Immigration, Mobility and Inequality

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What is economic mobility? Typical measures

• **Absolute mobility:** How far do children of parents at the 25 percentile in 1980-82 for example, expect to progress up the ladder by 2010-201?

• **Intergenerational mobility:** correlation between parents & children’s education (low is high mobility, high correlation is low) SEDLAC and Hertz (2007)

• **Relative mobility:** How far can someone in the bottom 20% for example expect to progress? Can children expect to have higher incomes than there parents (growth too).

• **Education of parents vs. children**
Example from Chetty et al. 2014: U.S. inequality increased but mobility same from 1970s to 1990s

Changes in the Income Ladder in the United States

The rungs of the income ladder have grown further apart (income inequality has increased)

...but children’s chances of climbing from lower to higher rungs have not changed.
What is inequality? Typical measures

- **Gini Coefficient**: a measure between 1 (one) perfect inequality, one person has all the income (Bill Gates or Carlos slim) and perfect equality (everyone has the same income. NYC has a very high Gini .68 or 68

- **Top 1% or top 10%** Picketty, 2014 Chetty et al. 2014 say that in NYC top 1% take an amazing 53% of total income (high inequality).
Chutes and ladders

- **Ladders**: migration, education, health, manufacturing jobs, remittances, starting a business

- **Chutes**: war, crime, single parent families, correlation between parents & children’s education (low is high mobility, high correlation is low) SEDLAC and Hertz (2007)

- **Relative mobility**: How far can someone in the bottom 20% for example expect to progress? Can children expect to have higher incomes than their parents (growth too).

- **Education of parents vs. children**
Figure 5: U.S Gini coefficient rises from .40 to .48
1970 to 2012

inequality rising in the U.S.

Source: U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplements. For information on confidentiality protection, sampling error, nonsampling error, and definitions, see www.census.gov/prod/techdoc/cps/cpsmar13.pdf [PDF]
What is the Gatsby Curve?

- The idea that higher inequality reduces mobility, came earlier at Corak and Russell Sage 2010
- Obama CEA head Alan Krueger now at Princeton staff member came up with term in 2012, perhaps after seeing Baz Luhrman movie (AK got fame, staff member got a bottle of wine).
- Why does inequality reduce mobility? Rungs of ladder farther apart, harder to climb, poor have fewer resources to spend on children relative to rich, so rich kids have unfair advantage.
What this matters for immigration

- We argue increased immigration explains about \( \frac{1}{2} \) the increase in inequality, but that the share of the FB is also associated with higher mobility.

- Piketty (2013) argues that population growth through higher fertility or immigration can reduce inequality by reducing the effect of inherited wealth.

- CBO (2013) immigration reform will at first decrease & then increase overall wages (not of natives).

Original Alan Krueger Gatsby curve

Intergenerational earnings elasticity

United Kingdom
France
Japan
United States

United States (2010 Gini)

y = 2.2x - 0.27
R² = 0.76

Source: Corak (2011), OECD, CEA estimates.
Gatsby curve for major cities in U.S.
NYC an exception: Highest inequality, but mobility in top 1/4 of U.S. cities: 1980-82 kids in 25th get to 44th in 2010-12

Figure 2: Great Gatsby Curve for 60 largest U.S. urban areas

Children of parents in the 25th percentile in 1980-82 climbed on average to the percentile shown on the Y axis by 2010-12

Absolute Intergenerational Mobility, 1980-82 Cohort (see Chetty et al. 2014, Table 8).
Gatsby curve also works in LatAm the question is why and will it last?

• Since inequality is falling in LatAm mobility is increasing but why?

• Ali Brahim and McLeod (2013) argue education policy, Conditional Cash transfers and higher minimum wages have reduce wage inequality in Latin America.

