Impact of Immigration on the Distribution of Well-Being

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The Brookings Institution

11th Annual Joint Conference of the Retirement Research Consortium

August 10-11, 2009
Washington, D.C.

This research was supported by a grant from the U.S. Social Security Administration (SSA) as part of the Retirement Research Consortium (RRC). I am grateful to Rosanna Smart for excellent research assistance. The findings and conclusions expressed are solely those of the author[s] and do not represent the views of the Brookings Institution, SSA, any agency of the Federal Government or the RRC.
1. Introduction

Immigration into the United States has grown rapidly since the 1970s. Changes in the net immigration rate, in the age distribution and skills of immigrants, and in the relation between immigration and fertility have had noticeable effects on the age distribution and skill mix of the population. In the short run, increases in immigration boost the number of workers, raise aggregate taxable earnings, and reduce the ratio of elderly to non-elderly in the population. Given the skill mix of immigrants, the growth of average earnings in the economy is slower than it would have been with a lower rate of immigration. This paper focuses on two related questions: How has immigration since 1980 affected the income and earnings distributions? How has the changed composition of the population affected the absolute and relative income position of the aged?

If immigrants were exactly like natives, their arrival would have little impact on the distribution of income or earnings. However, immigrants differ from natives in a number of ways, including their age distribution and the distribution of their job skills. Working-age immigrants are relatively young and have below-average educational attainment. This paper uses information in the Census Bureau’s Annual Social and Economic Supplement (ASEC) to identify immigrants and their children and to estimate their impact on the U.S. income and earnings distributions. The analysis excludes the feedback effects of immigration, if any, on the wages, incomes, and tax liabilities of native workers. The analysis focuses on immigration in the period after 1979, when the immigration rate accelerated and the composition of the immigrant population shifted towards less skilled immigrants from lower income countries.

2. Impact on Wages

The effect of immigration on U.S. wages is controversial. Most of the debate focuses on the size and direction of the impact of immigrants’ labor supply on the employment and wages of native workers. I examine a much simpler question: Where do immigrants’ wages fall in the distribution of overall earnings, and how would the distribution change if immigrants’ wages were excluded? I focus specifically on immigrant earners who entered the United States in 1980 or a later year and on the children of these immigrants. Since 1994 the ASEC survey has included questions that allow researchers to identify immigrants, their year of entry, and the children of
immigrants with reasonable accuracy. Figure 1 shows estimates of the mean annual wage and salary income of three groups of wage earners: (1) immigrants who entered the U.S. after 1979 and their children, (2) natives (except the children of immigrants arriving after 1979) and immigrants who arrived before 1980, and (3) the combined population of natives and immigrants. The wages of post-1979 immigrants and their children are substantially below those of other wage earners, though the percentage gap has shrunk over time as post-1979 immigrants have gained greater experience in the U.S. labor market. In the mid-1990s, post-1979 immigrants earned about 25% less than native workers and immigrant workers who arrived before 1980. By 2007 the gap was only 17%. Nonetheless, the increasing importance of post-1979 immigrants in the workforce has meant their wages have a growing weight in determining the overall wage. The proportion of wage earners consisting of post-1979 immigrants and their children more than doubled between 1993 and 2007, increasing from 6% to 13% of the workforce. Post-1979 immigrants have had a larger impact on men’s than on women’s average wages. Figure 2 shows the proportional effect of including post-1979 immigrants’ wages in the computation of the economy-wide average wage. The impact of immigrants is larger on the average male wage than the female wage because immigrants arriving after 1979 represent a bigger fraction of male earners than of female earners. In addition, the gap between immigrant and nonimmigrant wages is larger for men than for women.
When we combine the estimates for men and women workers we find that post-1979 immigrants reduced the average annual earnings of wage and salary workers by 1.5% in 1993 and 2.5% in 2007. The impact on average pay affects the Social Security benefit formula, because the wage indexing factors used to adjust a worker’s past earnings and the bend points in the PIA formula are affected by the level and rate of change of the economy-wide average wage. For workers attaining age 62 in 2007, Social Security benefits would have been about 2% higher if the average wage had risen at the rate observed among native workers and immigrants entering the U.S. before 1980 rather than among all resident workers, including workers entering after 1979. Immigration has not only helped to improve Social Security finances through its impact on the size of the taxable earnings base, it has also slowed the rate of growth in monthly benefit payments.

3. Impacts on Average and Relative Income

Recent immigrants differ from natives not only in their earnings capacity but also in their age distribution. Thirty-eight percent of post-1979 immigrants and their children are under the age of 18 versus only 25 percent of the remainder of the population. Just 4% of post-1979 immigrants are age 60 or older compared with 17% of the rest of the population. The relatively large number of dependent children in immigrant households reduces the number of potential earners. To assess the impact of post-1979 immigration
on the income distribution, the household weights of individual ASEC households were reduced in proportion to the number of household members who were identified as either post-1979 immigrants or the children of post-1979 immigrants. It is not straightforward to identify the offspring of post-1979 immigrants. Figure 3 shows estimates of the impact of post-1979 immigration based on two alternative methods for identifying children of recent immigrants. The income of each person in the population is measured as the household-size-adjusted income per person in the household. (I divide income by the square root of the number of household members to measure “equivalent income.”)

Figure 3. Impact of Immigration on Average Size-Adjusted U.S. Personal Income, 1993 - 2007*

* Change in income is measured as a percent of estimated income in the absence of immigration after 1979.

Source: Author’s tabulations of 1994 - 2008 ASEC files.

The more conservative estimates in Figure 3 suggest that the actual size-adjusted personal income in 2007 was between 2.8% and 3.5% lower than would have been the case if no immigration had occurred after 1979. Note that the cumulative impact of post-1979 immigration continued to grow through most of the period after 1993. Using simple simulation methods, it is possible to calculate the impact of more modest changes in the number and composition of post-1979 immigrants. In one simulation, I examined the effect of reducing the number of high-school-dropout immigrant household heads by one-half. In comparison with the average income under this alternative immigration policy, actual income in 2007 was lower by 1.2%. A 50% reduction in the flow of immigrants from Mexico would have produced a similar effect on average size-adjusted income.

A lower immigration rate would have a modest impact on the age profile of U.S.
incomes. However, a change in the composition of the immigrant population that reduces the entry of low-skill immigrants would have more noticeable effects. Figure 4 compares the effects of three changes in post-1979 immigration policy on the size-adjusted incomes of Americans in households headed by young, middle-age, and older family heads. The

Figure 4. Increase in Size-Adjusted Income Resulting from Alternative Changes in Post-1979 Immigration Policies, by Age of Household Head (2006)

Percentage change in income

![Graph showing the percentage change in income for different age groups of household heads after alternative immigration policies.]

Source: Author's tabulations of March 2007 ASEC file.

The percentage change in personal income is calculated relative to the actual 2006 incomes of members of these households. The three policies I consider are a 20% reduction in the overall rate of immigration, a 50% reduction in the rate of entry of Mexicans, and a 50% reduction in the rate of entry of potential household heads who have not completed high school. All three policies have their biggest effect on people in households headed by someone who is younger than 45. This is mainly because post-1979 immigrants are disproportionately members of such households. The first policy produces the biggest reduction in the 2006 immigrant population, but it would have only a modest impact on the relative incomes of households headed by persons of different ages. The other two policies have a sizeable effect on the personal incomes people in households with a young family head, but they have very small effects on households headed by an older head. Both Mexican and low-education immigrant heads tend to have very low incomes compared with the incomes of native-born heads of the same age.