13. U.S. INCOME INEQUALITY TRENDS AND RECENT IMMIGRATION

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> Immigration will reshape America more profoundly than trade or technology.
>
> John Micklewait, *The Economist*, March 11, 2000.

1. INTRODUCTION

Nearly every month a new report raises the specter of widening gaps in income and living standards among families in the U.S. The consensus view of ever-increasing economic inequality has and continues to exert a major impact on policy debates about raising the minimum wage, restricting trade, expanding the Earned Income Tax Credit, and increasing spending on an array of social programs. On most issues, it is easy to pick out the policy choices of those most concerned about rising income inequality. They favor more spending and more interventions in the market, such as a higher minimum wage, less trade with developing countries, and more favorable rules for unionization. Only on one policy – immigration – are the positions of key players unclear or unexpected. Despite evidence that immigration over the last two decades has reduced relative wages for the least skilled workers (Borjas, Freeman & Katz, 1998) and has raised inequality among the native U.S. population far more than has international trade, the union movement recently shifted positions, from

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opposing large scale immigration to a pro-immigration stance that calls for amnesty for illegal immigrants.

Within the last few years, cracks in the consensus about rising inequality have also begun to emerge. It turns out that trends in inequality are quite sensitive to the time periods under investigation, the measure of dispersion, the concept of family or household, the definition of income, the method of accounting for top-coding and changing reporting patterns, and the choice of samples. I showed (Lerman, 1997) that wage inequality did not increase over the 1986 to 1995 period according to several indicators of dispersion that measured wage and earnings inequality changes among combined samples of men and women. An analysis by the Organization for Economic Cooperation and Development (OECD) yielded mixed results about U.S. wage inequality trends, depending on the sample definition. Kelvin Utendorf's (1998) study of the annual earnings of all workers revealed trends that were quite sensitive to the years studied. Michael Wolfson and Brian Murphy (1998) reported a decline in their measure of polarization (the share of workers not earning within 40% of the median). Income inequality among households – as measured by the Gini coefficient on the U.S. Census Bureau's most comprehensive income definition – stood at 0.399 in 1998, no higher than the 0.404 level twelve years earlier (U.S. Bureau of the Census, 2000). Although the 1985 and 1987 Gini coefficients were only about 0.38, the increase from about 0.38 to nearly 0.40 took place suddenly (between 1992 and 1993), at the same time as the Census Bureau changed procedures that captured more income from the highest income households.

Further complicating the inequality story are the striking changes taking place in the resident population in the U.S. In a 1999 paper on wage inequality and recent immigration, I raised the question of which populations should be included when examining estimating inequality in a base year and a current year. The case of inequality trends in Germany between 1988 and 1998 offers a graphic illustration of the issue. Given the absorption of East Germany by West Germany, measuring inequality trends using data on West Germany in 1988 and on all of Germany today would be misleading. This method could show rising inequality in Germany for purely compositional reasons even if the German economy had disproportionately raised the incomes of low income Germans, many of which come from the former East Germany. The rise in measured inequality might well have come from the absorption of a low-income country into a high-income country. An alternative is to calculate inequality on the basis of West German wages both in the base year and a current year. Although this approach captures the wage trends and distributional changes experienced by West Germans, it ignores a major component of

the German economy's performance – the investments, jobs, and income transfers aimed at raising incomes of East Germans. Perhaps more importantly, restricting the analysis to the West ignores what happened to an important segment of fellow citizens.

A comprehensive measure of German inequality trends is possible by comparing united Germany today with the combined figures for East and West Germany in the base year. Such comparisons would not be subject to bias related to compositional changes and would reflect the changing economic status of all current Germans. It would not even matter whether the entry of East Germans reduced the incomes of low-income West Germans because equivalent samples would be present in both years.

The U.S. did not absorb a country equal to 20% of its initial population, but the high levels of immigration to the U.S. in the 1980s and 1990s raise a similar compositional issue. Immigrants who settled in the U.S. since 1980 made up about 7% of the 1996 U.S. work force and over 17% of the work force with less than a high school degree. Moreover, over 90% of these recent immigrants came from low wage countries. Thus, just as a 1998 cross section of German workers includes many East Germans who worked at extremely low wages outside West Germany in 1989, the 1998 cross section of workers in the U.S. contains large numbers of low-wage, immigrant workers not part of the 1980 population.

