It's Official: Immigration Causing Income Inequality

By Edwin S. Rubenstein

GDP continues to grow, the stock market flirts with record highs, and workers produce more per hour than ever before. Yet polls show that most Americans disapprove of President Bush's handling of the economy.

Republican political consultant Frank Luntz explains the apparent conundrum thusly: "Some people who aren't partisans say, 'Yes, the economy's pretty good, so why are people so agitated and anxious?' The answer is they don't feel it in their paychecks." [Real Wages Fail to Match a Rise in Productivity, By Steven Greenhouse And David Leonhardt, *New York Times*, August 28, 2006]

Table 1:

Household Income of Quintiles, 2002-2005

(2005 Dollars)

			Change, 2002-2005	
	2005	2002	Dollars	Percent
Poorest 20%	10,655	10,845	-190	-1.8%
Second 20%	27,357	27,572	-215	-0.8%
Third 20%	46,301	46,462	-161	-0.3%
Fourth 20%	72,825	73,085	-260	-0.4%
Richest 20%	159,583	156,038	+3,545	+2.3%

Source: Census Bureau, "*Income, Poverty, and Health Insurance Coverage in the United States: 2005*," August 2006. Table A-3.

Mr. Luntz is 80 percent right. The richest 20 percent of American households—and only the richest 20 percent—have enjoyed higher real incomes during the Bush expansion. Everyone else has lost ground; the lowest 20 percent has actually lost a full 1.8 percent.

With the economy now slowing, the current recovery is on course to become the first since World War II in which incomes of most workers declined.

This is new. 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:

Mean is the average income, calculated by dividing total income by the number of families. Median is the mid-point, the income at which half families are above and half below.

You may recall from Statistics 101 that if all the objects (e.g., family incomes) in a sample grow at the same rate, its mean and the median will move in lockstep. If, however, the top half grows faster (or falls more slowly) than the bottom half, the mean will pull away from the median.

Such pulling away is painfully evident in the graphic, especially—and we think not coincidentally—in the years following the 1986 illegal alien amnesty. In 2005, mean family income was a record 30.4 percent above median family income. In 1986, the gap was just 18.6 percent.

Until recently, economists rarely mentioned the I-word when explaining the income distribution. The consensus among most academics was that the primary cause of increased inequality was "skill-biased technical change" (SBTC)—i.e., increased economic rewards to educated, technically savvy workers.

In a word, SBTC compensation was based on merit. How quaint!

Northwestern University economists Ian Dew-Becker and Robert J. Gordon broke from the group naiveté in a paper published last year:

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Table 2:

Median and Mean Income of Families, 1947 to 2005

(2005 Dollars)

