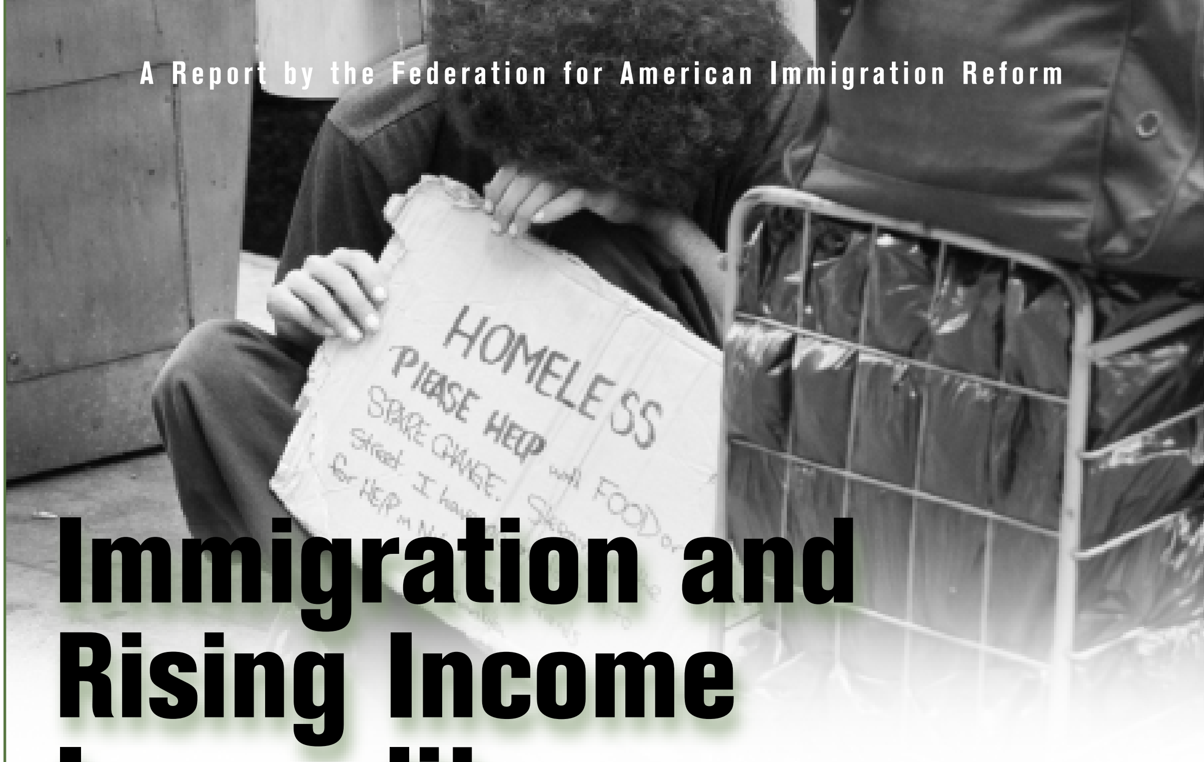
FAIR

A Report by the Federation for American Immigration Reform



Immigration and Rising Income Inequality

by Jack Martin, Director of Special Projects

- Rising inequality in the United States is linked to rising immigration, falling union membership and rising international trade according to economists. But, these three trends are not independent of each other, and the rise in the immigrant population contributes to the other two trends.

- Since 1970, the country's immigrant population has grown by about 26 million persons — a 272 percent increase. Over the same period, the spread between mean and median family incomes — an indicator of increasing income inequality — has grown by nearly four times the rate of increase during the prior period (1947—70) when the immigrant population was fairly stable.

- Since mass immigration was unleashed by the 1965 immigration law, increases in average inflation-adjusted family income have steadily shrunk and are approaching no growth, or — if the trend continues — negative growth.

- The Bush administration's proposal to increase immigration and increase both skilled and unskilled temporary foreign workers would increase the labor supply and, thereby, accelerate the trend in rising income inequality and the erosion of the middle class.

BACKGROUND

President Bush has become the latest politician to discover that income inequality is rising in the United States and that it is an increasingly troubling trend.

"The fact is that income inequality is real – it's been rising for more than 25 years. The reason is clear: We have an economy that increasingly rewards education and skills because of that education."

