Inequality and Immigration Policy

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Abstract

While scholars have examined how changing firm preferences over immigration affect low-skill immigration policy and how the mass public's opinions on immigration are formed, we have little understanding of how and when the mass public's attitudes on immigration drive immigration policy for low-skill immigrants against firms' interests. This article emphasizes the important role of economic inequality in producing divergent immigration policy outcomes. We argue that the degree of substitutability between low-skill immigrants and natives has important consequences on the mechanism through which inequality affects mass preferences for low-skill immigration policy. In less wealthy economies, an increase in inequality leads to more restrictive immigration policy because immigrants often compete in the labor market with a large subset of native population. In wealthy countries, inequality, we argue, does not affect immigration policymaking. In very wealthy economies where immigrants are most likely to complement natives, firms' dynamic preferences dominate in immigration policy formation. Using data on the capital share of value added in the industrial sector as a measure of inequality between capital and labor and low-skill immigration policy in 24 democracies from 1947 to 2006, we find strong empirical support for the hypothesized effects.

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In the past few years, scholars have done much to increase our understanding of what affects firms' preferences over immigration and how that affects low-skill immigration policy (Peters 2014; 2015*a*; *b*; Shin 2015) and to increase our understanding of mass opinion on immigration (Gerber et al. 2015; Goldstein and Peters 2014; Hainmueller and Hiscox 2007; 2010; Hainmueller and Hopkins 2014). What is missing, however, is an understanding of how and when mass opinion has its greatest effect on immigration policy against firms' pro-immigration interests. We analyze both firms' and native workers' dynamic preferences and their total influence over immigration policy by investigating the conditions under which economic inequality between capital and labor leads to immigration openness or restrictions.

While an increase in inequality can be unpopular among native workers whose skills can be easily replaced by immigrants, rising inequality between capital and labor is a sign of profitability for firms. When firms make more income vis-á-vis workers, they have vested interests in continuing and expanding production in relatively labor-intensive sectors. As a result, an increase in inequality in favor of capital leads to an expansion of pro-immigration coalition. When we look at firms' changing preferences alone, an increase in inequality should induce policymakers to open their doors to low-skill immigrants. Yet, final policy outcomes in response to increasing inequality depend on natives' immigration policy preferences as well. Then, how can we explain whether native voters or pro-immigration firms have more influence in immigration policymaking when inequality between capital and labor increases?

The effect of inequality on low-skill immigration policy crucially turns on whether natives are substitutes or complements in the labor force. This degree of substitutability between immigrants and natives, in turn, is affected by two factors: the skill level of natives in comparison to immigrants and the skill-intensity of the economy. If immigrants have similar skills as natives, then they are much more likely to be substitutes. If much of the economic production in a country consists of more routine tasks and does not rely much on language skills, then, even if natives have more education than immigrants, immigrants can easily do the same jobs as natives.

The wealth of a country is likely to affect both of these factors, making low-skill immigrants complements rather than substitutes. First, as countries become wealthier, they invest more in education (and greater investments in education lead to greater wealth), which make it less likely that a low-skill migrant would compete with a native for the same job. Second, wealthier countries also tend to have knowledge- and skill-based economies, which make it more difficult for a low-skill immigrant who does not have country-specific skills, like the spoken language, to compete with a native who does. Low-skill immigrants, then, are a much greater threat to low-skill or low-income natives in low- and middle-income countries than in wealthier countries and, within countries, when countries are less developed and less wealthy.

Economic inequality, then, acts on the threat that low-skill immigrants pose to low-skill native workers in low- and middle-income countries. Increasing inequality raises the salience of immigrants as an economic threat when most natives consider immigrants as substitutes. Increasing inequality demonstrates that low-income natives are somehow "losing out" vis-á-vis owners of capital and more skilled natives, that the competitive environment is skewed against them. One way policymakers could address this is to increase restrictions on low-skill immigration, even if these restrictions do little to address the underlying reasons for inequality. At the same time, pro-immigration firms lose influence (relatively) in immigration policymaking when immigration policy becomes salient among the majority of voters.

We are not the first to argue that increasing inequality leads to immigration restrictions. A popular model of income distribution and immigration policy posits that policymakers restrict immigration when inequality increases (Timmer and Williamson 1998). An important assumption behind this paradigm is that low-skilled immigrants harm native workers by exacerbating the income disparity between capital and labor. The plausibility of this assumption rests upon the degree of substitutability between immigrant workers and natives in the labor market. Another model suggests that the wealthy median voter may still oppose immigration because citizens do not like the effect of rising inequality on the lower

living standards of their unskilled neighbors (Luttmer 2009). While this model does not require the median voter to be a substitute for low-skilled immigrant workers, it still assumes that a fairly large subset of the native population is unskilled and, importantly, that the median voter cares about the living standards of low-skilled native workers. Both of these models predict, however, that increasing inequality should lead to more restrictive low-skill immigration policy in *all* countries regardless of host countries' economic development.

Yet, the empirical evidence on the relationship between inequality and immigration policy is, at best, mixed. Studies focusing on time periods during which migrant-receiving states were developing industrial economies find some support for the correlation. For instance, Timmer and Williamson (1998) find evidence that inequality is positively correlated with immigrant restrictions in the New World between 1860 and 1930. Peters (2015*a*), however, finds no evidence that of an effect of inequality on immigration policy in OECD states after 1970. Shin (2015) similarly finds no evidence of a negative correlation between immigration policy openness and inequality measured as capital share of value added in the industrial sector after World War II. We argue that the literature thus far has found mixed results because it has not accounted for the degree of substitutability between low-skill immigrants and natives and how increasing inequality changes firms' immigration policy preferences.

Using one of the most comprehensive datasets on low-skill immigration policy in 24 democracies from 1947-2006, we show that inequality only has a negative effect on low-skill immigration policy in middle-income countries.[1] As countries develop, inequality has no effect on immigration policy and, at very high levels of income, decreasing inequality is actually associated with increased restrictions as pro-immigration firms abandon labor-intensive sectors. The existing explanations for the effect of inequality on immigration cannot explain these results. Further, most explanations for immigration policy based on prejudice also cannot explain these results; if inequality increases prejudice, which is likely as it increases

[1]Neither our dataset nor others of which we are aware include low-income countries, making our prediction for these countries impossible to test. For instance, India is a low-income country that has received substantial migration pressure from Bangladesh, a poorer neighboring country. We predict that inequality would lead to restrictions in India, but cannot test this implication.

economic anxiety, it is likely to do so in both wealthy and middle-income countries.

The mechanism of our argument does not require an empirical regularity that low-skill immigration actually increases income inequality between capital and labor. Inequality is likely the product of many other factors besides immigration, especially the rate of economic growth (Piketty 2014). Instead, we emphasize the importance of how income inequality might increase calls for immigration restrictions based on the degree of substitutability between natives and immigrants and how policymakers take these preferences into policymaking. We also show that firms' dynamic preferences in response to changes in inequality gain more influence in policymaking in very wealthy economies where natives do not link the issue of inequality to their immigration policy preferences.

The remainder of this article is organized as follows. First, we provide a literature review on inequality, immigration, and policy, which highlights the importance of the degree of substitutability between immigrants and natives. Second, we examine how policymakers balance between native voters' anti-immigrant interests and firms' pro-immigration preferences when inequality between capital and labor increases. We then test our hypotheses about the relationship between income inequality and immigration policy with the most comprehensive (to date) low-skill immigration policy dataset available in the discipline. We include several indicators of taxation as controls in order to account for redistributive policy measures that are responsive to both pre-tax income inequality and immigration policy. We conclude with future research suggestions and policy implications for immigration policy.

Does Immigration Increase Inequality?

One of the major debates in the economics literature on immigration has been the effect of immigrants on natives' wages and inequality. This debate crucially depends on assumptions about the substitutability of immigrants for natives.

Much of the early work on immigration and wages assumed that immigrants and natives

are perfect substitutes. The Stolper-Samuelson theorem showed that, assuming immigrants and natives were perfect substitutes, increased immigration should lower wages; increase the returns to capital; and increase inequality between capital and labor (Stolper and Samuelson 1941). As immigration increases, the number of workers in the country increases, leading to lower wages (or higher unemployment). With lower wages, returns to capital increase while widening the income gap between capital and labor. Similarly, the model can make predictions about skill-based income inequality by examining high-skill and low-skill labor as the inputs (instead of capital and labor). As the low-skill immigration increases the low-skill labor supply, the wage of low-skill workers decreases. Due to the skill complementarity between low-skill and high-skill workers, the wage of high-skill workers may increase in response to low-skill labor surplus, as the demand for the goods and services provided by high-skill workers also increases, leading to increased income inequality between owners of different skill levels. If, on the other hand, high-skill immigration increases, the wages of high-skill natives will fall while wages of low-skill natives will increase, decreasing income inequality.

The theoretical predictions of these models have found little empirical support. The general consensus in the literature focusing on wealthy, developed countries in the West is that immigration inflows have no effect on native workers' wages (Peri 2012; Dustmann et al. 2008) or a negligible negative effect on unskilled native workers (Dustmann, Frattini and Preston 2013; Edo and Toubal 2015; Longhi, Nijkamp and Poot 2005; Ottaviano and Peri 2012; Peri 2013).[2] Even in the cases of sudden, massive inflows of immigrants, such as the mass immigration of Soviet Jews to Israel after the collapse of the Soviet Union, immigrants did not have an adverse impact on natives' labor market outcomes (Friedberg 2001).

[2]A notable exception in the literature is Borjas (2003) who argues that immigration inflows have substantial negative effects on natives' wages. Edo and Toubal (2015) argues that high-skilled immigrants can be detrimental to high-skilled native workers and beneficial to low-skilled native workers. See Card (2009) for a concise review of the literature.