• Gasparini et al. (2012) focus on terms of trade: issue will lower inequality and increased mobility

We find Latin America’s lower inequality due to social policies that increase education both reduce inequality and increase mobility of children.
Figure 14. Great Gatsby Curve: Gini income vs. Mobility (youths 13-19), 16 Lat Am ctry's, 1995 and 2011

Notes: Mobility (youths 13-19) is defined following Andersen (2001). The dependent variable is the schooling gap, measuring years of missing education. The Educational Mobility Index (EMI) is defined as 1 minus the proportion of the variance of the school gap that is explained by family background. For Peru and Dom.Rep the first observed year is 1997 and 1996, the last observed year for Costa Rica, El Salvador and Mexico is 2010. Source: SEDLAC (CEDLAS and The World Bank database downloaded May 2013).
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Terms of trade deskilling

Terms of trade decreases

Skill premia

Granger Causality

(+),(*),1 lag decreases

(-),(***) ,1 lag decreases

Education policy

increases

High school enroll

(+),(*),2 lags increases

Mobility

Mincer Coefficients!

Source: CEPALSTAT and SEDLAC(CEDLAS and World Bank) database downloaded March 2012!

Sumaya Ali Brahim

Falling skill premia
Figure 11. Impact of parental education on children’s years of education

Note: Bars represent the impact of one standard deviation of parental years of schooling on the years of schooling of children.
Figure 11A
Correlation of parent & children’s education; higher indicates lower mobility, so past LatAm had the lowest intergenerational mobility in the world.

Note: Bars represent the impact of one standard deviation of parental years of schooling on the years of schooling of children.

* Hertz et al. (2007)
Figure 12. Change in the Gini index, selected Latin American countries, 2000-2010.

Source: Figure 1.3 from Ferreira et al (2010), modified by Ferreira (2012). Data source: World bank 2011
Immigration, growth and inequality short term long term

• **Immigration increases inequality in ST** Chetty cities data shows as FB share 4.7% to 13%+ from 1970 to 2010 can explain rise in Gini from 40 to 44 (have the distance to 48)

• **Inequality increases ST** as immigrants compete: Hispanic but not native wages fall with immigration & integration.

• **Immigration increases mobility** vs. LatAm and within the U.S. children of immigrants consistently outperform natives in school this increases Hispanic wages over longer term (CBO, 2013).

• **Financial inclusion & immigration** reform raises growth and asset accumulation by Hispanics, reducing share of inherited wealth, see Piketty, 2014, p. 83-84.

Back to U.S. immigration, Chetty et al 2014 look at U.S. Cities & Counties, lots of variation in Mobility, low mobility in the South

http://www.equality-of-opportunity.org/
Gatsby curve for major cities in U.S. NYC an exception: Highest inequality, but mobility in top 1/4 of U.S. cities: 1980-82 kids in 25th age to 44th in 2010-12

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Immigration associated with higher mobility

Vertical Axis: Where children with 25th percentile parents in 1980-82 can expect to be in 2010-12, e.g., the children of New Yorkers can expect to move from the 25th to 44th percentile in their

Fraction of urban population Foreign Born

Source: Chetty et al. 2014, Table 8, online data, http://www.equality-of-opportunity.org
Immigration associated with higher inequality

Figure 6B: Fraction of Foreign Born & Inequality in the 60 largest U.S. cities (commuter zones)

Vertical Axis: The Gini Coefficient is a widely used inequality index, note, a 1% increase in FB share raises the Gini by 1/2 a point, New York City has an astonishingly high Gini of 68 (.68) but w/o its FB share of 30% it would be 53, high but not dramatically higher than the national Gini of .48 (48).

Fraction of urban population Foreign Born

(see Chetty et al. 2014, Table 8, online at http://www.equality-of-opportunity.org).
U.S. FB share rose from 4.7 in 1970 to 13 in 2012, a rise of over about 8 percentage points.