Of course, estimating U.S. inequality trends using cross sections in the base and final years of workers living in the U.S. does reveal the distributions across residents of each of the two years. But, the approach places no weight on the welfare of immigrants and compares the inequality level across one group in the base year (1980 residents) with inequality across two groups in the current year (a group comparable to 1980 residents plus the very different population of individuals who immigrated since 1980).

There are two ways to make the comparisons using a common population concept. Excluding the post-1979 immigrants from the 1998 cross section – a method similar to comparing West Germany in both years – could capture the impact of the economy on those in the U.S. in both years. However, this procedure would also ignore the large inflow of recent immigrants. The most inclusive measures would compare today's U.S. population with a 1980 population that combines the actual U.S. work force with the post-1979 immigrants at wages they would have earned in 1980 in their native countries.

Calculations of wage inequality trends based on each method yield striking results (Lerman, 1999). Estimates based on the most comprehensive approach, which includes immigrants in the base and final years and incorporates their rapid wage gains, virtually eliminates the much heralded growth in wage

inequality. Even the more conservative approach, which excludes recent immigrants from both years, removes about one-fifth to one-quarter of standard estimates of the growth in wage inequality.

The results are highly relevant to debates about immigration policy, especially the role of immigration in raising inequality. Virtually all of the analyses – including those that claim to estimate global impacts – ignore the largest economic benefit of immigration – the enormous wage gains for the immigrants themselves. Certainly, today's policy of allowing large-scale immigration from less developed countries draws much of its support from people who care about these gains, especially U.S. citizens who are relatives and/or countrymen of the immigrants. A cost-benefit analysis that takes account of the losses while ignoring the largest gains will give a distorted picture of the economics of immigration. Concerns about the impacts on low-wage workers may encourage a sharp reduction in immigration even if most of the low-wage workers are immigrants themselves who stand to benefit from today's liberal policy.

This paper extends the two approaches used in the wage inequality paper to estimates of trends in income inequality. It is by no means clear that the same pattern will apply, since changes in income inequality are the result not only of trends in wage inequality patterns, but also trends in family composition, in other sources of income, and in the way all of these income and compositional factors interact. The next section describes the characteristics of recent immigrants and why we should expect measures of income inequality trends to be sensitive to the procedure for including them. The third section discusses the methodology and the data used in the analysis. Section 4 presents new estimates of income inequality and poverty trends based on alternative methods for taking account of recent immigrants and compares these results to trends based on the conventional approach. The final section concludes with perspectives on the debate about immigration policy.

2. CHARACTERISTICS OF RECENT IMMIGRANTS

Who are recent immigrants? In particular, what are the 1998 characteristics of individuals who came to the U.S. after 1979? What are their countries of origin?

The data on post-1979 immigrants comes from the March 1998 Current Population Survey. Since 1994, the CPS asks respondents when they moved permanently to the U.S. For this study, those who moved after 1979 are defined as recent immigrants and the families headed by recent immigrants are the

focus of the study. To keep the language simple, we refer to families headed by individuals who were not recent immigrants as resident families. As of 1998, recent immigrants headed about 5.2 million or just over 7% of the nation's 74.3 million families. These immigrant families contained 8% of all persons in families and about 9% of own children under 18 in families.

The public, researchers, and elected officials all realize that very low-income countries are the primary sources of recent immigration to the U.S. As Borjas (1999) and many others have pointed out, the pre-1970s immigration was very different, with much higher shares of immigrants coming from Western, relatively developed countries. Table 1 shows that the post-1979 immigrants come primarily from Mexico, Central and South America, Asia, and low-income East European countries.

Not surprisingly, recent immigrants heading families are less educated and have substantially lower incomes than heads of resident families. Examining Table 2, one sees that 36% of recent immigrants did not attain a high school diploma or equivalent, more than double the 16% rate among 1979 residents. The education gap is especially striking since immigrant heads are much younger than non-immigrants. Among family heads under age 40, recent immigrant families made up about 11% of all families and 27% of families headed by an individual who had not completed high school. Recent immigrant families are larger and have more children than resident families. Among families with children, those headed by recent immigrants are more likely to be husband-wife families (75% to 67%).