–President George W. Bush, January 30, 2007

The president's reference to the rising trend for 25 years is worth a closer look, however, as is his attribution of the trend to education and skills. The trend of accelerating income inequality has been notable for 35 years — since 1970. Missing from the president's commentary was any recognition of the role of rising immigration — both legal and illegal — as a key factor influencing the rising income inequality. Of course, the trend in immigration also contributes to a growing gap in educational achievement and in skills, but it is important to identify the source, not just the symptoms.

In a recent study, immigration researcher Edwin Rubenstein wrote, "From the end of World War II until the late 1960s, the rich-poor divide was remarkably stable, even narrowing over long stretches. Things started to come apart around 1970, as can be seen by eyeballing the trend in mean and median family income." He notes the post-1970 increase in the foreign-born population unleashed by the immigration law enacted in 1965 is a major contributor to this trend.

This commentary on immigration as a factor in rising income inequality draws on research by Northwestern University economists presented in September 2005. These researchers argued that:

"To be convincing, a theory must fit the facts, and the basic facts to be explained about income equality are not one but two, that is, not only why inequality rose after the mid-1970s but why it declined from 1929 to the mid-1970s. Three events fit neatly into this U-shaped pattern, all of which influence the effective labor supply curve and the bargaining power of labor: (1) the rise and fall of unionization, (2) the decline and recovery of immigration, and (3) the decline and recovery in the importance of international trade…"

Of course, the surge in legal and illegal immigration — the second point mentioned by the Northwestern economists — is also related to the labor supply curve and the bargaining power of labor — the first point. Some immigration commentators also link the increase in skilled foreigners in the U.S. workforce (H-1B and L visas) with the increase in sending U.S. jobs abroad (offshoring) — the economists' third point. The explanation for this is twofold: first, the foreign workers in the U.S. act as liaison for U.S. companies to offshore worksites; and, second, these foreign workers often return abroad with the knowledge and skills they acquired in the United States to manage offshoring operations or start up their own offshoring enterprises.

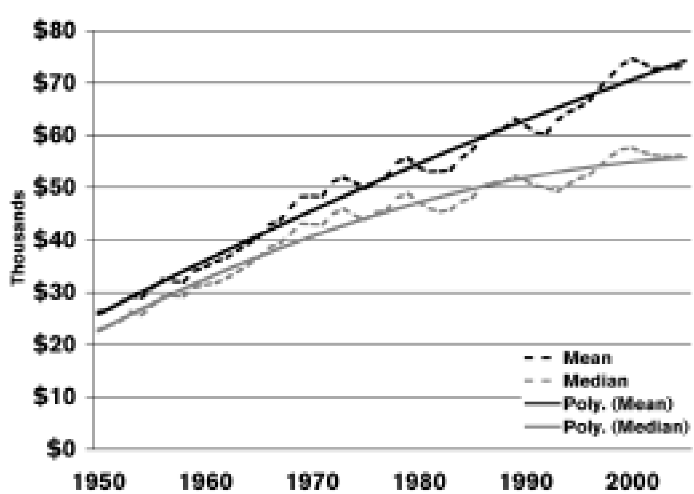
The trend referred to by Rubenstein and the Northwestern economists may be seen in a comparison of the median and mean family income in 2005 dollars from 1947 to 1970 and from 1971 to 2005. The graphic below reveals four trends:

- Median and mean income tended to increase together during the earlier period, although mean income was rising very slightly faster than median income.
- Mean income began to rise much faster than median income after 1970.
- Both median and mean income rose faster before 1970 than they did after that date, although the change in the rate for mean income was less than for median income.
- The trend in both median and mean income was relatively flat beginning in 1999.

From 1947 to 1970, the difference between median and mean income increased by 41 percent — an average of about 1.7 percent per year. From 1971 to 2005, the spread between mean and median household income grew by 216 percent — an average of about 6.2 percent per year.

The data also show that during the period prior to 1970 mean family income rose by about 84 percent (an average of about 3.4% per year) and median family income rose by about 91 percent (an average of about 3.8% per year). Since

Family Income 1947–2005



1970, the rate of increase has dropped. For mean family income, the increase for the 35 years was about 52 percent (about 1.5% per year) and median family income increased

When high-level earners gain more rapidly than low-level earners, average (i.e., mean) income will increase more rapidly than median income. That is what is clearly evident in the post-1970 period.