Figure FB-1 US and NYC Foreign born back to 1900 share

President Johnson signs Hart-Cellar act in NYC 1965

Immigration, growth and inequality short term long term

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Inmigración, crecimiento y desigualdad corto y largo plazo

- La inmigración aumenta la desigualdad en el corto plazo. Los datos sobre las ciudades de Chetty muestran cuota FB de 4.7% a 13%+ de 1970 a 2010 explica el aumento de Gini de 40 a 44 (tiene distancia a 48)

- **Desigualdad aumenta en CP** los inmigrantes compiten: Salarios de los hispanos pero no nativos caen con la inmigración y la integración.

- **Inmigración acrece la movilidad** vs. LatAm y adentro los EE.UU. Los hijos de inmigrantes superan constantemente a los nativos en la escuela, este hecho aumenta los salarios de los hispanas en largo plazo (CBO, 2013).

- **Financial inclusion & immigration** reforma eleva el crecimiento y la acumulación de activos por los hispanos, lo que reduce la cuota de la riqueza heredada, ver Piketty, 2014, p. 83-84.

**U.S. Congressional budget Office (2013) The Economic Impact of S. 744, the Border Security,
Immigration to U.S.

Increases Inequality

Evidence from U.S. Cities
Chetty et al. 2014

Increases Mobility

Long term Inequality falls and mobility increases

Picketty 2014 and CBO 2013

Short term Hispanic wages decline

more educated children become adults

Immigration reform increases financial inclusion wages rise
Mobility and inequality linked in Gatsby Curve

1. **Legalization of work and education**: Native and native wages rise then fall, (See CBO review, Peri, 2010, Card, 2007)

2. **Financial inclusion** among the most financial excluded groups in NYC

3. **How to estimate both effects longer term**: Compare experience of new and old Hispanic cohorts in the NY Tristate region.

1/ Card, 2007 reports studies showing natives flee when Hispanic + non-white share hits 15% (Card, 2007)
Mexicans in the shadows: least documented and most financially excluded of 3 immigrant groups surveyed in NYC OFE Immigrant Financial Services Study

Table 1: Mexican, Ecuadorian, and Chinese immigrants banked status and gender

<table>
<thead>
<tr>
<th></th>
<th>Mexican (443)</th>
<th>Ecuadorian (417)</th>
<th>Chinese (464)</th>
<th>Total (1,324)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banked</td>
<td>43</td>
<td>65</td>
<td>95</td>
<td>68</td>
</tr>
<tr>
<td>Unbanked</td>
<td>57</td>
<td>35</td>
<td>5.0</td>
<td>32</td>
</tr>
<tr>
<td>Men</td>
<td>53</td>
<td>52</td>
<td>50</td>
<td>52</td>
</tr>
<tr>
<td>Women</td>
<td>47</td>
<td>48</td>
<td>50</td>
<td>48</td>
</tr>
</tbody>
</table>

Estimated impacts on tri-state area Mexicans

(349,000 in three states in 2010 see Hinojosa and McLeod, 2014 Out of the shadows, legalization & financial inclusion)

• **Personal Income increases by $4.1 billion** as Mexican middle class share expands from 10% to 34% (see Table F-2)

• **Housing sales rise by $18 billion** as home ownership rate increases from 18% to 47% (about national average, see Figure F-1)

• **Education spending rises by $15.4 billion** as share of Mexicans with college education increases from 10% to 32% (see Table F-2)
Moving up inclusion ladders, impacts on CT-NY-NJ 349,000 Mexican residents, age 25-65

Table F-2: in Mexican status due to Legalization and Financial Inclusion

<table>
<thead>
<tr>
<th>Reported Ethnicity</th>
<th>Middle class share</th>
<th>Share owning home</th>
<th>share with 4+ years of College</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before</td>
<td>10</td>
<td>18</td>
<td>10</td>
</tr>
<tr>
<td>After</td>
<td>34</td>
<td>47</td>
<td>32</td>
</tr>
<tr>
<td>Change in share</td>
<td>24</td>
<td>29</td>
<td>22</td>
</tr>
<tr>
<td>Persons Affected</td>
<td>84</td>
<td>101</td>
<td>77</td>
</tr>
</tbody>
</table>
Table F-1: Differences between Mexicans and already legalized Hispanic groups\(^1\) in Home Ownership, Income and College Education 2007-2011

