2,680
Catania	16,846	Pisa	7,405	Catanzaro	4,980	Asti	2,382
Bologna	16,265	L'Aquila	7,335	Grosseto	4,929	Valle d'Aosta	2,382
Padua	14,439	Ancona	7,142	Macerata	4,870	Fermo	2,314
Foggia	13,535	Pesaro e Urbino	6,951	Rimini	4,775	Belluno	2,260
Venice	13,275	Agrigento	6,886	Ascoli Piceno	4,744	Imperia	2,257
Modena	13,266	Chieti	6,817	Piacenza	4,577	Vibo Valentia	2,221
Treviso	13,250	Cuneo	6,816	Prato	4,542	Crotone	2,065
Florence	13,175	Potenza	6,710	Reggio di Calabria	4,448	Trieste	2,065
Vicenza	13,069	Teramo	6,699	Caltanissetta	4,209	Isernia	1,769
Monza	12,355	Avellino	6,644	Livorno	4,177	Oristano	1,591
Cosenza	12,207	Como	6,641	Ferrara	4,161	Verbano-Cusio-Ossola	1,560
Palermo	12,187	Brindisi	6,519	Savona	4,082	Vercelli	1,558
Latina	12,060	Siena	6,499	Novara	3,969	Enna	1,506
Perugia	11,543	Pescara	6,438	Matera	3,953	Gorizia	1,468
Sassari	11,289	Ragusa	6,087	Pordenone	3,941	Biella	1,325
Lecce	10,983	Arezzo	5,959	Terni	3,806	Carbonia-Iglesias	1,178
Varese	10,768	Pavia	5,943	Pistoia	3,679	Medio Campidano	775

Source: AIDA database, 2018. Agriculture industry includes firms with NACE code 01 (Crop and animal production, hunting and related service activities); Construction industry includes firms with NACE codes: 41(Construction of buildings), 42 (Civil engineering), and 43 (Specialised construction activities).

Table 2. Regression estimations of normal and abnormal SSCs

	$SSC_{i,t}/ln(TA_{i,t-1})$								
	Total sample			**Construction**			**Agriculture**		
Variables	**Coef.**	**t-stat**	**p-val.**	**Coef.**	**t-stat**	**p-val.**	**Coef.**	**t-stat**	**p-val.**
$1/ln(TA_{i,t-1})$	2.345	4.90	0.000	3.025	5.20	0.000	0.304	3.49	0.008
$[PAYR_{i,t}/ln(TA_{i,t-1})]$	0.372	31.89	0.000	0.410	89.20	0.000	0.258	152.60	0.000
Intercept	-1.302	-6.34	0.000	-1.559	-6.09	0.000	-0.529	-30.28	0.000
Mean R^2	0.573			0.616			0.444		
Mean F	616		0.000	5,277		0.000	69,952		0.000
Mean obs.	27,600			32,833			11,901		
Total obs.	993,606			886,494			107,112		
N. Industry-years	36			27			9		

Notes: The p-values are two-tailed. The coefficients and R^2 are the mean values of coefficients and R^2 of cross-sectional estimations across 36 two-digit NACE industry-years. The t-statistics are calculated using the standard error of the related mean coefficient across industry-years. $ln(TA_{i,t-1})$ is the natural logarithm of lagged total assets; $SSC_{i,t}$ is social security contribution expenses; $[PAYR_{i,t}/ln(TA_{t-1})]$ is predicted payroll costs deflated by $ln(TA_{i,t-1})$ resulting from the first stage regression in Eq.(1). Agriculture industry includes firms with NACE code 01 (Crop and animal production, hunting and related service activities); Construction industry includes firms with NACE codes: 41(Construction of buildings), 42 (Civil engineering), and 43 (Specialised construction activities).