The differential incidence of official poverty is substantial. While children in recent immigrant families make up about 9.6% of children, they accounted for 18.3% of poor children and nearly one in three poor children in husband-wife families. Poverty rates among children in husband-wife families are four times higher among recent immigrants than among 1979 residents. Even among female-headed families with children, poverty rates are much higher among recent immigrant families (67%) than among resident families (46%).

On the basis of these tabulations alone, the entry of substantial numbers of less-educated immigrants mostly from very poor countries appears to have raised the U.S. poverty rate above what it would otherwise have been. In 1998, the child poverty rate was 17% among resident families but 19% among all families. This gap does not reveal that the overall impact of recent immigration on poverty since it ignores the possible effects on wages and other incomes of low-income residents. Assuming that recent immigrants are more likely to be substitutes than complements for potentially poor residents, the full impact on child poverty is probably larger than the 11% differential arising from purely compositional factors. Certainly, the data on characteristics are strongly

Table 1. Distribution of Recent Immigrant Families by Country of Birth of Family Head.

Country of Birth	Families (in 000s)	Percent of Families
Mexico	1,455	28.24
Philippines	216	4.20
Vietnam	270	5.25
China	193	3.75
India	165	3.20
El Salvador	179	3.48
Korea/S. Korea	131	2.55
Dominican Republic	144	2.80
Haiti	120	2.33
Guatemala	119	2.31
Cuba	127	2.46
Russia	110	2.13
England	88	1.70
Taiwan	81	1.57
Colombia	83	1.61
Germany	57	1.11
Poland	66	1.27
Canada	68	1.32
Jamaica	74	1.43
Ecuador	55	1.06
Guyana	54	1.06
Peru	50	0.97
Japan	34	0.66
Laos	60	1.17
Nicaragua	42	0.82
Other Europe	187	3.63
Other Former Soviet Republics	66	1.28
Other Middle East	127	2.47
Other Asia	238	4.62
Other Central America	86	1.66
Other Caribbean	71	1.37
Other South America	101	1.96
Other Africa	124	2.41
Other Pacific Islands (Australia)	22	0.43
Elsewhere	76	1.47
U.S. Outlying Areas	13	0.24
Total	5,154	100

Source: Tabulations by author from the March 1998 Current Population Survey.

Table 2. Characteristics of Recent Immigrants: 1998.

	Not Recent Immigrants	Recent Immigrants
Education of the Family Head		
High School Dropouts	16.1	36.0
High School Graduates	33.8	23.9
Some College, No Degree	18.7	10.4
Associates Degree	7.8	4.3
Bachelor's or Higher Degree	23.7	25.3
Total	100.0	100.0
Percent Distribution by Race		
White	84.8	63.1
Black	12.6	9.1
Asian	1.7	27.3
Other	0.6	0.5
Age of Family Head	46.9	37.7
Family Size	3.0	3.6
Number of Children	0.91	1.29
Percent of Families	93.1	6.9
Percent of Families Below Poverty	84.7	15.3
Percent of People in Families	91.9	8.1
Percent of People in Poor Families	82.4	17.6
Percent of Children Under 18	90.4	9.6
Percent of Poor Children Under 18	81.7	18.3
Percent of Children by Family Type		
Married Couple Families	89.7	10.3
Other Male Headed Families	93.3	6.7
Other Female Headed Families	91.9	8.1
Percent of Poor Children by Family Type		
Married Couple Families	67.9	32.1
Other Male Headed Families	92.1	7.9
Other Female Headed Families	88.6	11.4
Poverty Rate by Family Type		
Married Couple Families	6.9	28.4
Other Male Headed Families	19.4	23.3
Other Female Headed Families	46.1	67.2

*Source:*Tabulations by author from March 1998 Current Population Survey.

suggestive of recent immigration playing a significant role in the conventional measures of the rise in family income inequality.

3. METHODS AND DATA

The two methods used to control for the compositional change in the U.S. population are: (1) excluding recent immigrants from the final period poverty and income inequality measures; and (2) including recent immigrants in the base period at family incomes they would have received in their home countries. The first alternative is analogous to the West Germany in 1989–West Germany in 1998 comparison. It is appropriate for looking at the changes affecting the cross sections of workers here in both years. However, it ignores the gains achieved by recent immigrants and the effects of their entry into the job market on other workers. Since the first procedure is straightforward, the discussion below describes the implementation of the second method, an approach made difficult by conceptual and data limitations.