There are several reasons that the theoretical model fails empirically.[3] Most importantly, in many occupations, immigrants are complements to natives, rather than perfect substitutes. Especially, due to the rise of the service economy since the 1970s, many occupations require language and other customer-related or managerial skills, which new immigrants are unlikely to possess. Firms, then, hire low(er)-skill immigrants to perform more routine tasks while hiring natives, at a higher wage, to perform the tasks that require language or country-specific skills. Since most natives in wealthy states work in the service industry or other industries where there are both routine and language or country-specific tasks, the effect of immigration on natives' wages is likely to be small or even positive (Peri and Sparber 2009). The difference in the routine nature of tasks between service industries and manufacturing industries may be part of the reason that there seem to be different effects of immigration on wages depending on the time period.

The degree to which immigrants are substitutes for natives varies with economic development. Most of the studies on the effects of immigration on wages have examined the effects post-World War II in developed countries. In contrast, Hatton and Williamson studied the effects of immigration on wages in the New World in 1910 and found that wages would have ranged from 2 percent higher in Brazil to 46 percent higher in Argentina if immigration had stopped after 1870 (Hatton and Williamson 1998, 224-225). During this time period, many tasks in both agriculture and manufacturing were relatively routine, and these industries accounted for a larger part of the economy, which is the likely reason for why immigration had a larger effect on wages.

Nonetheless, the absence of an *economic* effect of immigration on inequality does not mean

[3]One reason for the lack of a relationship between immigration and wages is that firms may substitute technology or may move production elsewhere if there is little immigration (Lewis 2011; Peters 2015*b*). Second, immigrants also tend to move to areas that are growing; in the absence of immigration it is possible that natives wages would increase (Borjas 2006). Third, immigrants not only work, but they also consume, which may increase economic activity and lead to increasing wages. Fourth, natives may move out of areas with many immigrants, leading to a null result (Borjas 2006). Finally, in open economies, capital may follow labor flows, as it did in the nineteenth century, compensating for immigration's effect on wages (Hatton and Williamson 1998) or increased immigration may turn import-competing industries into export industries (or at least make them more competitive), increasing domestic production and wages (Peters 2015*b*).

that it has not had a *political* effect. For example, the founding president of the American Economic Association, Francis A. Walker (1896) argued in favor of restricting immigration because the quality of newly arrived immigrants by the end of the 19th century declined significantly in comparison with those who arrived in the mid-19th century. Walker's and other economists' focus on the "quality" of immigrants is based on the premise that the inflows of low-skilled immigrants may harm unskilled native workers. At the end of the 19th century, the U.S. had attracted an increasing number of nationals from eastern and southern Europe, who were thought to have fewer skills than previous immigrants (Hatton and Williamson 1998, pp. 18).[4] The arrivals of these "new" immigrants in the US from the periphery of Europe coincided with increasing income inequality measured as the ratio of the unskilled wage to per capita income (Timmer and Williamson 1998). As the end of 19th century also marked the end of the free immigration regime in the New World, Timmer and Williamson (1998) argue that increasing income inequality lead to the increased restrictions. They argue that increasing income inequality combined with increased power for low-skill workers through the extension of the franchise or through labor unions or labor parties, led to increased demands for restrictions either from low-skill natives themselves or from middle class natives who did not like income inequality. Focusing on the immigration policies of the New World and the United Kingdom from 1850 to 1930, Timmer and Williamson (1998) find that a decrease in the ratio of the unskilled wage to per capita income is positively correlated with restrictive trends in immigration policy.

Concerns about the decreasing "quality" of immigrants have again surfaced since the rise of new immigrant groups since 1965. Borjas (1985) argues that because of the decreasing quality — measured by education — of new immigrants, they no longer have as high wage growth as older cohorts of immigrant did.[5] Earlier cohorts of immigrants, specifically those

[4]Douglas refutes this claim by demonstrating that immigrants from 1899 to 1909 had a higher share of skilled workers (16.6 percent) than the "old" immigrants who arrived between 1871 and 1882 (11.4 percent) (1919, 401).

[5]Chiswick (1986) refutes this claim by investigating the skill levels of different immigrant ethnic groups in the US and finds that the schooling level of immigrants had been fairly stable in from the 1970s to 1980s.

who migrated in the 1950s, earned similar wages as natives within 10 to 15 years of working in the US. In contrast, newer immigrants took much longer to catch up or never caught up. Because these immigrants never catch natives' earnings, their presence may be associated with increased income inequality and may lead to a backlash. Since both inequality and immigrant flows (in total numbers) have been increasing, is it the case that inequality has led, at least in part, to increased immigration restrictions, as it did in the early twentieth century?

A Theory of Inequality and Immigration Policy

Given that it is an empirical regularity in wealthy member states of Organisation for Economic Co-operation and Development (OECD) that immigrants do not reduce the wages of natives and that immigrants can potentially help native workers earn more income, why might increasing inequality have any effect on immigration policy? We argue that the effect of inequality turns on the degree of substitutability between immigrants and natives in the labor market. In general, when economies are growing and inequality is falling,[6] voter opposition to immigration decreases (Goldstein and Peters 2014). In contrast, when inequality increases, so does economic anxiety, raising calls for policymakers to adopt more drastic approaches in cutting immigration inflows (Yellen 2006). At this point, we should expect that increasing inequality always leads to restrictions. However, we argue that it only leads to restrictions when the median voter, or at least a large share of the population, is likely to compete with low-skill immigrants in the labor market. We also argue that when inequality rises in favor of capital, firms have a strong incentive to expand production in labor-intensive industries. Since native workers in very wealthy states do not change their immigration policy preferences in response to an increase in inequality, only firms' inequality-induced preferences matter for immigration policy of these states.

[6]According to Piketty (2014), growth reduces inequality; thus, any time there is economic growth, inequality should fall.

How Inequality and the Degree of Substitutability Shape Opinion on Immigration

We argue that inequality affects mass opinion on immigration based on the degree of substitutability between natives and immigrants, which differs by the level of economic development. If immigrants are substitutes, or at least are close to substitutes, for low-skill native workers, increases in immigration should lead to wage losses for low-skill natives. This should exacerbate any underlying inequality. If immigrants are not substitutes, but instead complement native workers, increases in immigration should have little effect or even raise incomes for natives. In this case, immigration should have no effect on inequality and may, in fact, reduce inequality among natives.[7] If inequality is increasing — whether due to immigration or due to other factors — natives who are substitutes for immigrants should be more likely to blame immigrants for their reduced position.

When are natives more likely to be substitutes for immigrants? Economic development is likely to play a crucial role in affecting the degree of substitutability between immigrants and natives for two reasons. First, economic development leads to increased human capital formation. In wealthier countries, children go to school longer — there are fewer school fees and parents are less likely to need income from their children — and the quality of schooling is higher as countries can afford to spend more on education. Thus, even if low-skill immigrants in wealthy countries have the same nominal years of education as natives, they are likely to be less skilled than natives, making it less likely that they can substitute for natives.

Second, development affects the types of jobs in the economy, which makes immigrants more likely to complement natives. We can categorize jobs into those which consist of mostly routine tasks that do not require specialized knowledge or language skills and those which consist of knowledge-based and highly specialized tasks. As low-skill immigrants bring a sur-

[7] It may still raise total inequality in the country as immigrants take the place of native at the low end of the income distribution. Piketty (2014) argues that immigrants have played this role in the US.

plus of manual labor, firms often assign native workers to more complex or communication-oriented jobs while producing more goods and services. This often results in welfare improvement among native workers due to an influx of low-skilled immigration. As native workers' wages increase due to immigration, policymakers also face less pressure for redistribution if inequality increases. While all economies have both types of jobs, more developed countries have more non-routine tasks that require more knowledge and country-specific skills, such as the spoken language of a host state. In developed countries, even immigrants with skills similar to natives are unlikely to substitute entirely for natives until they gain that country-specific knowledge. Development is also likely to change the degree of substitutability within countries over time as well. In much of the late 19th century, agriculture and industry relied on routine tasks even in the most developed economies in the US, the UK, and Germany (Goldin and Katz 1996). Low-skill immigrants could easily replace natives; even young children could handle many tasks on the farm or in the factory. As the economy developed, there was a greater need for skilled labor (Goldin and Katz 1996), which meant that low-skill immigrant labor was unable to substitute for native labor in many positions.

How Inequality Shapes Firms' Immigration Policy Preferences

Inequality between capital and labor also determines when firms have vested interests in labor-intensive production, which in turn shapes the extent to which firms support low-skill immigration policy. As the capital share of value-added increases in a sector, it become more profitable to invest in that sector. The compensation-productivity gap — the gap between real hourly compensation and labor productivity — widens when labor share falls (Fleck, Glaser and Sprague 2011). As labor's share falls, it becomes relatively more profitable to employ many workers. We expect, then, that when workers make substantially less income vis-á-vis capital owners within an industry, existing firms will continue or even expand production in that industry and that new firms may enter the industry. As this labor-intensive sector grows, firms' are more likely to take a pro-immigration stance, leading to a

more open policy.

In contrast, when capital's share of value added decreases, firms should be less likely to lobby for open immigration. One reason for capital to take a smaller share of value added is because workers are becoming more productive and are adequately compensated for their productivity. As workers become more productive, owners of capital are less likely to lobby for low-skill immigration (Peters 2015*b*). Another reason that workers take home a larger share of value added is due to collective bargaining. As labor becomes more expensive, owners of capital have less of an incentive to invest in labor-intensive production and, instead, are likely to substitute capital for labor (Lewis 2011). This also leads them to decreased support for low-skill immigration. Thus, no matter what drives inequality, when inequality between capital and labor rises, business support for low-skill immigration increases, and vice versa.

The Policymakers' Response

Given firms and natives' diverging immigration policy preferences with respect to inequality, how do policymakers make final decisions? Here we model immigration policy formation as a process in which the policymaker takes into account both pressure from interest groups, especially firms, as well as the position of the mass public. In all economies, increased economic inequality, as measured as the share of value going to capital, will lead to an increase in labor-intensive production and, with it, an increase in firms' support for open low-skill immigration.