Table 3. Descriptive statistics and comparisons of firm-level variables over time

Variables	2008 Mean	2008 Median	2008 Std	2016 Mean	2016 Median	2016 Std	Total period 2008-2016 Mean	Total period 2008-2016 Median	Total period 2008-2016 Std	Tests: Wilcoxon (2016 vs. 2008)	Tests: Friedman
Dependent Variable											
AbSSCs	0.000	-0.189	2.570	0.000	-0.079	2.633	0.000	-0.131	2.481	***	***
Control Variables											
SIZE	6.180	6.303	1.807	6.159	6.240	1.747	6.202	6.301	1.763	***	***
AGE	4.751	2.000	11.331	12.670	10.000	11.042	8.223	5.000	11.563	***	***
LEVER	0.729	0.822	0.305	0.704	0.767	0.304	0.722	0.802	0.302	***	***
CAPINT	0.222	0.079	0.296	0.203	0.064	0.284	0.214	0.070	0.292	***	***
ROA	0.001	0.001	0.110	0.009	0.003	0.120	0.002	0.001	0.111	***	***
LOSS	0.153	0.000	0.360	0.163	0.000	0.369	0.176	0.000	0.380	***	***
GROW	0.530	0.062	1.685	0.255	0.003	1.225	0.298	0.008	1.319	***	***
DAC	0.001	-0.039	0.368	0.000	0.000	0.270	0.001	-0.007	0.296	***	***
AbMATL	-0.500	-8.663	47.765	0.173	-3.319	35.426	-0.054	-4.291	38.803	***	***
AbSERV	-0.589	-5.289	38.628	-0.125	-1.603	29.813	-0.362	-2.681	32.586	***	***
CASHTA	0.107	0.025	0.185	0.117	0.036	0.179	0.105	0.026	0.177	***	***
ETR	0.000	0.076	0.350	0.000	0.068	0.336	0.000	0.070	0.354		***
SD_ROA	0.355	0.111	0.671	0.445	0.185	0.663	0.430	0.177	0.663	***	***
INVENTA	0.311	0.111	0.362	0.265	0.063	0.346	0.297	0.091	0.360	***	***
Number obs.		85,982			116,534			993,606			

Notes: The sample full period spans 2008–2016. *, ** and *** denote significance levels at 10%, 5% and 1%, respectively, based on a two-tailed Wilcoxon rank-sum test for the differences in medians between variables in 2008 and variables in 2016, and a two-tailed Friedman test for the differences among variable annual distributions over the whole period 2008-2016.

Table 4. Descriptive statistics of LTAV proxy (*AbSSCs)* by Italian region

	AbSSCs				
Regions (Provinces)	**N**	**Mean**	**Median**	**Std**	**t-test**
North West					
Lombardy (Bergamo; Brescia; Como; Cremona; Lecco; Lodi; Mantua; Milan; Monza e della Brianza; Pavia; Sondrio; Varese)	156,900	0.188	-0.129	2.524	***
Piedmont (Alessandria; Asti; Biella; Cuneo; Novara; Turin; Verbano-Cusio-Ossola; Vercelli)	45,516	0.380	-0.121	3.146	***
Liguria (Genova; Imperia; La Spezia; Savona)	17,257	0.288	-0.127	2.892	***
Aosta Valley (Valle d'Aosta/Vallée d'Aoste)	2,382	1.166	-0.079	5.863	***
North East					
Veneto (Belluno; Padua; Rovigo; Treviso; Venice; Verona; Vicenza)	76,877	0.187	-0.128	2.389	***
Emilia-Romagna (Bologna; Ferrara; Forlì-Cesena; Modena; Parma; Piacenza; Ravenna; Reggio nell'Emilia; Rimini)	72,832	0.120	-0.137	2.307	***
Trentino-South Tyrol (Bolzano/Bozen; Trento)	17,445	0.228	-0.116	3.434	***
Friuli-Venezia Giulia (Gorizia; Pordenone; Trieste; Udine)	15,596	0.099	-0.128	2.453	***
Centre					
Lazio (Frosinone; Latina; Rieti; Rome; Viterbo)	158,300	-0.050	-0.133	2.335	***
Tuscany (Arezzo; Florence; Grosseto; Livorno; Lucca; Massa-Carrara; Pisa; Pistoia; Prato; Siena)	59,350	0.012	-0.112	2.503	
Marche (Ancona; Ascoli Piceno; Fermo; Macerata; Pesaro e Urbino)	26,021	-0.052	-0.152	1.712	***
Umbria (Perugia; Terni)	15,349	0.072	-0.121	2.501	***
South					
Campania (Avellino; Benevento; Caserta; Naples; Salerno)	97,041	-0.174	-0.130	2.284	***
Apulia (Bari; Barletta-Andria-Trani; Brindisi; Foggia; Lecce; Taranto)	66,459	-0.234	-0.121	2.613	***
Abruzzo (Chieti; L'Aquila; Pescara; Teramo)	27,289	-0.133	-0.157	2.167	***
Calabria (Catanzaro; Cosenza; Crotone; Reggio di Calabria; Vibo Valentia)	25,921	-0.275	-0.154	2.459	***
Basilicata (Matera; Potenza)	10,663	-0.086	-0.060	2.332	***
Molise (Campobasso; Isernia)	5,099	-0.257	-0.133	2.287	***
Islands					
Sicily (Agrigento; Caltanissetta; Catania; Enna; Messina; Palermo; Ragusa; Syracuse; Trapani)	69,239	-0.343	-0.142	2.392	***
Sardinia (Cagliari; Carbonia-Iglesias; Medio Campidano; Nuoro; Oristano; Sassari)	28,070	-0.236	-0.156	2.234	***