The first step is to specify the number of recent immigrant families included in the base year. The basic ideas is to add to the 1980 sample the group of recent migrant families in the March 1998 CPS whose head reports settling in the U.S. after 1980. To do so involves appending cases from the March 1998 data set to the March 1980 data set, but then adjusting the weights so as to keep the simulated new immigrant share of 1980 families equal to the proportion of post-1979 migrant families in the 1998 population. By having recent immigrants make up the same proportion of the 1980 population as they make up of the 1998 population, we are holding this dimension of the population composition constant.

The second step is to determine what a population comparable to the recent immigrant migrants would have earned in their home countries in 1979. Since we are comparing two cross sections, we assume the people added to the 1980 population have the same age and family characteristics as the recent immigrants observed in the 1998 data. Unfortunately, detailed income information on each country by education, work experience, family size, marital status, and other characteristics are not readily accessible. Therefore, I constructed the income imputations based on: (1) the relationship between individual and family characteristics and income for the U.S. population in 1980; (2) the individual and family characteristics of recent immigrants; and (3) the relative average incomes of the home country.

The first step was to estimate income equations for the 1980 March Current Population Survey (CPS) sample.[1] Applying parameters from these equations

to the 1998 characteristics of recent migrants provided estimates of what their incomes would have been in 1979 in the U.S. if the income generating function were the same for a population comparable to recent immigrants as for other residents. Since we are trying to estimate 1979 incomes in their home countries, we deflate their incomes by the ratio of average home country consumption per capita (adjusted for purchasing power parity) to the comparable figure for the U.S. This adjustment could overcompensate for the low home country incomes to the extent that part of the U.S.-home country differential was associated with educational differences between the two countries. For example, 10 years of education is well below average in the U.S. but is well above average in many less developed countries. On the other hand, many recent immigrants report higher educational levels in 1998 than a comparable population would have had in 1980 because of increases in education in home countries and because of education attained after the individuals immigrated to the U.S. To adjust for these problems, I raise the educational levels of recent migrants to reflect most of the between-country differences in average educational attainments.

These estimates might understate 1979 home country earnings if recent migrants were more highly motivated or more capable than others with similar observed characteristics who did not migrate. Although positive selection may generate some bias in these estimates, Borjas (1999), a knowledgeable expert on immigration to the U.S., has recently argued that recent patterns of U.S. immigration are selecting people with characteristics that are lower than average.

The data on annual incomes and poverty thresholds come from the March 1980 and March 1998 Current Population Surveys (CPS). The income definition equals family income plus the individual's value of food stamps, housing benefits, and the EITC less federal income taxes, social security taxes, and state income taxes. Subtracting social security taxes is questionable because these contributions are a type of forced savings that ultimately entitle the worker to a return in the future in the form of retirement, survivor, or disability payments. It represents a type of asset building. However, we follow the conventional procedure of treating social security payments as a tax.

The population groups are all families with children and all families. When analyzing families with children, children are the unit of observation, but each child has the total income of the family. Similarly, the analysis of all families captures family income differences across all individuals.

The CPS data have a variety of special problems affecting the bottom and top extremes of the income distribution. The bottom segment includes many families with negative incomes. Income over time for the top percentiles is

difficult to determine because of changing procedures for top-coding incomes (not reporting actual amounts above some threshold level) and because of changes in census procedures that apparently increased the share of income reported in the CPS from very high income families after 1993. We avoid dealing with the top-coding problem and the unrealistically low incomes at the bottom by excluding the top 1% of family incomes in the sample and excluding the bottom 1% as well in both years.

4. THE FINDINGS

How much does incorporating the gains for recent immigrants affect trends in income inequality? To what extent does excluding recent immigrants from current indicators alter one's view of inequality and poverty trends? The empirical results yield comparisons between the conventional tabulations of inequality trends and trends based on two methods that take account of the large entry of recent immigrants from low-income countries. For each income inequality measure and sample, there are four relevant numbers used in the comparisons:

(1) 1979 inequality without the post-1979 immigrant population (standard CPS sample);
(2) 1979 inequality including post-1979 immigrants at home country incomes;
(3) 1997 inequality with the post-1979 immigrants (standard CPS sample); and
(4) 1997 inequality excluding the post-1979 immigrant families.