Changes in mass support for immigration may come through three channels. First, voters may directly contact policymakers about their views. Voters with different income levels may hold distinct beliefs about how immigration may affect inequality. Immigration policy outcomes then depend on the extent to which policymakers' constituency competes with immigrants in the labor market. Second, policymakers may not have direct communication with their constituencies about immigration and inequality. Instead, policymakers use the median income level of their constituencies to deduce voter preferences about immigration

when inequality increases. Third, changes in support for immigration may be channeled through interest groups that represent segments of the mass public, such as unions, faith-based groups, and citizens' groups. We are agnostic as to which mechanism holds.

Although the three mechanisms have different theoretical premises, they all lead to the same conclusion that policymakers base their responses to increasing inequality on the degree to which voter's faces competition from low-skill immigrants in labor market. As the policymaker is unlikely to know the exact level of competition, we argue that she will infer it from the level of development. In less developed, middle-income countries, it is more likely that (more) low-income voters will compete with low-skill immigrants for jobs. As inequality increases, squeezing the poor, low-income voters should demand increased restrictions on low-skill immigration. Alternatively, we could imagine that a forward thinking politician would restrict immigration in anticipation of these demands. Although firms would like increased immigration, the salience of anti-immigrant sentiment is likely to win out, at least in a democracy. This leads to our first hypothesis:

Hypothesis 1: An increase in inequality reduces immigration policy openness only in less developed countries.

In more developed countries, inequality may have little effect or may even have a positive effect on low-skill immigration policy. In these countries, very few natives are likely to compete against low-skill immigrants in the labor market; instead, most natives are likely to complement immigrant workers (Peri and Sparber 2009). As a result, low-skill immigration helps natives move up the income ladder by harnessing their comparative advantage in more communication-oriented tasks (D'Amuri and Peri 2014). Additionally, wealthy voters benefit from goods and services offered by low-skilled immigrants without the fear of labor-market competition. While increased low-skill immigration may increase overall inequality in the country, it may decrease inequality among natives, as low-skill natives move up the occu-

pational ladder. If inequality is increasing for reasons besides immigration, for example due to changes in banking regulation or trade openness, increased immigration may help offset these change for natives. At the same time, inequality is increasing labor-intensive sectors and, with it, business support for low-skill immigration. This leads to our second hypothesis:

Hypothesis 2: An increase in inequality has little effect or may increase immigration policy openness in highly developed countries.

As an alternative measure of development, we also use the average level of education rather than income. In countries with lower educational attainment, low-skill immigrants are likely to be substitutes for more native workers. In countries with high-levels of education, low-skill immigrants are unlikely to compete with voters in the labor market. We, however, think that these alternative hypotheses are unlikely to have empirical support because more educated natives and uneducated immigrant workers are likely to compete against each other if the host state specializes in routine industries, as evident in less wealthy economies.

Hypothesis 3: An increase in inequality reduces immigration policy openness in countries with low levels of education.

Hypothesis 4: An increase in inequality has little effect or may increase immigration policy openness in countries with high levels of education.

Alternative Theories on Inequality and Immigration

There are alternative ways in which inequality may affect immigration policy. Here, we highlight four different mechanisms. First, natives may believe that immigration lowers wages

and assign the blame for increasing inequality on immigrants, regardless of whether immigrants are complements or substitutes for native workers. Second, inequality may increase anxiety, which in turns leads to increased anti-immigrant sentiment or makes that sentiment more salient. Both of these effects should be stronger among low-skill or low-income natives, regardless of how these natives compare on the global skill or income distribution.

While there may be little economic effect of immigration on wages and inequality in highly developed states, there exists evidence that the mass public *thinks* that immigration leads to lower wages. As there has been little survey work on how the public perceives immigrants' effect on inequality, we focus on the much larger literature on the public's perception of immigration on wages and their use of the welfare state. Dustmann et al. (2008, p. 478) argue the belief that immigrants hurt unskilled native workers is widely accepted by the public. Further, in a recent survey in the US, Gerber et al. (2015) find that a majority of natives think that increasing both high-skill and low-skill immigration will lead to lower wages or job losses among natives. They also find that these concerns about the labor-market effects of immigration affect the support of low-skill natives for both high- and low-skill immigration but only affect the support of high-skill natives for high-skill immigration.

How might these perceptions interact with inequality? First, there might be misattribution of the sources of inequality to immigration. As many natives think that low-skill immigration leads to a decrease in wages, the correlation between rising inequality and increased total numbers of low-skill immigrants may lead the mass public to assume that the immigrants have caused the increase in inequality. Gerber et al. (2015), for example, find that low-skill natives, those who are often low-income, are likely to oppose low-skill immigration based on their belief that increased immigration leads to lower wages or job losses. Even some policymakers have attributed rising inequality to immigration; Senator Jeff Sessions (R-AL) argued in an op-ed that immigration spikes income inequality (2014). Voters at the lowest level of income distribution are likely to be the ones most likely to hold the view that

immigration inflows increase income inequality.

A second mechanism through which inequality may affect anti-immigrant sentiment is through economic anxiety. Numerous surveys have shown that increasing inequality is associated with increased anxiety over the state of the economy and increased pessimism about the future (Yellen 2006). Increased economic anxiety has been shown to increase reported anti-immigrant sentiment. Goldstein and Peters (2014) found that throughout the Great Recession, survey respondents in their panel who felt the most insecure were the ones most likely to increase their opposition to immigration. As inequality makes low-skill/ low-income natives more anxious, anti-immigrant sentiment among these natives should increase. In contrast, high-skill/ high-income natives benefit from increased inequality and their opinions on immigration should be relatively unaffected.

Regardless of whether voters wrongly blame rising inequality to immigrants or if inequality increases anxiety and this increases anti-immigrant sentiment, we do not have reason to believe that these mechanisms should differently affect voters in countries based on their income. Policymakers in all countries face the same *relative* share of poor voters; in each country there is a bottom third of the income distribution. If inequality leads that bottom third to disproportionately blame immigrants for their fate or increase anti-immigrant sentiment (or its salience), it should affect all countries, regardless of economic development.

We have similar expectations if the fiscal burden model holds. Hanson, Scheve and Slaughter (2007); Razin, Sadka and Suwankiri (2011) focus on a different source of economic anxiety, fears about increased taxation with increased immigration. While other studies have not replicated their findings (Goldstein and Peters 2014; Hainmueller and Hiscox 2010), Gerber et al. (2015) find that survey respondents believe that both high and low-skill immigrants will increase their tax burden. If the fiscal burden model holds, we would expect that increases in inequality would induce low-skill and high-skill natives to increase their opposition to immigration. Increasing inequality might lead to an increase in taxation for the social welfare system, increasing opposition from wealthy natives, and lead to crowding

out, increasing opposition from poor natives. These three mechanisms lead to the following alternative hypothesis.

Hypothesis A1: An increase in inequality leads to immigration restrictions in all states.

To contrast, we have different expectations if the nativism model holds. In contrast to our or the alternative reasons opposing immigration based on pocket-book concerns, Hainmueller and Hiscox (2007; 2010) argue that the opposition by low-skill natives towards immigration is largely driven by prejudice. If nativist sentiment has no economic component, then increasing inequality should have no effect on immigration in either poorer or wealthier countries. This leads to our second alternative hypothesis.

Hypothesis A2: An increase in inequality has no effect on immigration restrictions in all states.

Data Analysis

Data on Immigration Policy and Inequality

Studying the impact of economic inequality on immigration policy poses a significant empirical challenge due to the lack of reliable data on both inequality and immigration policy. Since the public debate on inequality and immigration primarily concerns the impact of low-skill immigration on the income gap between the poor and the rich, we need data on immigration policy that seeks to control the flows low-skill workers. Moreover, the ideal data need to have a long time span that includes periods of both low inequality and high inequality. Since

Table 1: Dimensions of Immigration Policy

Dimension	Description
Universality by Nationality	Discrimination based on nationality
Universality by Skill or Income	Discrimination based on skills or income
Citizenship	Ease of naturalization or citizenship acquisition
Immigrant Rights	Political, legal or welfare rights
Refugee	Number of refugees allowed to enter
Asylum	Ease of getting an asylum
Recruitment	Visas or government programs
Labor Prohibitions	Labor market restrictions for immigrants
Deportation	Deportable offenses and administrative processes
Enforcement	Border enforcement or employment screening
Family	Sponsorship by citizenship and restrictions
Quota	Percentage of population allowed to enter annually

studies have shown that within-country inequality has been increasing since the 1970s in advanced democracies, we need an immigration policy dataset that covers periods prior to the 1970s.

We use the Low-Skill Immigration Policy Dataset assembled by Peters (2015*a*) and updated by Shin (2015). For the post-World War II period, the dataset includes 24 democracies around the world, including traditional immigrant destinations in the New World, virtually all Western European democracies, and wealthy democracies in Asia. The dataset constructs an indicator of immigration policy openness toward low-skilled immigrants by coding the twelve dimensions of immigration openness, listed in Table 1.

Each dimension takes a score ranging from one to five, with the latter indicating a more liberal policy stance toward immigrants. The final factor score covers a variety of immigration regulations and laws that seek to control immigration flows by screening potential immigrants. While most scores come from actual immigration laws in effect, executive policy discretion over deportation and enforcement also contributes to the final makeup of the factor score. We retrieve the final factor score from Shin (2015).[8]

[8]The main objective of constructing the immigration policy index is two-fold, (1) to summarize the policy data without losing much information and (2) to remove redundant information from a set of highly correlated policy variables. Shin (2015) used factor analysis based on principal component scores to compute

Given the characteristics of the immigration policy dataset and the required time coverage, we need an inequality variable that meets the theoretical underpinnings and empirical requirements of our argument. First, we need an inequality variable that incorporates socio-economic cleavages between those who presumably benefit from low-skilled immigration and those who are believed to lose from low-skilled immigration. Second, we need inequality data that minimize empirical obstacles arising from the low number of observations and the poor quality. Following the scholarly trend in the comparative politics of inequality (Acemoğlu and Robinson 2006; Houle 2009; Przeworski et al. 2000; Dunning 2008), we use the capital share of the value added in the industrial sector collected by Ortega and Rodriguez (2006) as a measure of inequality.[9] Higher values indicate higher shares of the value added accruing to capital while lower values mean labor reaps higher shares of the value added.