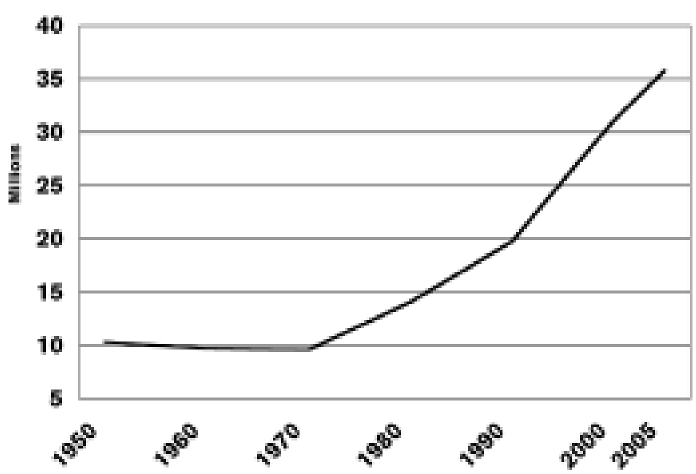
by about 31 percent (less than 1% per year).

The significance of this increasing separation between mean and median income after 1970 is that mean income is the average (total income divided by total number of families) while the median income is the midway point with half of the families higher and half lower than the median income. When high-level earners gain more rapidly than low-level earners, average (i.e., mean) income will increase more rapidly than median income. That is what is clearly evident in the post-1970 period.

THE IMMIGRATION CONNECTION

What is the trend in immigration that these researchers suggest is a contributing factor in the rise of income inequality? The trend is clear in the chart below. The size of the foreign-born population is fairly flat from 1950 to 1970. Starting in 1970, the immigrant population began a rapid rise that is still continuing. Between 1970 and 2005

Foreign-Born Population 1950–2005



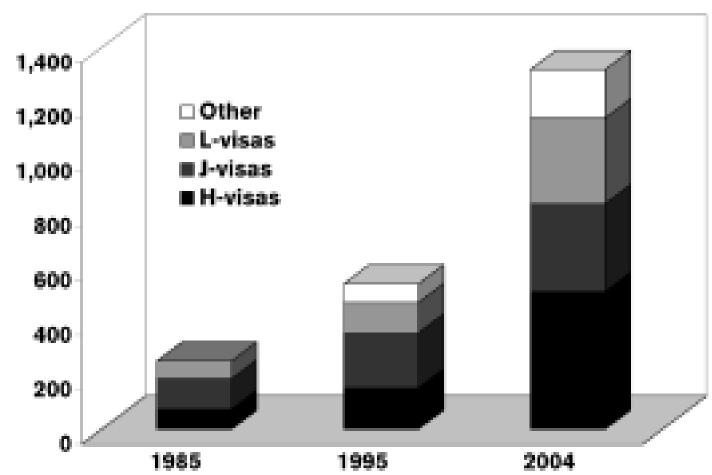
the foreign-born population has added more than 26 million residents.

Immigration does not add only low-wage workers. It also adds high-wage earners. To some degree it is the addition of high-wage earners (top athletes, managers, professors, computer programmers, etc.) on one end of the immigration flow and low-wage earners (illegal workers, legal temporary workers etc.) on the other end that contributes to growing income inequality. That trend was noted in a major study of the economic effects of immigration by a panel of researchers in the National Research Council of the National Academies of Science in the late 1990s.

TEMPORARY FOREIGN WORKERS

Temporary foreign workers also have proliferated in the U.S. workforce in recent years. Some, but not all of these foreign workers, are included in the resident population

Legal Temporary Worker Admissions 1985–2004



enumerated in the Census. The graphic below documents the fast-growing numbers of legally admitted foreign workers (accompanying family members are not included). As is clear in these official data, there are about a million more admissions annually now than two decades ago. These foreign workers are admitted for extended periods — up to six years for H-1B visa holders, up to five or seven years for L visa holders, etc. So, even though the same worker may enter more than once during the year, the data that show the number of entries in a year considerably understate the number of foreign temporary workers in the country.