The conventional comparison is between (1) and (3), which includes recent immigrants in both periods. To include immigrants in both periods, compare (2) with (3). Excluding recent immigrants in both periods involves a comparison between (1) and (4).

The results in Table 3 yield a striking conclusion: including the recent immigrant population in the base and final years virtually eliminates the upward growth in income inequality among families. Indeed, in the case of all families and the case of married couples with children, the Gini coefficients of income inequality actually decline when the samples include recent immigrant families in both the base year and the final year. Beginning with the first row (all families), the conventional approach of comparing column (1) with column (4) shows a sharp increase in inequality, with the Gini coefficient rising from 0.299 to 0.344. It is this disturbing change that has led to the concern about the

Table 3. Effects of Recent Immigration on Change in the Gini Index of Income Inequality from 1979 to 1997.

	1979: Excludes Recent Immigrants	1979: Includes Recent Immigrants	1997: Excludes Recent Immigrants	1997: Includes Recent Immigrants
Income				
All Families	0.299	0.329	0.340	0.344
Families without Children	0.308	0.339	0.337	0.339
Families with Children	0.294	0.323	0.341	0.347
Married Couple Families with Children	0.259	0.290	0.285	0.295
Female Headed Families with Children	0.355	0.381	0.375	0.376
Welfare Ratios				
All Families	0.304	0.335	0.354	0.360
Families without Children	0.308	0.345	0.330	0.334
Families with Children	0.294	0.324	0.344	0.351
Married Couple Families with Children	0.267	0.299	0.300	0.311
Female Headed Families with Children	0.364	0.391	0.393	0.394

Source: Tabulations by author from March 1980 and March 1998 Current Population Surveys drawn from the UNICOM CD-ROM.

divisions in U.S. society. However, from another perspective, one that takes account of the income gains of recent immigrants, the inequality increased only modestly, from 0.329 to 0.344. Since many of today's low-income residents are recent immigrants whose incomes are actually well above what they would have been in 1980, this comprehensive measure shows little change in inequality.

The patterns vary by group in revealing ways. Among all families, the standard measures show a large 0.045 point increase in the Gini coefficient, while the more inclusive calculations reveal a rise of only 0.015. In the case of families without children, including immigrants in the base year turns a nearly 0.03 point increase in the Gini into no change in the Gini. The increase in inequality among families with children goes from a 17% increase to a 7% increase. However, since inequality shows virtually no change within married-couple families and a decline within female-headed families, much of the remaining increase in inequality appears related to the rising share of individuals in female-headed families. Including immigrants in the base year leads to a lowering of inequality among female-headed families (from 0.381 to

0.376) instead of an increase (0.355 to 0.376) using the standard approach. For married couple families, the Gini coefficient for this group rose from 0.259 to 0.295 based on the standard comparison. However, the inequality picture changes dramatically, rising only slightly from 0.290 to 0.295 once we include recent immigrants in the calculations for both the base and current periods.

The most conservative way of handling recent immigration is to exclude recent immigrants from the current year and base year. This approach yields inequality changes among the populations resident in 1979. For all families, only about 9% of the observed rise in inequality disappears with the exclusion of recent immigrants. However, for one key group – married couple families with children – even this conservative approach has a sizable effect, eliminating 28% of the conventional estimate of the rise in the Gini coefficient. Of course, this approach ignores not only the gains for recent immigrants but also the impact of recent immigration on the incomes of long-term residents.

To test the sensitivity to the inequality index, we calculated two measures of the Atkinson index, where $e = 1.0$ attaches less weight to inequality at the bottom of the distribution than does $e = 1.5$.[2] Given the extremely current and former low incomes of recent migrants, one would expect a higher sensitivity to inequality changes at the bottom of the distribution. In fact, there is no indication that taking account of recent immigration has a larger impact on the index that attaches more weight to changes affecting low income families (see Table 4).