This measure of inequality has several advantages for our study. First, it measures the degree of inequality between capital and labor. Immigrants are believed to benefit capital while hurting labor. This perceived effect of immigration fuels public concerns about the impact of immigration on the income gap between the poor and the rich with an assumption that the rich are owners are capital and the poor offer labor. Second, it is a measure of inequality in the corporate manufacturing sector. Since our argument concerns low-skilled immigration and how poor voters perceive its role in exacerbating income inequality, our analysis is not applicable to the capital shares of the value added in more knowledge-based industries that primarily rely on high-skilled workers, such as high-tech industries. Third, it also captures whether firms have interests in labor-intensive production because it implicitly measures labor costs across multiple manufacturing sectors. Finally, the measure was constructed from industrial survey data collected by the United Nations Industrial Development Organization (UNIDO). As a measure of pre-tax inequality, this frees us from dealing with

factor loadings and factor scores. Using the principal components is appropriate to construct an immigration policy index for the following reasons. First, it takes information from a number of highly correlated observed variables to construct a small number of indicators. Second, principal component scores also account for most of the variance of the observed policy variables. Finally, it frees the researcher from making a structural assumption about immigration policy.

[9]We use Houle (2009)'s imputed version of the data

measures of post-tax inequality which may include policy consequences of redistribution in response to pre-tax inequality.

Finally, we measure development in the standard way, by examining the gross domestic product (GDP) per capita. We have retrieved data on GDP per capita from Haber and Menaldo (2011) assembled the data by using the Penn World Tables (PWT). It is a measure of real GDP in International Dollars in 2000 constant prices with annual inflationary trends removed from the data. The data, however, are not adjusted for purchasing power parity (PPP). This is consistent with our theory since we approach development as a transitional process toward a more knowledge-based economy, not as a measure of living standards. While this measure is not perfect — there are very wealthy states, such as the states of the Gulf Cooperative Council, that do not have high levels of development — it is the best measure we have. We supplement this measure with the education data collected by Barro and Lee (2013). The data on education are available only at five-year intervals from 1950 to 2010. Since educational attainment tends to follow a linear trend, we use linear interpolation to fill in missing values.

Sample Selection

Since we focus on how the degree of substitutability between immigrants and native voters in the labor market modifies policymakers' response to increasing inequality on immigration policy, we focus on a sample of democracies by using the regime classification proposed by (Przeworski et al. 2000) and updated by (Cheibub, Gandhi and Vreeland 2010). As an extension, we examine whether autocrats respond only to firms' changing preferences while ignoring the public's concern about the labor-market competition aspect of immigration when inequality increases. A country is classified as a democracy if it satisfies all of the four conditions: (1) the chief executive is elected either indirectly or directly in a popular election; (2) the lower house of the legislature is elected; (3) there must be more than one party; and (4) the incumbent must have lost an election. This gives us a total of 24 democracies. Some

democracies, such as Argentina and Brazil experienced a series of democratic failures and then transitions. We include only democratic years of these countries in the sample.

The data on the inequality variable of our choice are only available for years after World War II (1947–2006). While we are also interested in testing the hypotheses for time periods prior to 1945, this paper only focuses in the post-WWII period during which suffrage became virtually universal. Studying the relationship between inequality and immigration policy prior to the post-WWII period also requires a careful assessment of each country's political franchise and the median voter's characteristics. In the discussion section, we propose a research design exploring the link between inequality and immigration policy in periods during which suffrage was limited to a subset of the population.

Table 2 portrays the list of country-year observations included in the sample based on the regime classification and data availability on immigration policy and inequality. Ideally, we would have included poor democracies in addition to middle-income and developed democracies, but data on immigration policies of low-income countries has not been coded. The sample shows a wide variation of inequality across countries. First, we have Latin American democracies that exhibit unusually high levels of inequality, most notably Brazil as well as Argentina, Chile, and Venezuela. Second, low levels of inequality characterize Western European democracies. Although the level of inequality in the US increased sharply in the 1970s, the level of US inequality over time is still significantly lower than those of Latin American democracies.

Table 2: Country-Year Observations in the Sample

Group	No.	Country	Years Included in the Sample	Inequality (Mean)
Settler States	1	United States	1947–2006	0.59
	2	Australia	1961–2006	0.51
	3	Canada	1947–2006	0.53
	4	New Zealand	1961–2006	0.43
	5	South Africa	1994–2006	0.48
	6	Argentina*	1947–2006	0.70
	7	Brazil*	1947–2006	0.80
	8	Chile*	1947–2006	0.80
	9	Venezuela	1961–2006	0.76
Western Europe	10	Austria	1955–2006	0.48
	11	Belgium	1950–2006	0.54
	12	Denmark	1950–2006	0.41
	13	Ireland	1950–2006	0.63
	14	France	1947–2006	0.36
	15	Germany	1955–2006	0.55
	16	Netherlands	1947–2006	0.45
	17	Norway	1961–2006	0.43
	18	Sweden	1950–2006	0.54
	19	Spain	1977–2006	0.55
	20	Switzerland	1947–2006	0.63
	21	United Kingdom	1947–2006	0.53
Asian Exporters	22	Japan	1952–2006	0.67
	23	South Korea*	1960–2006	0.76
	24	Taiwan	1996–2006	0.65

Note: * indicates countries that experienced regime changes from autocracy to democracy and vice versa. Only democratic years of these countries are included in the sample.

Empirical Strategy

The following ordinary least squares (OLS) specification with panel-corrected standard errors (PCSEs) evaluates the Hypotheses 1 and 2.[10]

$$\begin{aligned}&\text{Immigration Policy}_{it} = \beta_0 + \beta_1 \text{Immigration Policy}_{it-1} + \beta_2 \text{Inequality}_{it} \\ &+\beta_3 \ln(\text{GDP per capita})_{it} + \beta_4 \text{Inequality}_{it} \times \ln(\text{GDP per capita})_{it} \\ &+ \textstyle\sum_{k=5}^{K} \left(\beta_k \text{Control Variable}_{(k-4),it}\right) + \alpha_i + \mu_t + \epsilon_{it},\end{aligned}$$

where α_i and μ_t indicate country fixed effects and year fixed effects, respectively. We use $\ln$*(GDP per capita)* as an indicator of the country's economic development.

We include the lagged dependent variable to account for temporal dynamics. Since policymakers often make immigration policy at time t by tweaking existing laws and policy measures at time $t-1$ which may be correlated with our key independent variables at time t, including the lagged dependent variable is essential in minimizing the estimator's bias and inconsistency. Given that the number of years in the sample is more than twice the number of countries, we think that the Nickell bias is unlikely to be large. We have alternatively run the models with the lagged dependent variable but without country fixed effects and obtained the results without the lagged dependent variable but with country fixed effects and the results are substantively similar.

Including the lagged dependent variable also addresses the issue of the composition of the immigrants trying to enter the country. In our theoretical discussion, we assumed that voters are responding to low-skill immigrants. Unfortunately, there is very little data on the skill composition of immigration to most countries, so we cannot measure this directly. Low-skill immigration policy last year should help measure the skill composition of the immigrants. States with more open policies in the previous year should have a greater proportion of

[10] In short, PCSEs are robust to the non-spherical errors and incorporate the known time-series cross-sectional (TSCS) structure of the data. Cluster-robust standard errors and other heteroskedasticity-consistent estimators ignore the known structure of the data. See Beck and Katz (1995) for more information on the advantages of the panel-corrected standard errors.

low-skill immigrants than states with more restrictive policies.

The first set of controls includes the natural log of population in year $t-1$, GDP growth rate, the level of political development measured by polity, and the degree of trade openness measured as $100\times(1-(\text{Import Duties/Imports}))$.[11] We control for trade openness because trade liberalization may decrease the wages of unskilled workers and Peters (2014; 2015*a*; *b*) and Shin (2015) argue that trade openness leads to immigration policy restrictions under certain conditions. As robustness checks, we include other variables that are potentially correlated with both inequality and immigration policy openness including personal and welfare taxation, right-wing populism, and government partisanship.[12] Introducing these additional controls to the model restricts our analysis to a set of OECD countries.

Given the inertia of immigration policy from year to year, we expect β_1 to be positive and statistically significant. We think that inequality should have a negative effect on immigration policy in less developed countries, but that this effect should be attenuated at higher levels of GDP per capita. This implies that β_3 should be negative and β_4 should be positive.[13]

Since β_2 tells us the effect of GDP per capita when inequality is zero while the minimum value of inequality in the sample is .33, we do not exactly have a precise prediction of the coefficient of GDP per capita on its own. On the one hand, less developed states may have a larger low-income constituency that should be more opposed to immigration in general (i.e. income effect). On the other hand, more developed countries typically have higher levels of productivity and a larger knowledge sector, both of which Peters (2014; 2015*a*; *b*) argues should lead to a less open policy (i.e. development effect). Inequality as an implicit measure of firms' interests in labor-intensive industries is likely to condition which of these

[11]Most of the data on import duties over imports come from Clemens and Williamson (2004). Peters (2015*a*) and Shin (2015) collected and updated the data to fill in missing values.

[12]We retrieved the taxation data from Cusack and Beramendi (2006) and the party data from Swank (2014).