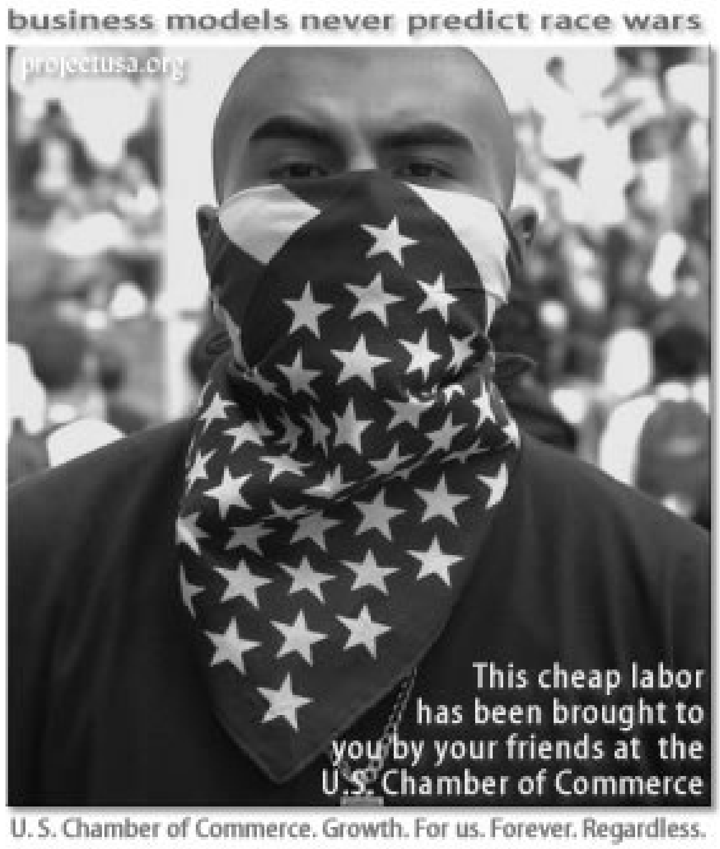
			Mean above Median	
	Median Income	Mean Income	Amount	Percent
1947	$22,500	$26,323	$3,823	17.0%
1948	21,886	25,210	3,324	15.2%
1949	21,598	24,810	3,212	14.9%
1950	22,794	26,200	3,406	14.9%
1951	23,592	26,677	3,085	13.1%
1952	24,254	27,789	3,535	14.6%
1953	26,276	29,150	2,874	10.9%
1954	25,588	28,763	3,175	12.4%
1955	27,247	30,602	3,355	12.3%
1956	29,039	32,447	3,408	11.7%
1957	29,233	32,040	2,808	9.6%
1958	29,101	31,836	2,735	9.4%
1959	30,802	33,981	3,179	10.3%
1960	31,392	34,782	3,391	10.8%
1961	31,723	35,794	4,071	12.8%
1962	32,628	36,539	3,911	12.0%
1963	33,778	37,826	4,049	12.0%
1964	35,041	39,132	4,091	11.7%
1965	36,494	40,412	3,918	10.7%
1966	38,446	42,851	4,405	11.5%
1967	39,294	43,593	4,299	10.9%
1968	41,110	46,053	4,943	12.0%
1969	43,049	48,270	5,221	12.1%
1970	42,961	48,355	5,395	12.6%
1971	42,877	48,288	5,411	12.6%
1972	44,956	51,059	6,103	13.6%
1973	45,868	51,847	5,979	13.0%
1974	44,680	50,945	6,265	14.0%
1975	43,875	49,718	5,843	13.3%
1976	45,242	51,026	5,783	12.8%
1977	45,516	51,928	6,411	14.1%
1978	48,086	54,767	6,681	13.9%
1979	48,807	55,607	6,800	13.9%
1980	47,176	53,798	6,622	14.0%
1981	45,926	53,003	7,077	15.4%
1982	45,384	53,050	7,666	16.9%
1983	45,707	53,252	7,546	16.5%
1984	47,266	55,526	8,259	17.5%
1985	47,995	57,009	9,014	18.8%
1986	50,062	59,351	9,289	18.6%
1987	50,898	60,617	9,719	19.1%
1988	51,046	61,221	10,176	19.9%
1989	52,018	63,107	11,088	21.3%
1990	51,205	61,777	10,572	20.6%
1991	50,236	60,438	10,201	20.3%
1992	49,872	60,300	10,429	20.9%
1993	49,172	62,825	13,653	27.8%
1994	50,533	64,290	13,757	27.2%
1995	51,662	65,327	13,665	26.5%
1996	52,404	66,497	14,093	26.9%
1997	54,059	69,020	14,961	27.7%
1998	55,903	71,276	15,373	27.5%
1999	57,204	73,296	16,091	28.1%
2000	57,511	74,563	17,052	29.6%
2001	56,695	73,741	17,046	30.1%
2002	56,104	72,702	16,598	29.6%
2003	55,908	72,765	16,856	30.1%
2004	55,872	72,760	16,888	30.2%
2005	56,194	73,304	17,110	30.4%

Sources: Census Bureau website, *Historical Income Tables* - Families. Table F-5.(1947-2004)

Current Population Survey, *2006 Annual Supplement*, Table FINC-01. (2005)

Note: 2005 CPI-U (3.335%) used to inflate Table F-5's 2004 dollar amounts to 2005

> If SBTC had been a major source of the rise in inequality, then we should have observed an increase in relative wages of those most directly skilled in the development and use of computers. Yet in the 1989-97 period….total real compensation of CEOs increased by 100 percent, while those in occupations related to math and computer science increased only 4.8 percent and engineers decreased by 1.4 percent. [Where did the Productivity Growth Go? Inflation Dynamics and the Distribution of Income, (PDF) Ian Dew-Becker and Robert J. Gordon, Northwestern University]



In debunking SBTC the authors make a broader historical point regarding immigration:

> 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 and the share of imports….

> Partly as a result of restrictive legislation in the 1920s, and also the Great Depression and World War II, the share of immigration per year in the total population declined from 1.3 percent in 1914 to 0.02 percent in 1933, remained very low until a gradual recovery began in the late 1960s, reaching 0.48 percent (legal and illegal) in 2002. Competition for unskilled labor not only arrives in the form of immigration but also in the form of imports, and the decline of the import share from the 1920s to the 1950s and its subsequent recovery is a basic fact of the national accounts.

Of course, immigration is not the only factor skewing the distribution. The enormous income gains in the top 1 percent, for example, are attributed by the authors to a relative handful of sports and entertainment superstars, plus CEOs who enjoy

> …a halo of reputation that leads a board of directors to shower him or her with tens of millions of compensation, often without corresponding performance, when an equally capable but less famous alternative might have been willing to do the job at one-tenth the compensation.

But for ordinary workers, that "alternative" is increasingly immigration—and stagnant incomes. ■