To capture how recent immigration affects estimates of overall welfare, we calculate changes in the Sen index, an indicator that combines the effect of inequality and of growth in incomes (the formula is $S = M^*(1 - G)$, where S is the Sen index, M is the mean income and G is the Gini coefficient). The bottom panel in Table 4 presents the Sen index estimates of welfare ratios, including and excluding recent immigrants. For families as a whole, the Sen index increased by 20%, using the standard approach of including those residing in the U.S. in the year of the survey. When the tabulations exclude recent immigrants in both the base and final years, the growth in the Sen index is 1 to 5 percentage points higher. However, the Sen index increases substantially when the calculations take account of the income gains for recent immigrants between 1979 in their home country and 1997 in the U.S. For married couples with children, the jump in the Sen index is from 17.5% using the standard measure to 32.3% using the tabulation that includes recent immigrants in both years.

Two other indicators are strongly affected by the treatment of recent immigrants in the calculations. Table 5 presents tabulations for the 90–10 ratio. While the standard measures show sharp increases in the gap between the 90th

Table 4. Effects of Immigration on Changes in Atkinson Index of Inequality (e = 1.0 and e = 1.5).

	1979 Inequality, Resident U.S. Population	1979–1997 Standard % Change in Inequality	% Change in Inequality, Excludes Immigrants in Both Years	% Change in Inequality, Includes Immigrants in Both Years
Type of Family	Atkinson Index Of Welfare Ratio: e = 1.0			
All Families	0.163	33.4	30.2	8.8
Families without Children	0.164	14.9	11.9	–15.6
Families with Children	0.156	41.0	38.3	16.8
Married Couple Families with Children	0.125	26.1	18.4	–3.9
Female Headed Families with Children	0.226	24.6	22.9	9.1
Type of Family	Atkinson Index Of Welfare Ratio: e = 1.5			
All Families	0.301	28.8	23.2	8.9
Families without Children	0.303	3.0	–0.6	–22.4
Families with Children	0.292	39.7	33.7	20.5
Married Couple Families with Children	0.237	27.1	18.2	1.8
Female Headed Families with Children	0.398	25.6	17.7	15.0

Table 4. Continued.

Type of Family	Sen Index, Mean Income*(1-Gini Coefficient)			
	1979 Index	1979–1997, % Change in Sen Index	% Change, No Immigrants in Either Year	% Change, Immigrants Included in Both Years
All Families	1.62	20.3	21.2	31.8
Families without Children	1.96	22.9	24.8	37.3
Families with Children	1.54	4.3	7.8	17.9
Married Couple Families with Children	1.71	17.5	22.2	32.3
Female Headed Families with Children	0.92	–5.8	–3.4	7.0

Source: Tabulations by author from the March 1980 and 1998 Current Population Surveys.

Table 5. Effects of Immigration on the 90–10 Ratio: 1979, 1997.

	1979: Excludes Recent Immigrants	1979: Includes Recent Immigrants	1997: Excludes Recent Immigrants	1997: Includes Recent Immigrants
Income	Ratio of Income at the 90th to Income at the 10th Percentile			
All Families	4.58	6.07	5.49	5.58
Families without Children	4.73	6.31	5.42	5.53
Families with Children	4.42	5.88	5.53	5.62
Married Couple Families with Children	3.50	4.51	3.73	3.98
Female Headed Families with Children	5.95	8.11	6.67	6.60
Welfare Ratios				
Families without Children	4.77	6.77	5.13	5.21
Families with Children	4.35	5.77	5.55	5.77
Married Couple Families with Children	3.62	4.79	3.96	4.22
Female Headed Families with Children	6.00	8.69	7.49	7.58

Source: Tabulations by author from the March 1980 and 1998 Current Population Surveys.

and the 10th income percentiles, the inclusion of immigrants in the base year changes the picture completely. Instead of inequality rising substantially, nearly all the 90–10 ratios decline sharply. As above, excluding immigrants from the 1998 sample has a much smaller impact on inequality. However, in the case of married couple families with children, the impact of excluding recent immigrants is still quite large. The rise in the 90–10 ratio would have been only 6.4% if the 1998 sample excluded immigrants; in comparison, the conventional estimate is an increase in inequality of 12.9%.

The poverty indicators tell an even more remarkable story. As Table 6 reveals, while the standard measures show poverty rates among children rising from 16.6 to 17.9, poverty rates actually fell sharply from 19.0 to 17.9, according to the measure that include recent immigrants in both periods. Again, the sharpest drop was among children in married couple families. Estimates based on the comprehensive measure show poverty rates almost cut in half, from 15.2 to 8.2%.