[13]Our expectations of β_2 and β_3 are a bit tricky because these are the coefficients of *Inequality* and ln*(GDP per capita)* when ln*(GDP per capita)* and *Inequality* are set at zero, respectively. For instance, β_2 is the coefficient of *Inequality* when ln*(GDP per capita)* is zero. As shown in Table A1, the lowest value of ln(GDP per capita) for democracies after World War II is 7.2.

countervailing effects of economic development is more pronounced in immigration policy formation. In an unequal economy where labor share of the value added $(1 - Inequality)$ is low, an increase in GDP per capita will benefit workers. However, it is less likely to help the economy transition into a more knowledge-based economy because firms are more likely to stay in labor-intensive industries due to lower labor costs. In contrast, in an equal society where labor share of the value added is high, an increase in GDP per capita is less likely to have an income effect on immigration policy because capital owners will shift production into more knowledge-based industries. Therefore, we expect $\beta_2 + \beta_4 \times Inequality$ to be negative at low levels of inequality, leading us to posit that β_2 is negative. Since we believe that $\beta_2 + \beta_4 \times Inequality$ is going to be positive at higher levels of inequality, we expect β_4 to be positive. This is consistent with our earlier prediction about β_4.

As a robustness check, we replace $\ln(\text{GDP per capita})_{it}$ with the average years of tertiary education for individuals who are 25 years and older to test Hypotheses 3 and 4.[14] We use the education data collected by Barro and Lee (2013). The data are available only at five-year intervals from 1950 to 2010. Since educational attainment tends to follow a linear trend, we use linear interpolation to fill in missing values.

In our fifth main specification, we include both GDP per capita and years of tertiary education as well as their interaction terms with inequality to adjudicate between the increased education mechanism or the change in the structure of the economy mechanism. If the effect of inequality is driven by the average education of natives, we expect that the coefficient on the education variable should remain statistically significant. If the effect is driven by the changing nature of the economy, we expect that the coefficient on GDP per capita should remain statistically significant. For straightforward interpretations, we report the marginal effects graphs of all models. Table 3 summarizes the empirical strategy and the sample characteristics of each model.

[14]Below we address several additional robustness checks.

Table 3: Model Specifications

Model	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Testing H1 & H2	✓		✓		✓	✓		✓		✓
Testing H3 & H4		✓		✓	✓		✓		✓	✓
Countries	24	24	24	24	24	16	16	16	16	16
Observations	1067	1049	1049	1049	1049	629	629	629	629	629
Time Period	–2006	–2006	–2006	–2006	–2006	–1995	–1995	–1995	–1995	–1995
Year & Country FE	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Economic Controls	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Additional Controls							✓	✓	✓	✓

Threats to Causality

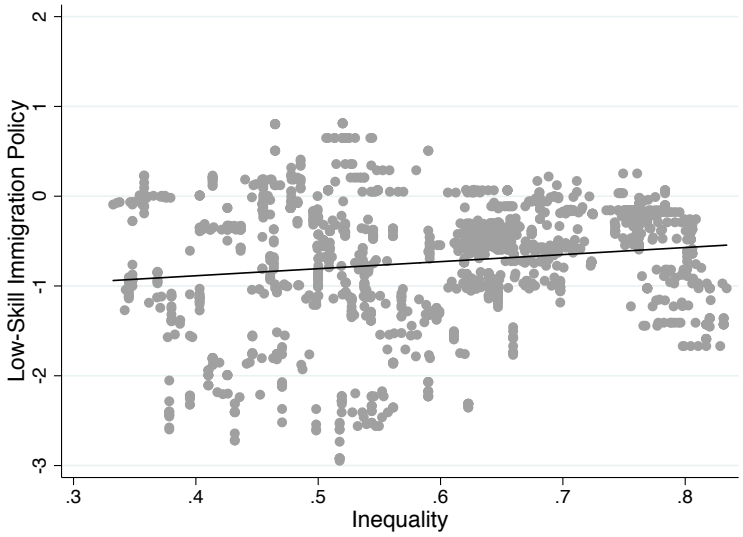
In an ideal world, we would be able to experimentally manipulate inequality or at least instrument for it. We, thus far, have been unable to find an instrument that would affect inequality but not immigration policy. For example, in his book, Piketty (2014) argues that one of the major drivers of inequality is growth. We would expect that economic growth should also affect immigration policy either through affecting firms' lobbying over immigration or through affecting public support for immigration. Other variables that predict inequality similarly fail the exclusion restriction.

Yet, we think the lack of an instrument or experiment is unlikely to affect the causal conclusions we can draw from our results. If immigration policy was driving the results, rather than inequality, we would not expect different results in wealthy and poor countries. We also control for the variables that the literature suggests affect immigration policy; we control for unobserved (and observed) time invariant heterogeneity with the country fixed effects and we control for unobserved (and observed) yearly shocks that affect the entire world economy.

Results

Throughout the models, the analyses lend a great deal of empirical support for our hypothesis that inequality leads to increased immigration restrictions for low-skill immigrants in less

Figure 1: Bi-variate Relationship Between Inequality and Immigration Policy



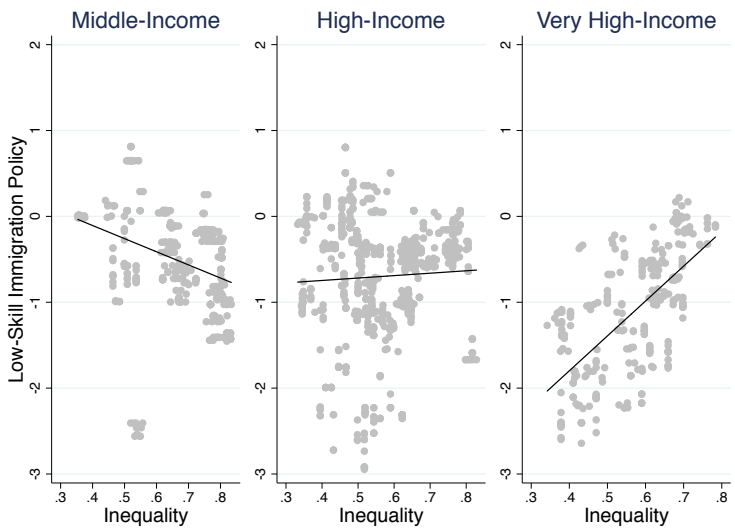
Note: Dots represent the data and the line represents the regression line from a bi-variate regression.

wealthy, less developed countries; empirical evidence suggests that policymakers respond differently to increasing inequality depending on the level of development, as measured by GDP per capita. There is no support for the alternative specification that inequality leads to less support for immigration in countries with less educated populations. This suggests that much of the effect of immigrants in the labor market is driven by the effect of development on the composition of routine versus country-specific knowledge tasks.

Over all of the countries included in sample, there is little relationship between inequality and immigration policy. Figure 1 examines the bi-variate relationship between inequality and immigration policy. There is a slight positive effect of inequality on immigration policy, but this effect is not statistically significant. Thus, there is little support for alternative theories that argue that inequality should have a similar effect at different levels of development (Hypothesis A1). Figure 2 plots the data by income level. Once the data is divided by income group, we find a negative relationship between inequality in middle-income states, no relationship in high-income states and a positive relationship in the very high-income states, consistent with Hypotheses 1 and 2.

Table 4 examines this relationship more robustly, reporting the results for all 24 democ-

Figure 2: Bi-variate Relationship Between Inequality and Immigration Policy by Income Level



Note: Dots represent the data and the line represents the regression line from a bi-variate regression in each income group. Middle-income include country-years with GDP per capita between $1,300 and $8,100; high income include country-years with GDP per capita between $8,100 and $22,000 and very high income include country-years with GDP per capita above $22,000.

racies in the sample. First, in all models we see a positive and statistically significant effect of lagged immigration policy, which shows how path dependent this policy area is. What is the effect of inequality? We find in Models 1, 3, and 5 that the coefficient on inequality is negative and statistically significant while the coefficient on the interaction between income and inequality is positive and statistically significant. This is consistent with our argument that increased inequality should lead to increased restrictions on low-skill immigration in middle-income countries but should have a positive effect or no effect in wealthy countries. Note, however, that if immigration was driving inequality, we would expect a *positive* correlation as increased openness would lead to increased immigration and greater inequality in all countries.

Because the net effect of an increase in inequality is difficult to interpret, we illustrate the marginal effects from Model 1 of inequality based on income in Figure 3.[15] As we can see in the figure, at lower levels of GDP, under about $\$8,000$ per capita the effect of inequality

[15]Results are substantively similar in Models 3 and 5

Table 4: Inequality, Development, and Immigration Policy since World War II

	(1)	(2)	(3)	(4)	(5)
Immigration Policy$_{t-1}$	0.892***	0.911***	0.897***	0.911***	0.897***
	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)
Log of GDP per capita	-0.354***		-0.317***	-0.000	-0.411***
	(0.051)		(0.053)	(0.019)	(0.062)
Inequality	-4.955***	-0.024	-4.484***	-0.024	-5.846***
	(0.699)	(0.080)	(0.746)	(0.079)	(0.898)
Log of GDP per capita × Inequality	0.518***		0.470***		0.631***
	(0.069)		(0.074)		(0.095)
Years of Tertiary Education		-0.131*	-0.017	-0.131*	0.217**
		(0.051)	(0.019)	(0.051)	(0.073)
Years of Tertiary Education × Inequality		0.205*		0.205*	-0.416***
		(0.085)		(0.084)	(0.126)
ln(Population)$_{t-1}$	-0.107***	0.001	-0.097***	0.001	-0.094***
	(0.023)	(0.026)	(0.024)	(0.027)	(0.024)
GDP Growth	0.227^{+}	0.284*	0.257*	0.284*	0.253*
	(0.125)	(0.123)	(0.127)	(0.123)	(0.127)
Trade Openness	-0.005***	-0.004**	-0.005***	-0.004**	-0.005***
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Polity Score	-0.003	-0.002	-0.003	-0.002	-0.003
	(0.003)	(0.004)	(0.004)	(0.004)	(0.004)
Observations	1067	1049	1049	1049	1049
Countries	24	24	24	24	24
R^2	0.973	0.973	0.973	0.973	0.973