Notes: The sample full period spans 2008–2016. *, ** and *** denote significance levels at 10%, 5% and 1%, respectively, based on a two-tailed t-test for difference from 0 of the means of *AbSSCs* by region.

Table 5. Regression estimations of province-level LTAV measures

		AbSSCs		
Variables	**Pred. Sign**	**Coef.**	**t-stat**	**p-val.**
SIZE	−	-0.041	-13.26	0.000
AGE	?	0.006	6.66	0.000
LEVER	−	-0.102	-5.27	0.001
CAPINT	+	-0.161	-6.58	0.000
ROA	?	0.017	0.41	0.695
LOSS	?	-0.083	-6.80	0.000
GROW	+	0.006	1.00	0.349
DAC	+	-0.050	-5.20	0.001
AbMATL	−	-0.001	-4.46	0.002
AbSERV	−	0.000	-1.33	0.221
CASHTA	−	-0.063	-3.83	0.005
ETR	−	-0.106	-5.93	0.000
SD_ROA	−	-0.024	-4.84	0.001
INVENTA	?	-0.066	-3.34	0.010
PROVINCE (dummies)		Yes		
INDUSTRY (dummies)		Yes		
Mean R^2		0.041		
Mean F		492		0.000
Mean observations		110,401		
Total observations		993,606		
Number of years		9		

Notes: The p-values are two-tailed. The coefficients and R^2 are the mean values of coefficients and R^2 of cross-sectional estimations across 9 years. The t-statistics are calculated using the standard error of the related mean coefficient across years. Variables are defined in the Appendix A.

