The Dynamics of Inequality among Immigrants

By

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Abstract

This paper studies the evolution of wage inequality among highly skilled immigrants. Wage inequality among immigrants is expected to grow with time in the destination country due to changes in the compensation they receive in the new labor market to their imported skills and due to their investment in local skills. To study these issues we apply the Shapley decomposition to the level of inequality (measured by Gini) in each period, as well as to the change in inequality between periods using data on highly-skilled immigrants who arrived from the Former Soviet-Union (FSU) to Israel in the early 1990s. The Gini index for immigrants increased during 1995-2001 and declined in during the 2001-2003 recession. A Shapley decomposition of the level of Gini to between and within educational groups demonstrates that in each period, within-groups inequality contributed about 83-85 percent to total inequality among immigrants and that this contribution was rather constant over 1995-2003. However, a Shapley decomposition of the change in Gini between periods reveals that the contribution of the change in within-groups inequality declined during 1995-2001 while the contribution of the between groups increased. Furthermore, during the 2001-2003 recession, where total inequality among immigrants actually decreased, the contribution of change in within-groups inequality was negative, implying it acted to further reduce inequality, while changes in between-groups inequality acted in the opposite direction to increase inequality among immigrants. These finding suggest that the return to imported education of FSU immigrants has increased over time and it becomes an important factor in explaining growing inequality among immigrants. In addition, the paper demonstrates the importance of decomposing changes in inequality as well as the traditional decomposition of the level of inequality.