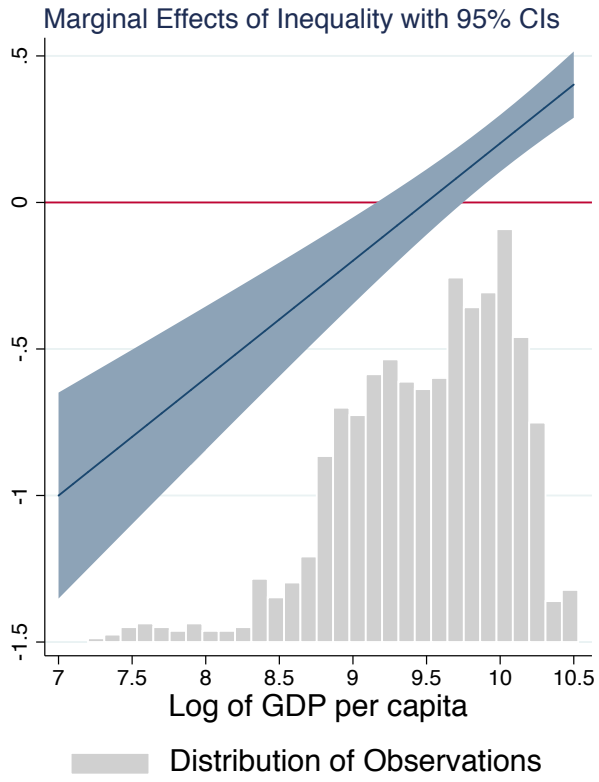
Note: This table portrays a pooled cross-sectional time-series ordinary least squares (OLS) analysis of immigration policy in year t. All independent variables are taken from year t unless otherwise noted. Panel-corrected standard errors are shown in parentheses. ***, **, * and $^{+}$ indicate statistical significance levels of .1, 1, 5 and 10 percent, respectively. Country and year fixed effects are included in all models.

is negative. Increasing inequality in these middle-income states leads to greater restrictions on low-skill immigration. In contrast, at very high levels of income (above about $\$22,000$ per capita), the effect is positive.

We argued that the effect of inequality would be null or might be positive in wealthy countries. Is it the case that rising inequality has led to increased openness in these very wealthy states? Most of the result is driven by the 1990s and 2000s when capital's share of value added was *decreasing* and low-skill immigration policy was becoming more *restrictive*.[16] It is not the case, then, that rising inequality is leading to increased openness in most of these states but instead that decreasing inequality is leading to restrictions. We do not think that it is the restrictions on low-skill immigration that are leading to decreased inequality;

[16]Figure A2 in the appendix shows how inequality and immigration have varied over time in the wealthiest countries (income above about $\$22,000$ per capita).

Figure 3: Marginal Effects of Inequality on DV at Constant Levels of Development

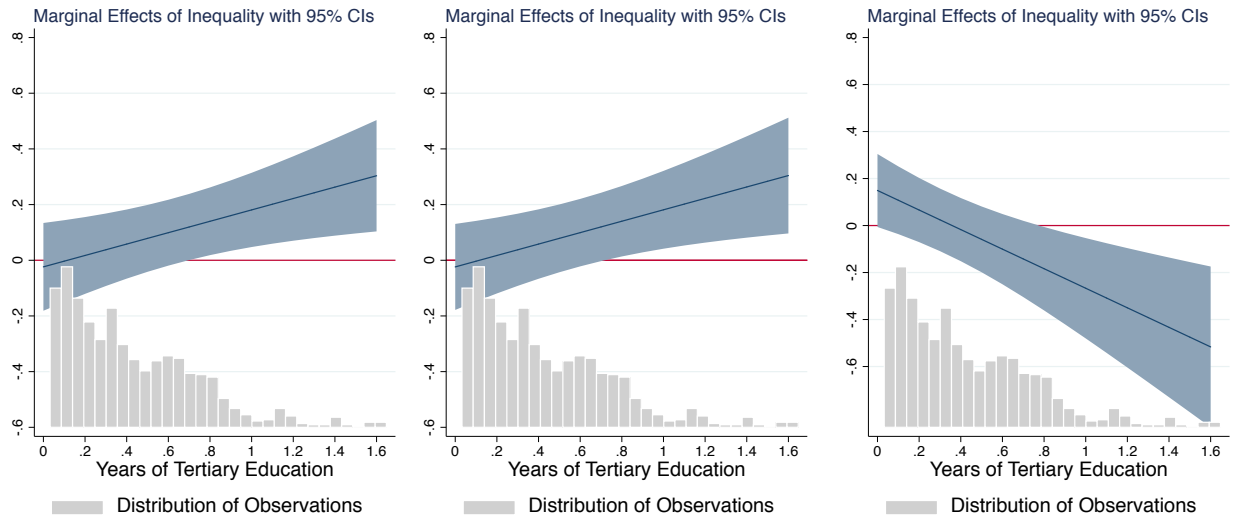


Note: This figure shows the marginal effect of inequality on immigration policy depending on the level of development as calculated from Table 4 Model 1. The bars show the distribution of observations.

as discussed above, much of the economics literature has found little negative effect or even positive effect of immigrants on natives' wages in these high-income states. Instead, we have argued that natives and low-skill immigrants are most likely to be complements in very high-income countries, implying opening low-skill immigration can greatly benefit most natives. However, when inequality decreases in these states, firms are less likely to support low-immigration policy because they find labor-intensive production less attractive when labor share of the value-added *increases*. Without firms' support for open immigration policy, policymakers do not relax immigrant restrictions since they face other anti-immigrant groups who oppose low-skill immigration on non-material grounds.

As a robustness check in Table 4 and to adjudicate between mechanisms, we also examined the effect of education interacted with inequality. Given that income is correlated with

Figure 4: Marginal Effects of Inequality on DV at Constant Levels of Education



(a) Model 2 (b) Model 4 (c) Model 5

education, an alternative explanation is that it is not that economic development changes the degree of substitutability between low-skill immigrant workers and natives but instead that the effect is based on education which is a proxy for natives' skills. Figure 4 shows that there is little interactive effect of education; the confidence intervals overlap zero through most of the range of the data in Models 2 and 4 and the relationship flips signs in Model 5, once we control for development and its interaction term with inequality, and is also not statistically significant throughout much of the range of the data. The data then support the nature of the task mechanism: even controlling for education, development has a statistically significant effect whereas education does not.

Robustness Checks and Extensions

We also conducted several robustness checks. First, in Table 5, we include taxation indicators and party variables that may be correlated with both inequality and immigration policy. Since we use an indicator of pre-tax inequality, it may be correlated with other redistributive policies. Since the literature on immigration policy has found evidence that states with large

welfare systems tend to limit immigration (Neuman 1993; Peters 2015*a*; Razin, Sadka and Suwankiri 2011; Shin 2015), we include two different sources of tax revenues–welfare and personal income–as shares of GDP in Models 6 through 10. We also include the vote share of right-wing populist parties because an increase in inequality may cause voters to support right-wing populism, which in turn leads to more restrictive immigration policy (Williams 2006).

Our results are robust to the inclusion of these variables. The effect of inequality is still negative when the development is relatively low and is positive when it is high. Our results on taxation are consistent with the argument that voters care about *pre-tax* inequality more than post-tax inequality. Assuming that increased welfare tax revenue or personal income tax revenue decreases inequality post-tax, then we would expect that more tax revenue would lead to more support for low-skill immigration. There would be less inequality to attribute immigrants and/or less anxiety over the state of the economy, suggesting that the coefficient on these terms should be positive. However, we find little statistical significance of welfare tax revenue and statistically significant negative effect of personal income tax. This suggests that voters oppose immigration when their taxes go up, even if those taxes are supposed to reduce inequality. Policymakers, then, are doubly-pressured to restrict immigration in the fact of inequality in middle-income countries, as the remedy for inequality leads to increase opposition for immigration.

Our results also hold when controlling for the vote share of right-wing populist parties. We might be concerned that rising inequality leads to increased support for right-wing populist parties, which tend to enact restrictions. It could be the case that the voters do not want these restrictions and instead vote for these parties for other reasons. Instead we find that support for right-wing parties moderates the effect of inequality; however, that is likely because voters vote for these parties specifically because they want to restrict immigration. Moreover, inequality still has a statistically significant effect, suggesting that voters' increased demands for restrictions due to inequality affects parties across the ideological

spectrum. Finally, our results remain robust to the inclusion of country-specific time trends in Models 11 through 15 in Table A5 and to lagging all independent variables by one year with country-specific times trends in Models 16 through 20 in Table A6.