Figure 1. Spatial distribution of province-level LTAV across Italy in 2008

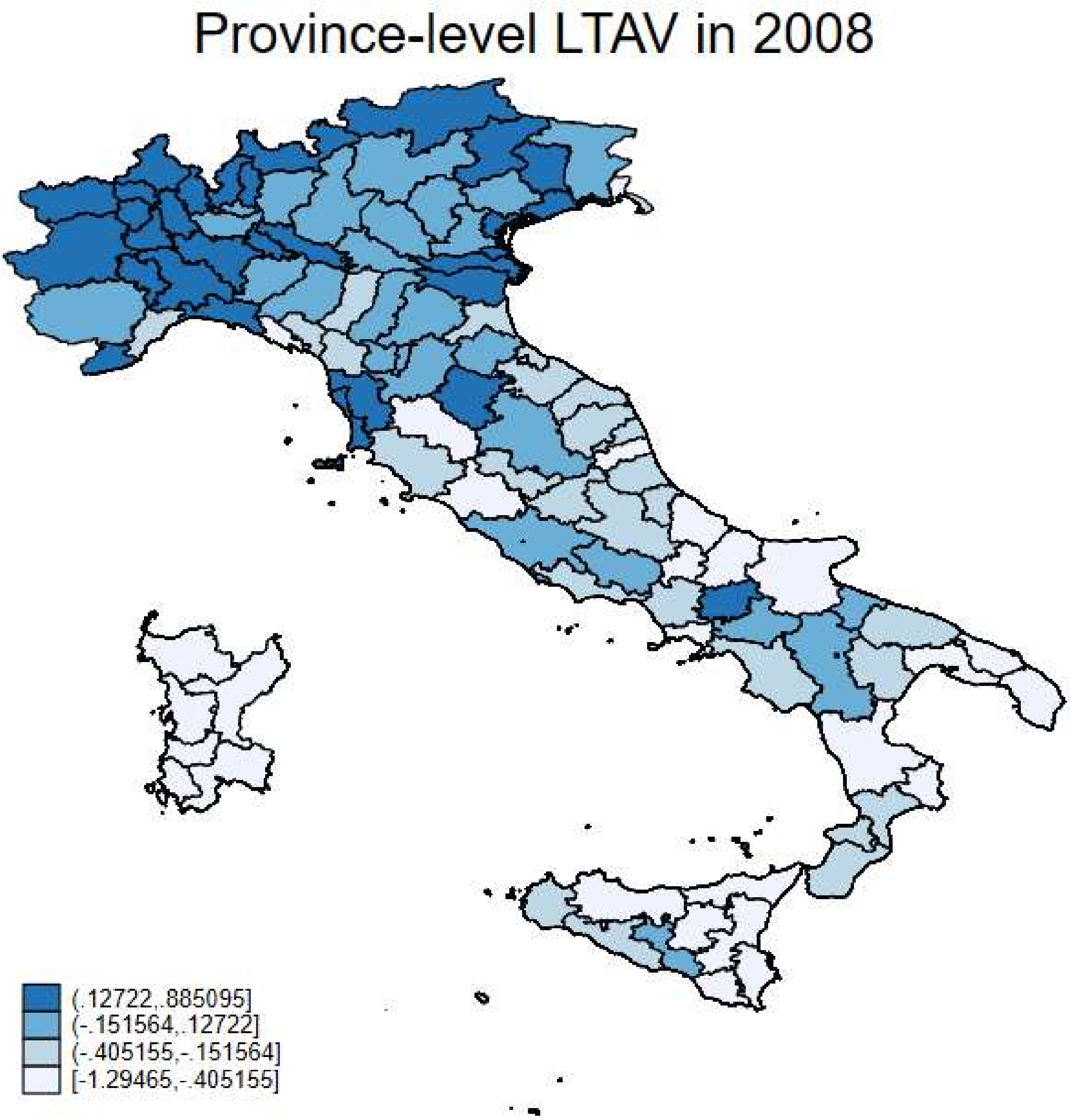

Figure 2. Spatial distribution of province-level