<table>
<thead>
<tr>
<th>Reported Ethnicity</th>
<th>Middle class share</th>
<th>Poverty Rate</th>
<th>Own Home</th>
<th>4+ years of College</th>
<th>NJ-NY-CT 2007-11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not Hispanic</td>
<td>-10</td>
<td>2.6</td>
<td>-22</td>
<td>-8</td>
<td>14571</td>
</tr>
<tr>
<td>Mexican</td>
<td>24</td>
<td>-12</td>
<td>29</td>
<td>22</td>
<td>349</td>
</tr>
<tr>
<td>Cuban</td>
<td>-6.4</td>
<td>-0.6</td>
<td>-8.0</td>
<td>-3.2</td>
<td>86</td>
</tr>
<tr>
<td>Costa Rican</td>
<td>18</td>
<td>-4.9</td>
<td>8.7</td>
<td>17</td>
<td>21</td>
</tr>
<tr>
<td>Guatemalan</td>
<td>24</td>
<td>-5.6</td>
<td>23</td>
<td>24</td>
<td>74</td>
</tr>
<tr>
<td>Honduran</td>
<td>22</td>
<td>-7.8</td>
<td>22</td>
<td>21</td>
<td>74</td>
</tr>
<tr>
<td>Panamanian</td>
<td>6.0</td>
<td>-1.9</td>
<td>8.0</td>
<td>3.2</td>
<td>21</td>
</tr>
<tr>
<td>Salvadoran</td>
<td>24</td>
<td>-3.6</td>
<td>3.8</td>
<td>25</td>
<td>121</td>
</tr>
<tr>
<td>Colombian</td>
<td>11</td>
<td>1.2</td>
<td>3.9</td>
<td>7.7</td>
<td>163</td>
</tr>
<tr>
<td>Ecuadorian</td>
<td>20</td>
<td>-3.7</td>
<td>14</td>
<td>19</td>
<td>225</td>
</tr>
<tr>
<td>Peruvian</td>
<td>13</td>
<td>1.7</td>
<td>3.9</td>
<td>8.1</td>
<td>99</td>
</tr>
<tr>
<td>Dominican</td>
<td>21</td>
<td>-10</td>
<td>22</td>
<td>17</td>
<td>466</td>
</tr>
</tbody>
</table>

\(^1\)Already legalizaed groups include 86,000 Cubans and 21,000 Panamanians. Source: Self identified ethnic groups as reported combined 2007-11 5% sample, see Ruggles et al. 2010.

Inclusion raises share of Mexican college graduates from 10% to 32%

Figure F-5 Inclusion ladder for College education Tri-State Area, adults age 25-65 2007-2011 ACS as predicted by share now citizens

Share not a Citizen, 2007-2011 combined ACS Source: see Table F1
Mexican middle class share (greater than five times poverty income) rises from 10% to 34%.

Figure F-6: Inclusion ladder for Middle class share with incomes >5 times the poverty rates, CT-NJ-NY residents age 25-65 2007-11

y = -0.52x + 45
R² = 0.87

Share not a Citizen, 2007-2011 combined ACS (Source: see Table F-1)
Inclusion ladder raises Mexican home ownership share to 47% up from current 18%.

Figure F-4 Inclusion ladder for home ownership in the Tri-State Area, 2007-2011

\[ y = -0.52x + 63.3 \]
\[ R^2 = 0.62 \]

Source: see Table F-1
References


Family structure and mobility

Figure 6D: Fraction of Single Mothers and Abs Mobility 60 largest U.S. commuting zones

\[ y = -0.0073x + 0.52 \]
\[ R^2 = 0.4 \]