Table 5: Inequality, Development, and Immigration Policy (1950–1995)

	(6)	(7)	(8)	(9)	(10)
Immigration Policy$_{t-1}$	0.902***	0.896***	0.889***	0.895***	0.891***
	(0.016)	(0.016)	(0.016)	(0.016)	(0.016)
Log of GDP per capita	-0.321**		-0.265*	-0.027	-0.346*
	(0.106)		(0.111)	(0.041)	(0.139)
Inequality	-4.748***	-0.030	-3.671**	-0.051	-4.902**
	(1.385)	(0.185)	(1.389)	(0.188)	(1.836)
Log of GDP per capita × Inequality	0.496***		0.386**		0.532**
	(0.140)		(0.140)		(0.202)
Years of Tertiary Education		-0.224		-0.255	0.180
		(0.212)		(0.220)	(0.294)
Years of Tertiary Education × Inequality		0.296		0.343	-0.408
		(0.310)		(0.325)	(0.457)
ln(Population)$_{t-1}$	-0.094	-0.111	-0.141*	-0.114^{+}	-0.121^{+}
	(0.070)	(0.068)	(0.068)	(0.067)	(0.066)
GDP Growth	0.042	-0.184	-0.163	-0.187	-0.143
	(0.226)	(0.228)	(0.230)	(0.228)	(0.229)
Trade Openness	-0.005	-0.003	-0.004	-0.004	-0.004
	(0.003)	(0.003)	(0.003)	(0.004)	(0.004)
Polity Score	0.002	0.003	0.003	0.003	0.001
	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)
Welfare Tax Revenue as % of GDP		-0.005^{+}	-0.004	-0.005^{+}	-0.004
		(0.003)	(0.003)	(0.003)	(0.003)
Personal Income Taxes as % of GDP		-0.009***	-0.009***	-0.009***	-0.010***
		(0.003)	(0.003)	(0.003)	(0.003)
Legislative Share of Left Parties in Power		-0.000	-0.000	-0.000	-0.000
		(0.000)	(0.000)	(0.000)	(0.000)
Right-wing Populism Vote Share		-0.007**	-0.006*	-0.007**	-0.006*
		(0.002)	(0.002)	(0.002)	(0.002)
Observations	629	629	629	629	629
Countries	16	16	16	16	16
R^2	0.970	0.971	0.971	0.971	0.971

Note: This table portrays a pooled cross-sectional time-series ordinary least squares (OLS) analysis of immigration policy in year t. All independent variables are taken from year t unless otherwise noted. Panel-corrected standard errors are shown in parentheses. ***, **, * and $^{+}$ indicate statistical significance levels of .1, 1, 5 and 10 percent, respectively. Country and year fixed effects are included in all models.

Given the symmetry of the interaction terms in our model, we can also perform construct validity tests of the key independent variables to see if our proposed theoretical mechanisms are plausible. Following the suggestion in Berry, Golder and Milton (2012), we compute the

marginal effects of ln(GDP per capita) on the dependent variable while holding inequality at constant values. As discussed earlier, there are two countervailing effects of development on immigration policy. First, the income effect of a wealth increase leads to more open immigration policy because it makes natives feel more secure as they become more complementary to foreign labor. Second, the development effect causes firms to move into more knowledge-based, less labor-intensive industries, leading to restrictions on immigration inflows due to decreasing business support for low-skill immigration policy.

We have argued that when inequality is high, firms have more interests in labor-intensive industries. When inequality is low, firms are less likely to invest in routine production. Therefore, if our way of conceptualizing wealth and inequality is correct in deducing the hypotheses about the marginal effects of inequality on immigration policy openness, it should be also correct for the marginal effects of ln(GDP per capita). On the one hand, the income effect (support for immigration) is likely to dominate when firms do not abandon labor-intensive production as wealth increases, that is when inequality is high. On the other hand, the development effect leading to restrictive immigration policy is likely to dominate when firms become less labor-intensive as wealth increases, that is when inequality is low. Figure A4 provides overwhelming support for these predictions based on how we conceptualize the competing effects of inequality and economic development from the perspectives of firms and native voters.

Finally, if our theory is correct, autocrats are less likely to be responsive the public's concern for immigration-induced labor-market competition regardless of the degree of substitutability between immigrants and natives. Since an increase in inequality incentivizes more firms to engage in labor-intensive production and these firms have strong preferences for low-skill immigration, we should expect a positive correlation between inequality and immigration policies in autocracies. Similarly, the income effect of wealth is unlikely to have its influence on autocracies' immigration policies. Instead, we should observe only the development effect of economic wealth in autocracies. Since more firms move into less labor-intensive

industries as development takes place, we should observe a negative correlation between GDP per capita and immigration policy openness in autocracies. Models 1A through 4A in Table A7 confirm these predictions. In autocracies, the degree of substitutability and mass preferences do not matter much in immigration policy formation. Instead, we find that autocracies only respond to firms' preferences.

Conclusion

When and how do attitudes on low-skill immigration held by the mass public get translated into immigration policy even when firms support more open low-skill immigration policy? From the literature thus far, we know much about the attitudes that natives hold on immigration[17] and some about how these views change (Goldstein and Peters 2014). We also know how firms' preferences for low-skill immigration have changed over time and how this has affected policy (Peters 2014; 2015*a*; *b*; Shin 2015). Yet, few scholars have examined how policymakers balance between both firms' and the mass public's competing preferences. In this paper, we took a first step to examining this question by looking at the role of inequality between capital and labor.

We argue that rising inequality should lead to increased restrictions on low-skill immigration policy in middle-income countries. At lower levels of development, immigrants are much more likely to compete with natives in the labor market. When times are good, this competition is unlikely to arouse much anger. However, when inequality is rising and wages are falling or at least stagnating, competition from immigrants is likely to provoke demands for restrictions. In more highly developed countries, immigrants are unlikely to compete with natives; instead they are likely to complement natives in the labor market. When inequality is increasing among natives for whatever reason, low-skill immigration in highly developed countries might actually decrease inequality among natives, even if it increases inequality overall. Rising inequality, then, is unlikely to lead to calls for increased restrictions in highly developed, wealthy nations. Instead, firms' preferences in response to rising inequality drive immigration policy.

Using comprehensive data on low-skill immigration policy and inequality, we found that democracies with lower levels of development were more likely to restrict immigration when inequality increases. This finding holds even controlling for many potential confounding variables. We also found that very wealthy democracies restricted immigration as inequal-

[17]For a review see Hainmueller and Hopkins (2014).

ity decreased in the 1990s and early 2000s. We argue that this is because firms abandon labor-intensive production as labor costs rise. While support for immigration from the mass public was likely increasing some due to decreased inequality, this support was not enough to overcome opposition without the help of firms. Finally, we found independent effects of inequality and economic development according to firms' preferences in autocracies, consistent with the idea that citizens have less voice in these states.

While we found that increasing inequality leads to restrictions on immigration in middle-income countries, we are unable to fully test our mechanisms at the immigration policy level. As a next step, scholars should examine natives' opinions of the effect of immigrants on inequality, especially outside of the OECD context, where much of our current opinion data comes from. Additionally, scholars should examine other ways that anti-immigration sentiment becomes activated and more likely to influence policy.

In addition, political institutions modify the mechanism through which inequality affects immigration policy. The observations in our sample were retrieved by using a strict definition of democracy. In a country where leaders are only accountable to powerful firms, mass interests may not matter much. In response to increasing inequality, autocracies respond only to firms' changing immigration policy preferences. As autocracies get wealthier, we also see their immigration policies becoming more restrictive as firms become less labor-intensive. In democracies, inequality and economic development do not have effects on immigration policy on their own, but their interactions do because incumbents in democracies are much more accountable to native workers than their authoritarian counterparts. Scholars studying the immigration policy regime during the 19th century may need to pay more attention to firms' preferences over immigration policy while assessing the role of expanding franchise over time.

Finally, there has been much discussion in both scholarship and the popular press about what measures countries should take to limit inequality. While some politicians on the right, like US Senator Jeff Sessions (R-AL), argue that we should restrict immigration to reduce

inequality, this is unlikely to have any effect on inequality in very developed countries, including the US and Western Europe. Instead, low-skill immigration may be a way to decrease inequality among natives, even as it increases overall inequality. Given that immigrants gain tremendously from immigration, we should not see this potential source of inequality as a negative.

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Appendix

Table A1: Summary Statistics for Models 1 through 5

Variable	Mean	Std. Dev.	Min.	Max.	N
Immigration Policy	-0.824	0.754	-2.947	0.506	1186
ln(GDP per capita)	9.496	0.570	7.2	10.53	1192
Year of Tertiary Education (25 years or older)	0.425	0.317	0.032	1.647	1155
Inequality	0.563	0.128	0.332	0.834	1135
$\ln(\text{Population})_{t-1}$	16.706	1.253	14.38	19.509	1185
GDP Growth	0.036	0.032	-0.111	0.191	1185
Trade Openness	95.214	4.332	61.9	99.709	1117
Polity Score	9.178	2.331	-9	10	1187

Table A2: Summary Statistics for Models 6 through 10

Variable	Mean	Std. Dev.	Min.	Max.	N
Immigration Policy	-0.796	0.838	-2.947	0.812	722
ln(GDP per capita)	9.509	0.455	7.901	10.3	722
Year of Tertiary Education (25 years or older)	0.347	0.252	0.039	1.425	722
Inequality	0.524	0.092	0.332	0.784	691
$\ln(\text{Population})_{t-1}$	16.693	1.245	14.852	19.388	719
GDP Growth	0.037	0.028	-0.07	0.191	719
Trade Openness	95.531	3.226	68.8	99.3	681
Polity Score	9.414	2.713	-7	10	722
Welfare Taxes as % of GDP	7.594	5.352	0	21.27	722
Personal Income Taxes as % of GDP	10.002	4.796	1.382	27.818	713
Legislative Share of Left Parties in Power	18.034	20.809	0	65	703
Right-Wing Populism Vote Share	1.252	3.34	0	23	703

Table A3: Correlation Matrix (Models 1 through 5)

	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**
(1)	1							
(2)	-0.395***	1						
(3)	-0.279***	0.705***	1					
(4)	0.0965**	-0.393***	-0.0348	1				
(5)	-0.0646*	-0.0169	0.170***	0.243***	1			
(6)	0.157***	-0.266***	-0.143***	0.113***	0.0355	1		
(7)	-0.398***	0.493***	0.332***	-0.287***	0.0495	-0.0901**	1	
(8)	-0.0954**	0.411***	0.248***	-0.372***	-0.130***	-0.0528	0.208***	1

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Variable List:
(1) Immigration Policy, **(2)** ln(GDP per capita), **(3)** Years of Tertiary Education (25 years or older), **(4)** Inequality, **(5)** ln(Population)$_{t-1}$, **(6)** GDP Growth, **(7)** Trade Openness, **8)** Polity Score