LTAV across Italy in 2016

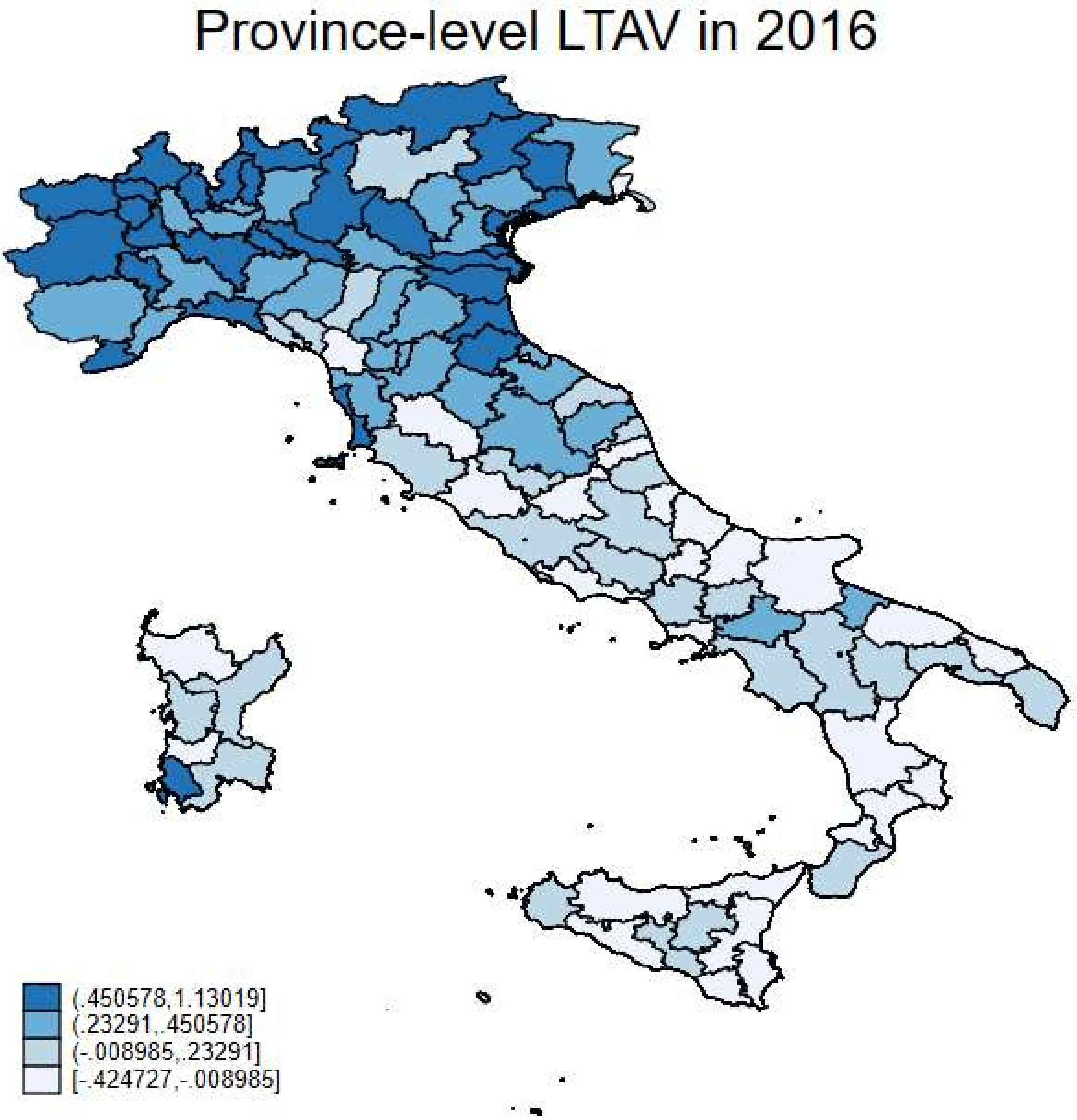

Figure 3. Spatial distribution of non-EU immigrants across Italian provinces in 2008