ILLEGAL RESIDENTS

Illegal immigrants in theory are included in the Census enumerations, but the Census Bureau acknowledges that they are significantly undercounted. Their numbers also are also rising rapidly. The estimate by the Immigration and Naturalization Service (now part of the Department of Homeland Security) of the illegal alien population following the amnesty of 1986 was 2.6 million persons. As of 2000, the INS estimate was a population of 7 million illegal residents with an annual net increase of about a half-million persons. The official estimate, which today would be about 10 million, is understated because of a methodology that excludes illegal aliens in the country for less than a year and others who have some form of temporary permission to be in the country.

This population of illegal workers also contributes additional millions of foreign workers competing with American workers for jobs, depressing wages and working conditions and, thereby, also contributing to growing income inequality.

THE SHRINKING MIDDLE CLASS

One aspect of the growing income inequality that is often overlooked, and was not mentioned by President Bush or by the earlier cited researchers, is that the increasing gap between the wealthy and the poor has another important aspect, i.e., because not just the number of wealthy and poor are increasing, but also the share of the population in both extremes is increasing, the result is a shrinking middle class.

The significance of a shrinking middle-class is that it constitutes a key role in the process of upward mobility. It has offered realistic hope to the poor in their efforts to escape poverty — or for their children to do so. As the economy becomes more separated between well-paying and poorly-paying jobs, with fewer opportunities in between, that transition becomes more problematic. As the avenue for upward mobility becomes more constricted, this trend may lead to greater social unrest.

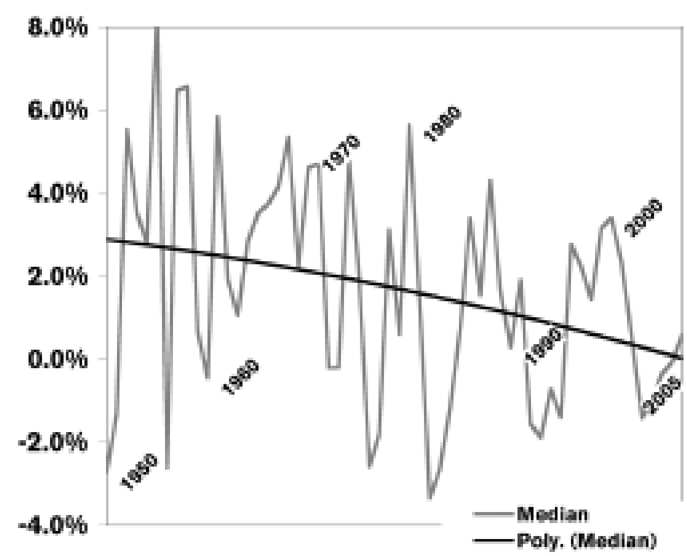
While this is a topic for analysis by sociologists, it is not unreasonable to anticipate that any significant lessening in economic wellbeing and in upward economic opportunity will be seen as an increasingly failed promise to deliver the 'American dream.'

SLOWING CHANGE IN HOUSEHOLD INCOME GROWTH

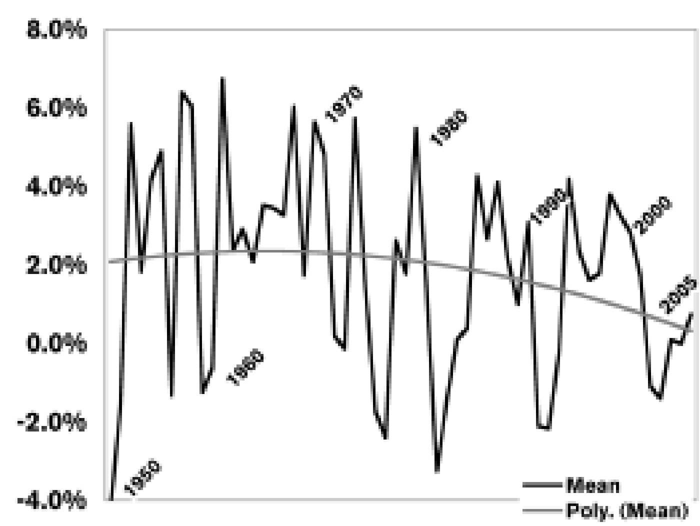
The household income data also reveal another trend related to the growing income inequality. While household income has continued to grow, the rate of growth has slowed over the period studied. This slowdown applies to both median and to mean income change as shown in the two charts to the right.

