

## How immigration makes income inequality worse in the US.

*The past thirty years have seen a dramatic rise in income inequality in the US. While many economists have pointed to the rise of low-skilled immigration as a contributor to income inequality in developed countries, there has been little evidence from the US. In new research, [Ping Xu](#), [James C. Garand](#), [Ling Zhu](#), find that the low-skilled immigration in the US does increase income inequality due to the downward pressure it puts on wages, and immigrants' lack of access to federal welfare benefits. They write that to reduce inequality, US immigration policy should shift towards admitting more high-skilled immigrants or incorporating existing immigrants into the social welfare system.*



The past three decades have seen a substantial rise in income inequality in the United States. Since the 1970s, the income gap between the rich and the poor has escalated rapidly and exceeded that of most other industrial democracies. Among the political and economic determinants of inequality, immigration has been one of the most controversial. Previously, economists have found that low-skill immigrants in developed countries tend to increase these countries' low-skill labor supply and consequently increase wage inequality. Despite the evidence documented at the individual level, to date relatively little is known about whether or not and how immigration influences income inequality in the United States.



In new research, we argue that immigrants could potentially increase income inequality in the United States for two reasons. First, in the past four decades a disproportionate share of immigrants have had relatively low education, limited English proficiency, and other attributes that put them at a competitive disadvantage in the labor market when compared to native-born Americans. Many immigrants tend to concentrate in low-wage occupations such as construction, seasonal agricultural work, meatpacking, yard service, gardening, and household work. The presence of low-skill immigrants increases competition in the lower-wage labor market and alters the supply-demand dynamics of labor. As a result, the influx of low-skill immigrants could depress wages and reduce job opportunities for domestic workers in the low-wage labor market and eventually increase income inequality from the bottom (of the income distribution) up.



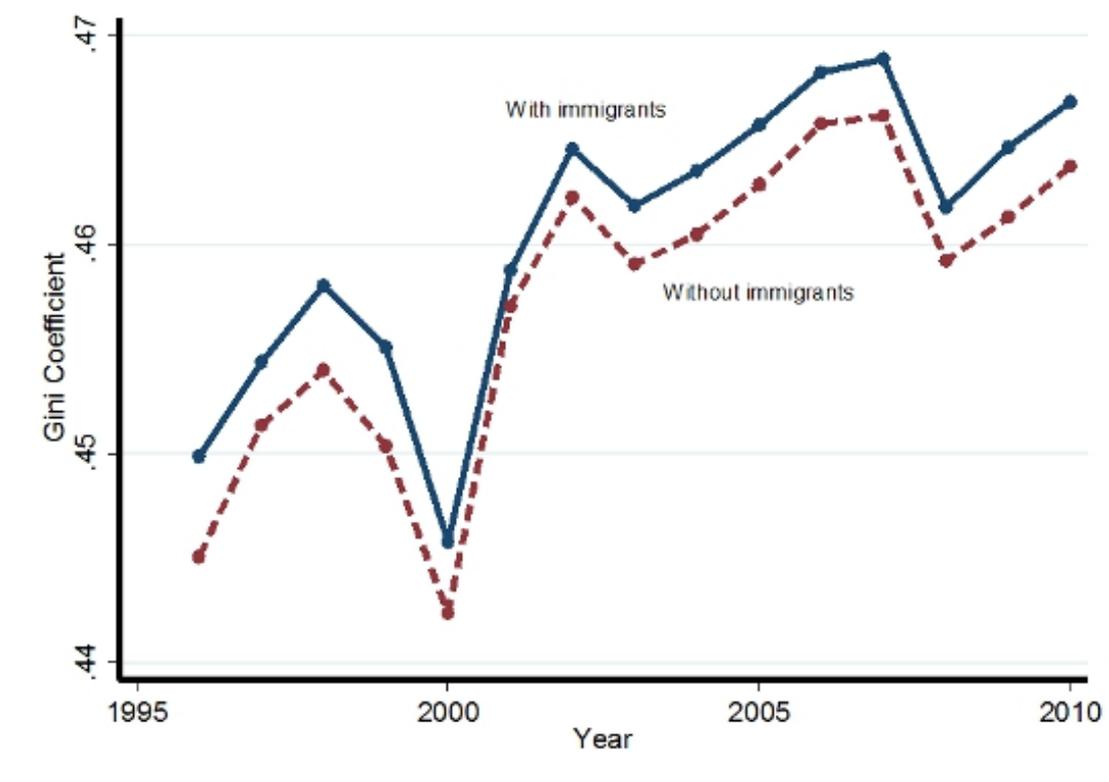
Second, immigrants face additional constraints in terms of lawful employment practices and eligibility for government-funded welfare programs in the United States, and these constraints further depress the economic status of immigrants in comparison with native-born citizens and hence contribute to higher levels of income inequality. In the face of the current wave of immigration, many states have adopted strict regulations requiring employers to check the legal status of immigrants in the work force. For instance, Arizona, Mississippi, South Carolina, Alabama, Georgia and North Carolina have passed laws that require almost all of their businesses to use the E-verify system to check on employment eligibility for prospective employees, and since the passage of such laws other states have followed suit. In states where employment eligibility is checked, undocumented immigrants face greater constraints on both their employability and, if employed, their wages, and this could directly result in diminished economic status for immigrants when compared to their native-born counterparts.