Absolute Intergenerational Mobility, 1980-82 Cohort

(see Chetty et al. 2014, Table 8).
Financial Exclusion (FEX) breaks along racial and class lines in New York and LA: NEP-NEDAP Map shows absence of Banks in communities of color… 2009 New York City (click map to go to NEP webpage)
Poverty and social exclusion leave blacks & Latinos vulnerable to Exploitation:
NEP-NEDAP 2007 map shows high costs loans concentrated in communities of color…
2007 New York City (click map to go to NEP webpage)
Racial and SES exclusion leaves blacks & Latinos vulnerable to Exploitation:

NEP 2013, *The Debt collection Racket*, target black and Latino families hardest, true in LA as well

Foreclosures in 2009 Racial and SES leaves blacks & Latinos vulnerable to Exploitation: NEP-NEDAP 2009 shows foreclosures hit blacks and Latino families hardest, true in LA as well (lis pendens on 1-4 family homes, 1st american core logic & 2000 census data (click map to go to NEP webpage)
Yet despite crisis, demographics, persistence (and financial inclusion) push up # of Hispanic owners

PANEL B: # OF HISPANIICS HOME OWNERS UP 47% OVER 2000, ABOVE 2008 PEAK (MILLIONS)

Hispanic homeowners account for almost 50% of new homeowners in U.S. since 2000, 1 in 4 children are Hispanic, most HH formation Hispanic,
Legalization increases Savings: Immigrant Financial Services Study (2013) NYC DCA OFE finds large impacts on savings controlling for other factors…


Box 1: Documented status is strongly correlated with whether an immigrant is banked.

An undocumented Mexican man with 8 years of education who has been in the United States for 10 years, earns $600-$900 per week, and owns a cell phone has a 48 percent probability of having a bank account.

A documented Mexican man with exactly the same profile has a 71 percent probability of having a bank account.
4 impacts of financial inclusion…. (literature…)

- **Incomes and savings increase**: (NYC OFE, 2013); growth increases due to business investment (Azteca), employment increases, poverty falls

- **Housing investment and mobility increases**: Hispanic groups who have had legal status and financial access for some time own homes.

- **Access and financing for education**: Hispanic groups who have had legal status and financial access for some time own homes

- **Economic justice**: rights to protection against exploitation, interest rate caps, contracts enforced, secure communities families in true sense
Banks are sometimes not answer, when HH income is low and populations vulnerable (in the Bronx for example) 1008 NYC OFE 2008 Study found for some families “fringe” financial services can be more cost effective, See Servon

<table>
<thead>
<tr>
<th>Table 4: Potential costs associated with mainstream and “fringe” financial services for a resident considered “most bankable” and a resident with less stable income</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>“Most Bankable”</strong></td>
</tr>
<tr>
<td>Employment</td>
</tr>
<tr>
<td>Direct deposit</td>
</tr>
<tr>
<td>Non-branch ATM usage</td>
</tr>
<tr>
<td>Overdrafts</td>
</tr>
<tr>
<td>Wire transfer usage</td>
</tr>
<tr>
<td>Landlord accepts checks</td>
</tr>
<tr>
<td><strong>Annual Cost</strong></td>
</tr>
<tr>
<td>Annual maintenance</td>
</tr>
<tr>
<td>Accessing cash</td>
</tr>
<tr>
<td>Overdraft fees</td>
</tr>
<tr>
<td>Rent payment</td>
</tr>
<tr>
<td>Utility payment</td>
</tr>
<tr>
<td>Other bills</td>
</tr>
<tr>
<td>International wire transfer</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
<tr>
<td><strong>Savings</strong></td>
</tr>
</tbody>
</table>

*Note: See Appendix H for fee data and table assumptions*

**Source:** NYC OFE (2008) Table 7 page 29. “Fringe” financial services providers are check cashers, informal lenders, MTOs, pawn shops, rent-to-own creditors, etc., the same group of nonbank financial service providers referred to in this proposal as “alternative” or “non-traditional” service firms. Payday loans are illegal in New York, but these low income groups actual manage to secure more short term loans (cost unknown) than do residents of similar neighborhoods where payday lending is legal.