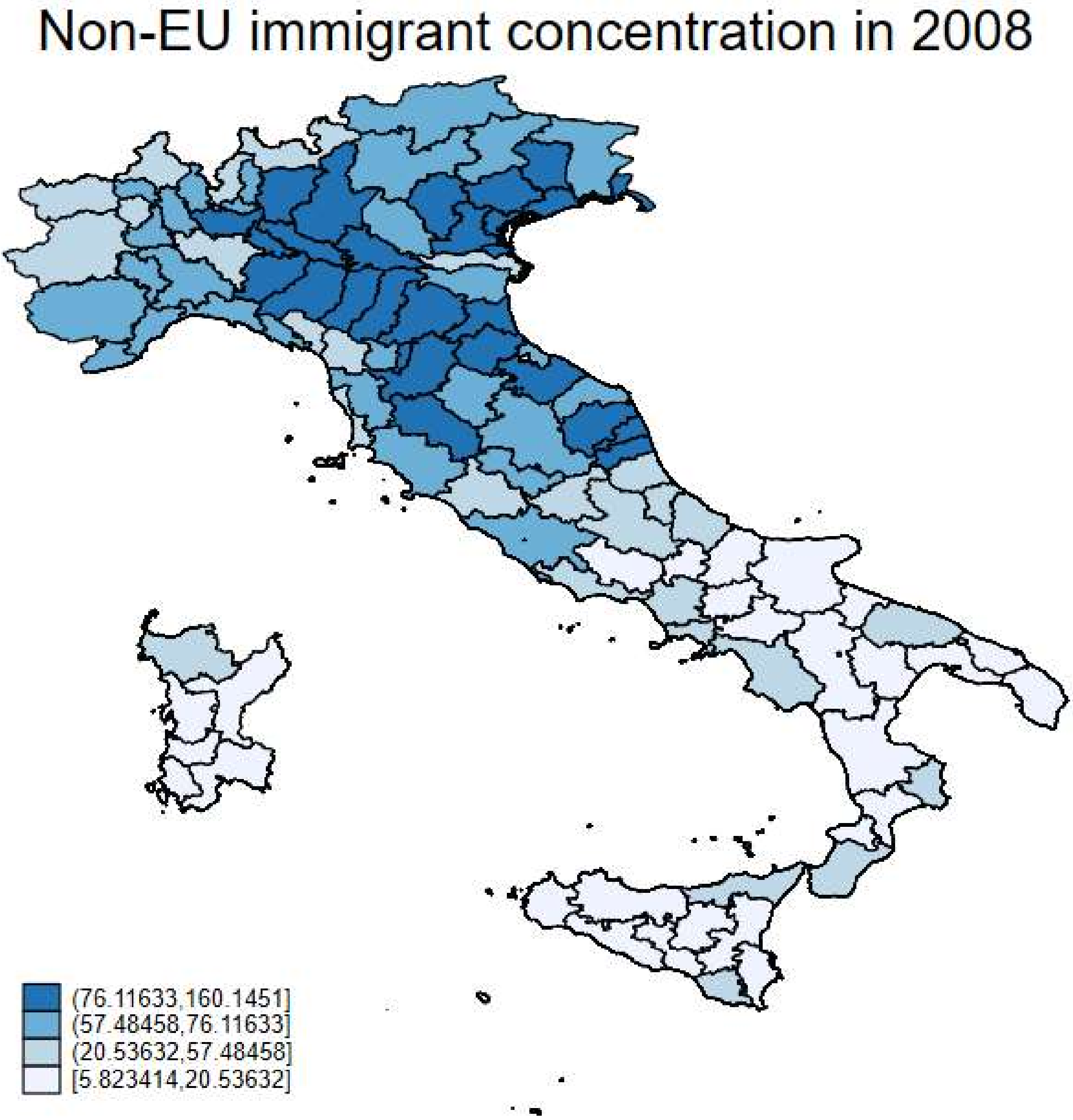

Figure 4. Spatial distribution of non-EU immigrants across Italian provinces in 2016