In addition, for many Americans, unearned income derived from public assistance and other benefits received from the federal and state governments is an important supplement for earned income. This income component is especially important for those with low income because it provides them with a social safety net which could support them during difficult economic times. However, in 1996 the US Congress passed the Personal Responsibility and Work Opportunity Act (PRWORA), which barred immigrants from all federal-funded welfare benefits in the first five years after their arrival. As a result, immigrants are ineligible to receive financial assistance such as Temporary Assistance for Needy Families (TANF) in the first five years, although there were exceptions written into the law and states could use state funds to support immigrant families. The fact that many immigrants are ineligible to receive federal welfare benefits means that they may not be as financially stable as similarly-

situated native-born citizens, and this could result in lower post-redistribution income and, subsequently, higher levels of income inequality.

For these reasons we contend that immigration could very possibly have led to rising income inequality in the US. In order to test this contention, we begin by calculating national-level income inequality for each year using the Gini coefficient, a commonly used measure of income inequality. We use data from the CPS March Survey to calculate US national level income inequality levels from 1996 to 2008 with and without the immigrant population. In Figure 1 we present a comparison of these two trends. As you can see, the level of income inequality is always higher when we include immigrants in the population. This figure shows that income inequality in the US over the past two decades is indeed marginally higher due to immigration. To be sure, the gap in income inequality with and without immigrants is modest, but there is at least a small upward shift when immigrants are included in the population used to calculate income inequality.

**Figure 1 – Gini coefficients with and without immigrants in the United States**



We then use rigorous statistical analyses to see if both general immigration and specific types of immigrants (low-skill immigrants, high-skill immigrants, permanent residents) have an effect on income inequality after controlling for a series of political, economic, and demographic factors. We find consistent evidence that the general foreign-born population has a strong, positive effect on inequality, though there is little evidence that newly admitted legal permanent residents have an additional effect that goes beyond that of the general foreign-born population. Our evidence also shows that it is low-skill immigrants (i.e., those with less than a high-school degree) that have a sizable positive effect on income inequality. High-skill immigrants (i.e., those with a college degree or higher) do not have an effect on general income inequality, but they do have a much more selective effect, lowering income gaps between the highest income group (90<sup>th</sup> percentile) and those at or below the median. Overall, we see a strong positive effect of the general foreign-born population and, more specifically, of low-skill immigrants on income inequality. In state-year cases with relatively large immigrant populations—especially large low-skill immigrant population—income inequality is higher, controlling for the effects of political and social demographic control variables.

Our findings suggest that immigration contributes to the increasing economic disparity among members of society and that this is a non-trivial effect. Such an effect is a result of relative disadvantages that immigrants have in marketable skills, as well as laws, politics, and policies that differentiate immigrants from native-born Americans.

State policies that create and maintain a strong social safety net for the foreign-born population may help to mitigate immigrants' economic disadvantage, since immigrants in the low-wage labor market may be more likely to benefit from such redistributive policies. The adoption of a wider-range of social safety net policies benefiting immigrants may help to close the income gap between immigrants and their native-born counterparts and hence result in a reduced effect of immigration on state-level income inequality. Moreover, our findings that low-skill immigrants raise income inequality while high-skill immigrants lower income inequality for certain selective income pairings point to the importance of considering the values that undergird American immigration policy. One possible way to mitigate the effects of immigration on income inequality is to see changes in immigration policy that result in a change in the mix of immigrants admitted to the United States. An immigration policy that shifts the focus toward admitting more high-skill immigrants and fewer low-skill immigrants may reduce the effect of immigration on income inequality.

*This article is based on the paper, 'Imported Inequality? Immigration and Income Inequality in the American States', in State Politics & Policy Quarterly.*

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