What may be readily seen is that both trends are downward.[8] The drop in percentage change is greater for median income than it is for mean income. The trend for median income change is from about 3 percent increase per

Annual Percentage Change in Median Income 1947–2005



Annual Percentage Change in Mean Income 1947–2005



year before 1950 to no increase in 2005. For mean income, the drop is from about 2 percent per year to a fraction of one percent increase. It is also apparent that the decline in mean income increase began to be evident after 1970.

CONCLUSION

Any realistic focus on the rising income inequality, which President Bush has apparently just discovered, will be addressing symptoms rather than a root cause if it ignores the role of immigration — both legal and illegal — and temporary foreign workers flooding into the country in recent decades.

This, however, is an inconvenient truth for President Bush. He is proposing policies that would permanently incorporate the illegal worker population, and encourage others to expect that illegal entry will be rewarded with amnesty provisions. He also has called for an increase in immigration and an increase in temporary foreign workers. All of these policy prescriptions will, for reasons explained above, have the effect of exacerbating the trend in income inequality.

The alternative — and one that would reverse the harmful trend in inequality — is the polar opposite of that espoused by the president. Policies can be pursued that will discourage the flow of illegal immigrants and encourage those already here to leave by denying them the jobs that have attracted them. Temporary foreign worker programs can be significantly curtailed by adopting a true labor market test to identify those really needed instead of simply allowing employers to hire foreign workers to hold down payrolls. And legal immigration can be reduced to levels that we had before the 1965 immigration law set off the current surge in the foreign-born population.

All of these changes would have the effect of tightening the availability of labor, especially low-wage workers, force employers to offer higher wages to attract and keep workers currently outside the workforce, and increase the earnings of the most disadvantaged segment of our population. This would reverse the shrinking middle class, reduce the population that depends on social welfare programs, reverse the sense of marginalization, and in these ways strengthen the economy.

ENDNOTES

1 Rubenstein, Edwin S., “It’s Official: Immigration Causing Income Inequality,” The Social Contract, Winter 2006-2007.

2 Dew-Becker, Ian and Robert J. Gordon, “Where did the Productivity Growth Go? Inflation Dynamics and the Distribution of Income,” paper presented at Brookings Inst. panel, Washington, DC, Sept. 2005.

3 L. Lamphere and A. Stepick, *Newcomers in the Workplace: Immigrants and the Restructuring of the U.S. Economy*, 1994; D. Stull, D. Griffith, and M. Broadway, *Any Way You Cut It: Meat Processing and Small-Town America*, 1995. See also Richard Mines, *Tortillas: A Bi-National Industry*, 1985 and R. Mines and D. Rusten, *Immigration Networks and California Industrial Sectors*, 1985.

4 The family income data are adjusted for inflation by the Census Bureau.

5 National Research Council, “The New Americans: Economic, Demographic and Fiscal Effects,” National Academy Press, 1997.

6 FAIR estimates the illegal immigrant population at between 11 and 13 million, and the high-end estimate – by Bear Sterns researchers – is at least 20 million persons.

7 Martin, John L., “What is the Relationship between Income Inequality and Immigration?” FAIR, October 1996. “Immigration and Income Inequality: How Rising Immigration Leads to the Declining Share of Middle-Income Households…” April 2004.

8 A polynomial regression trend line is used to facilitate viewing the trend with widely fluctuating data points.

The Federation for American Immigration Reform (FAIR) is a national, nonprofit, public-interest, membership organization of concerned citizens who share a common belief that our nation's immigration policies must be reformed to serve the national interest.

FAIR seeks to improve border security, to stop illegal immigration, and to promote immigration levels consistent with the national interest—more traditional rates of about 300,000 a year.

With more than 250,000 members and supporters nationwide, FAIR is a non-partisan group whose membership runs the gamut from liberal to conservative. Our grassroots networks help concerned citizens use their voices to speak up for effective, sensible immigration policies that work for America's best interests.

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