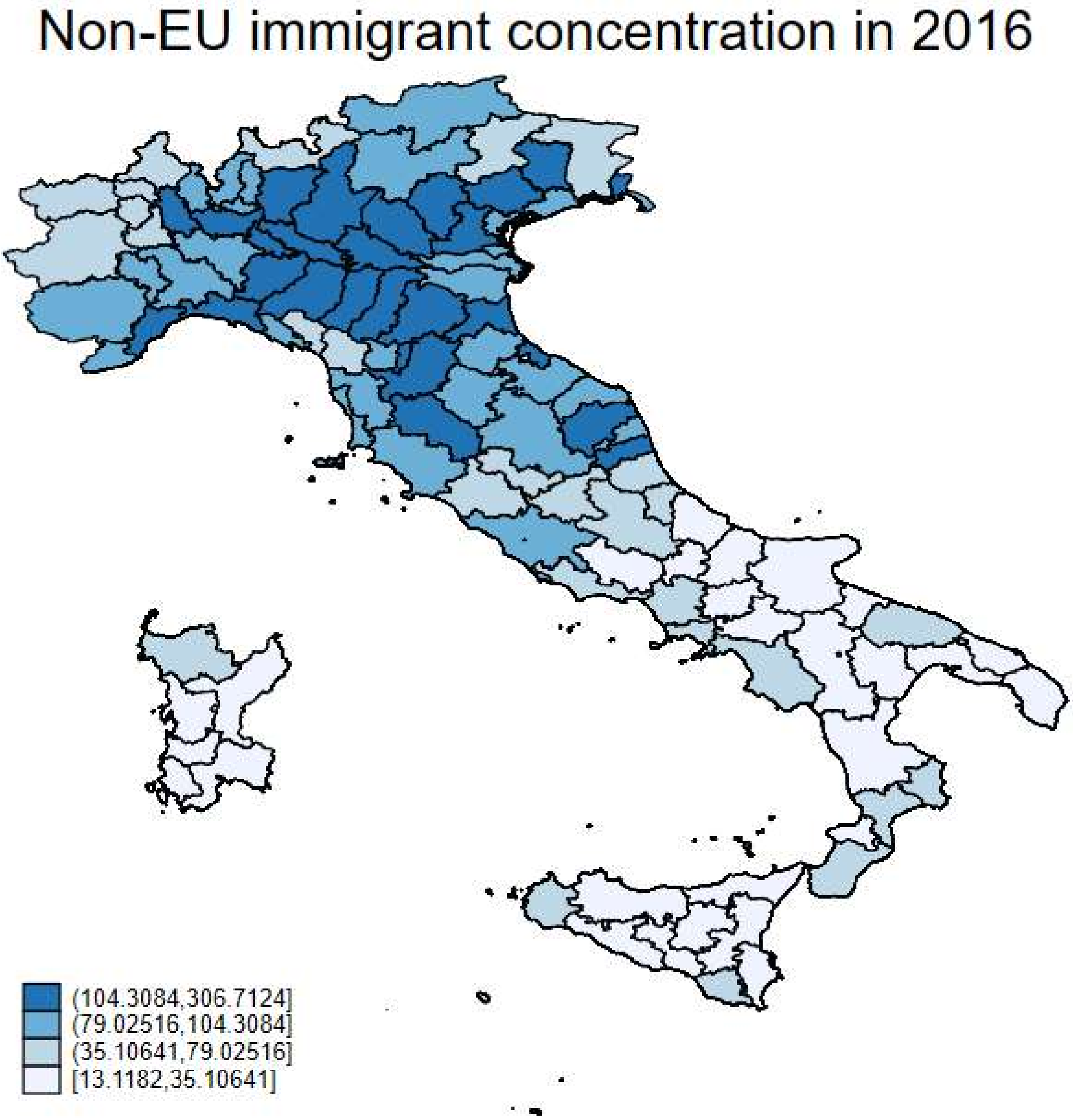

Table 6. Variable VIF and Pearson correlations

Variables	VIF	*IMMIGR*		*DENSITY*		*CRIME*		*UNEMPL*		*HGRSAL*		*ΔGDP*
IMMIGR	**2.49**	1										
DENSITY	**1.14**	0.212	***	1								
CRIME	**1.34**	0.453	***	0.301	***	1						
UNEMPL	**2.84**	**-0.706**	***	-0.045		-0.244	***	1				
HGRSAL	**2.14**	0.586	***	0.146	***	0.242	***	**-0.710**	***	1		
Δ***GDP***	**1.02**	0.039		0.018		-0.008		-0.074	**	0.134	***	1
Mean VIF	**1.83**											

Notes: $*$, $**$ and $***$ denote significance levels at 10%, 5% and 1%, respectively, based on a two-tailed test. Variables are defined in the Appendix A.

Table 7. Tests for spatial autocorrelation

Tests	Stat.	Stat.Value	p-val.
Ho: Error has no spatial autocorrelation			
Moran's I	$\chi^2(1)$	19.75	0.000
LM Spatial Error	$\chi^2(1)$	48.242	0.000
LM Spatial Error (Robust)	$\chi^2(1)$	34,800,000	0.000
Ho: Spatial lagged dependent variable has no spatial autocorrelation			
LM Spatial Lag	$\chi^2(1)$	72.052	0.000
LM Spatial Lag (Robust)	$\chi^2(1)$	34,800,000	0.000
Ho: No general spatial autocorrelation			
LM SAC (LM Error + LM Lag (Robust))	$\chi^2(2)$	34,800,000	0.000
LM SAC (LM Lag + LM Error (Robust))	$\chi^2(2)$	34,800,000	0.000
Ho: $\boldsymbol{\theta} = 0$			
Wald test: SDM vs SAR	$\chi^2(6)$	18.150	0.006
Ho: $\boldsymbol{\theta} + \boldsymbol{\rho\beta} = 0$			
Wald test: SDM vs SEM	$\chi^2(6)$	43.260	0.000

Notes: All tests are performed using the inverse distance spatial weight matrix (W) with a threshold distance of 57.14 km and spectrally normalized so that its largest eigenvalue is 1. Moran's I test is computed for the final year of the analysis (2016).