Especially striking is the fact that even the more conservative method for taking account of recent immigration reverses the standard conclusion about the rise in child poverty. When we exclude recent immigrant families from both the base and current years, child poverty rates actually decline from 16.6 to 16.3, instead of rising to 17.9. The reductions are extremely large among children in married couple families. Standard calculations indicate reductions in poverty from 9.8% to 8.2%. Excluding recent immigrants from 1998 sample shows poverty rates decline by a full one-third, from 9.8 to 6.1%.

Table 6. Effects of Recent Immigration on Change in Poverty Rates: 1979–1997.

Family Group	1979: Excludes Recent Immigrants	1979: Includes Recent Immigrants	1997: Excludes Recent Immigrants	1997: Includes Recent Immigrants
Families Without Children	9.3	16.0	6.0	6.5
Families With Children	16.6	19.0	16.3	17.9
Married Couples With Children	9.8	15.2	6.1	8.2
Other Male-Headed Families With Children	16.1	24.0	18.4	18.8
Other Female-Headed Families With Children	43.5	47.5	45.1	46.5

Source: Tabulations by author from March 1980 and March 1998 Current Population Surveys drawn from the UNICOM CD-ROM.

5. CONCLUSIONS

Until recently, researchers addressing the impact of immigration on economic inequality have focused on how immigration has affected the native population. From this perspective, recent immigration accounted for a large share of the decline in the relative wages of high school dropouts but only a modest amount of the overall increase in inequality (Borjas, Freeman & Katz, 1997). The consensus among labor economists, as reported in the 1997 *Economic Report of the President*, is that immigration accounted for about 10% of the growth in earnings inequality.

In my view, existing studies miss a central part of the story – the rapid income gains that recent immigrants have achieved by coming to the U.S. instead of remaining in low-income countries. In his recent book on immigration, Borjas (1999) attaches little weight to the added income of immigrants. Indeed, he sees the distributional impact of immigration as significant, troubling, and far larger than the net gains from immigration. Of course, as noted above, the distributional picture looks favorable when we account for the income growth among the immigrants themselves. One might justify excluding such gains on grounds that our primary concern is with natives or at least those residing in the U.S. at the beginning of the period. If this is the case, it follows that income and poverty calculations should exclude recent immigrants from both the periods. More importantly, the exclusive focus on natives ignores the support for immigration and for immigrants within the U.S. If citizens of the U.S. cared only about natives, they might well reject the large scale immigration that has emerged.

The findings are relevant to two types of policy issues. One concerns the role of the market in serving distributional as well as efficiency goals. The common view that the market has been exerting a highly disequalizing impact is called into question once one takes a comprehensive perspective. The U.S. economy's absorption of immigrants raised their incomes sufficiently so that on an overall basis, the economy achieved overall growth without worsening inequality. If this is true, the U.S. experience certainly does not support broad anti-market policies in the name of averting increased inequality. The results also bear on immigration policy debates. Advocates of a restrictive immigration policy sometimes cite the worsening inequality that is induced by large-scale inflows of workers and families. The estimates used to justify this argument are often based on data that include all low-income families in the U.S. today, including recent immigrants. The low current incomes of immigrants are heralded as evidence of the negative effects of immigration. By ignoring the reality that many in the observed low-income U.S. population gained substantially in

income terms by immigrating from a poor country, advocates end up justifying restrictions on grounds ostensibly aimed at helping the very people that in fact immigration limits will harm.

Admittedly, some of the results in this paper rely on imperfect estimates of home country incomes. Additional research is warranted to develop improved measures of what recent immigrants would have earned in their home countries in the base period. It is possible but unlikely that more precise estimates would overturn the main conclusions developed in this paper. The procedure that excludes recent immigrants from the current period is less subject to measurement error. It is noteworthy that even this more conservative approach turns around the conventional conclusion about increases in child poverty.

NOTES

1. The income equation is an ordinary least squares regression of the natural log of income against the reference person's education, potential experience, potential experience squared, the number of adults, the number of children, and two dummy variables representing the family headship (married, spouse present and other male head – female heads were the default case). The results are available from the author on request.
2. See Sen (1997) for a discussion of how to interpret the Atkinson index and the Sen index.

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