Table 8. SDM fixed-effects regression of LTAV at province-level

	Dependent variable: *LTAV_PROV*								
	Direct effect			Indirect effect			Total effect		
Explanatory variables	**Coef.**	**z-stat**	**p-val.**	**Coef.**	**z-stat**	**p-val.**	**Coef.**	**z-stat**	**p-val.**
***W*LTAV_PROV* (ρ)**	0.5630	8.44	0.000						
Variable of interest:									
IMMIGR	-0.0012	-2.60	0.009	-0.0019	-3.36	0.001	-0.0031	-4.32	0.000
Control variables:									
DENSITY	-0.0024	-12.67	0.000	-0.0004	-1.55	0.122	-0.0027	-12.74	0.000
CRIME	0.2256	4.07	0.000	0.2522	2.92	0.004	0.4778	4.71	0.000
UNEMPL	0.0038	2.03	0.042	0.0112	2.64	0.008	0.0150	3.28	0.001
HGRSAL	0.0838	4.43	0.000	0.0280	1.62	0.105	0.1118	6.58	0.000
ΔGDP	-0.0090	-3.42	0.001	0.0004	0.18	0.860	-0.0085	-3.05	0.002
PROVINCE FE				Yes					
Number of obs.				972					
Number of groups				108					
Obs. per group				9					
Log-likelihood				860.693					
R^2 (within)				0.567					
Wald $\chi 2(13)$				1322.69 ($p<0.001$)					

Notes: The sample period is from 2008 to 2016. The p-values are two-tailed. Variables are defined in the Appendix A.

Table 9. SDM 2SLS fixed-effects regression of LTAV at province-level

	IMMIGR (1st stage eq.)			***LTAV_PROV*** (2nd stage eq.)								
				Direct effect			**Indirect effect**			**Total effect**		
Explanatory variables	**Coef.**	**t-stat**	**p-val.**	**Coef.**	**z-stat**	**p-val.**	**Coef.**	**z-stat**	**p-val.**	**Coef.**	**z-stat**	**p-val.**
W*LTAV_PROV **(ρ)**				0.506	4.43	0.000						
Variable of interest:												
Pred_IMMIGR				-0.003	-3.96	0.000	-0.003	-2.26	0.024	-0.007	-3.71	0.000
Control variables:												
DENSITY	0.003	1.22	0.225	-0.010	-3.63	0.000	0.006	1.25	0.210	-0.004	-0.76	0.448
CRIME	10.227	4.93	0.000	0.630	5.89	0.000	0.047	0.28	0.781	0.677	3.50	0.000
UNEMPL	0.221	0.76	0.449	0.010	2.79	0.005	0.018	2.26	0.024	0.027	2.88	0.004
HGRSAL	-0.256	-0.17	0.866	-0.138	-1.89	0.059	0.243	1.81	0.071	0.105	0.83	0.405
Δ*GDP*	0.280	0.97	0.335	-0.012	-2.51	0.012	-0.013	-1.64	0.101	-0.025	-3.52	0.000
Lag6_IMMIGR	1.146	11.38	0.000									
PROVINCE FE	No			Yes								
Number of obs.	324			324								
Number of groups				108								
Obs. per group				3								
Log-likelihood				417.093								
R^2 (within)	0.9424			0.500								
Wald χ2(13)				45.54 (p<0.001)								
F	550.24 (p<0.001)											

Notes: The sample period is from 2014 to 2016. The t-statistics are based on standard errors clustered by province. The p-values are two-tailed. *Lag6_IMMIGR* is 6-year lag of variable *IMMIGR*; *Pred_IMMIGR* is predicted *IMMIGR* from 1st stage equation. The rest of variables are defined in the Appendix A.