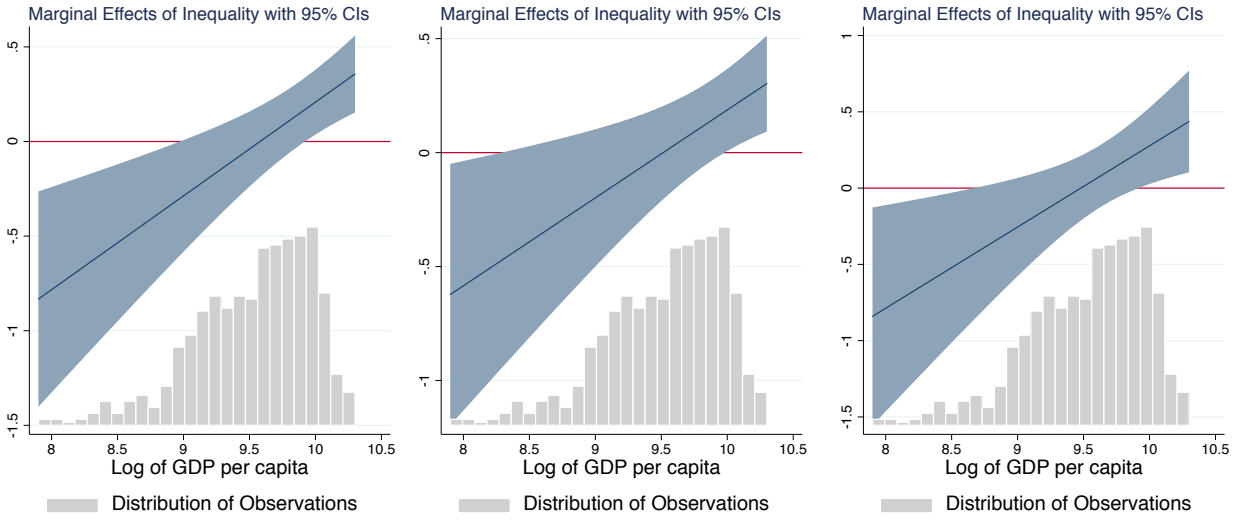
Table A4: Correlation Matrix (Models 6 through 10)

	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(9)**	**(10)**	**(11)**	**(12)**
(1)	1											
(2)	-0.493***	1										
(3)	-0.348***	0.673***	1									
(4)	0.0229	-0.0562	0.209***	1								
(5)	0.00479	0.0924*	0.284***	0.196***	1							
(6)	0.232***	-0.390***	-0.228***	0.0671	0.0990**	1						
(7)	-0.437***	0.326***	0.0814*	-0.106**	-0.0626	-0.218***	1					
(8)	-0.325***	0.277***	0.207***	0.129***	-0.118**	-0.187***	0.283***	1				
(9)	-0.359***	0.398***	-0.0115	-0.214***	0.168***	-0.206***	0.436***	-0.00680	1			
(10)	-0.526***	0.544***	0.356***	-0.135***	-0.348***	-0.347***	0.386***	0.340***	0.00621	1		
(11)	-0.126***	0.0842*	-0.219***	-0.141***	-0.332***	-0.103**	0.123**	0.0959*	0.116**	0.242***	1	
(12)	-0.441***	0.361***	0.0778*	-0.285***	-0.189***	-0.203***	0.276***	0.0174	0.209***	0.334***	0.167***	1

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

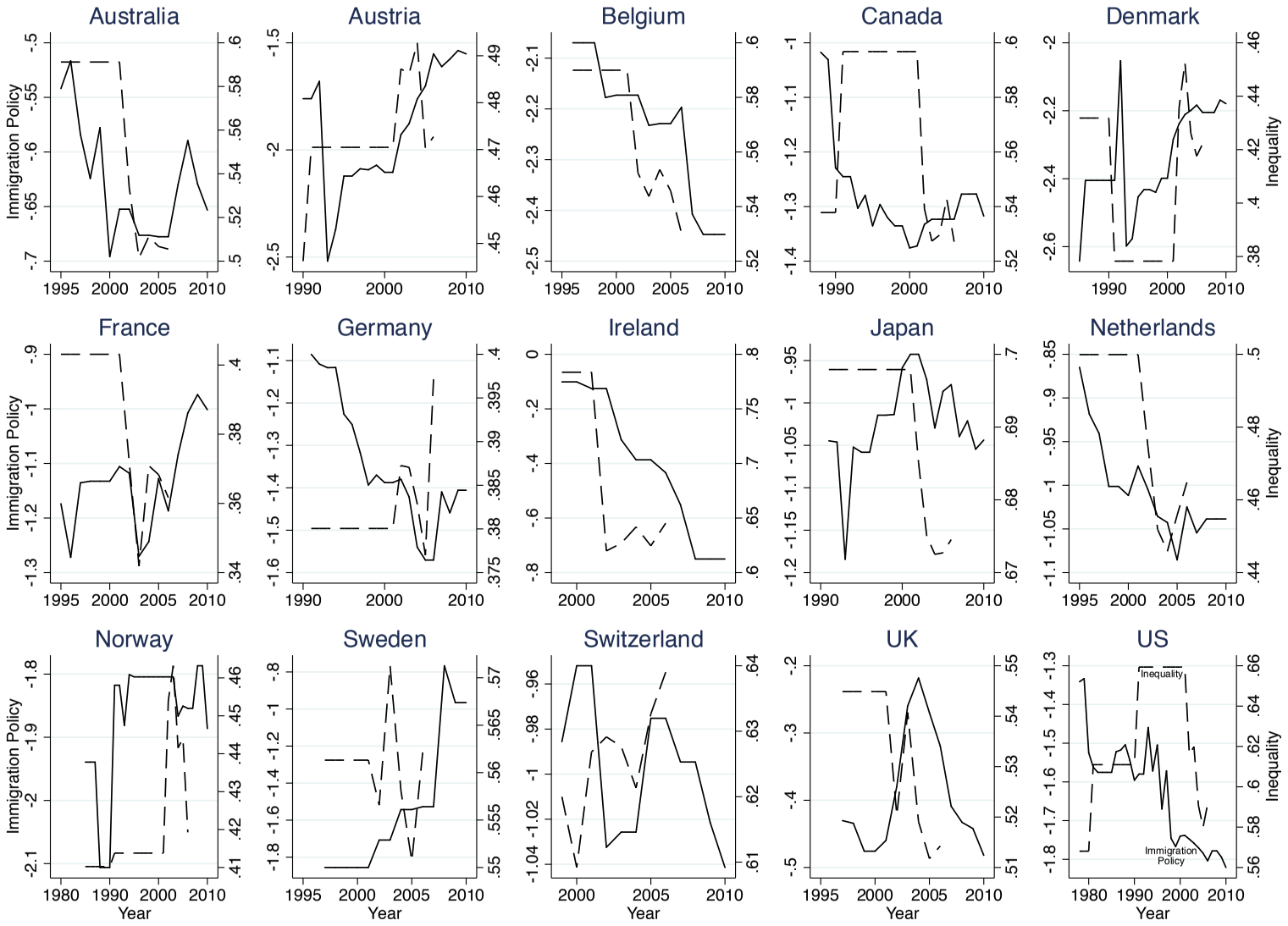
Variable List:
(1) Immigration Policy, **(2)** ln(GDP per capita), **(3)** Years of Tertiary Education (25 years or older), **(4)** Inequality, **(5)** ln(Population)$_{t-1}$, **(6)** GDP Growth, **(7)** Trade Openness, **(8)** Polity Score, **(9)** Welfare Taxes as % of GDP, **(10)** Personal Income Taxes as % of GDP, **(11)** Legislative Share of Left Parties in Power, **(12)** Right-wing Populism Vote Share

Figure A1: Marginal Effects of Inequality on DV at Constant Levels of Development



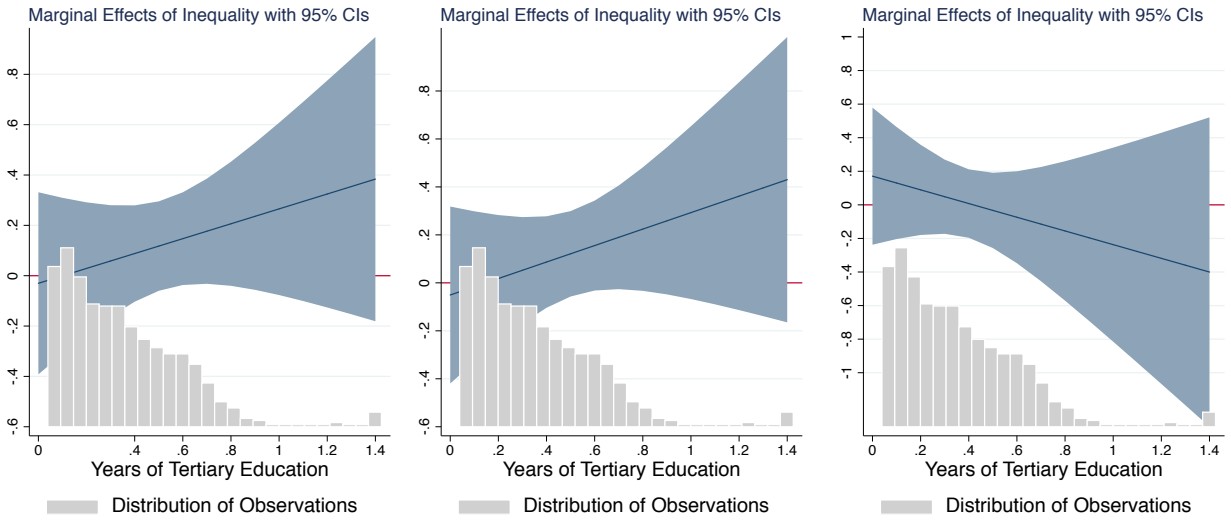
(a) Model 6 (b) Model 8 (c) Model 10

Figure A2: Inequality and Immigration in the Wealthiest Countries



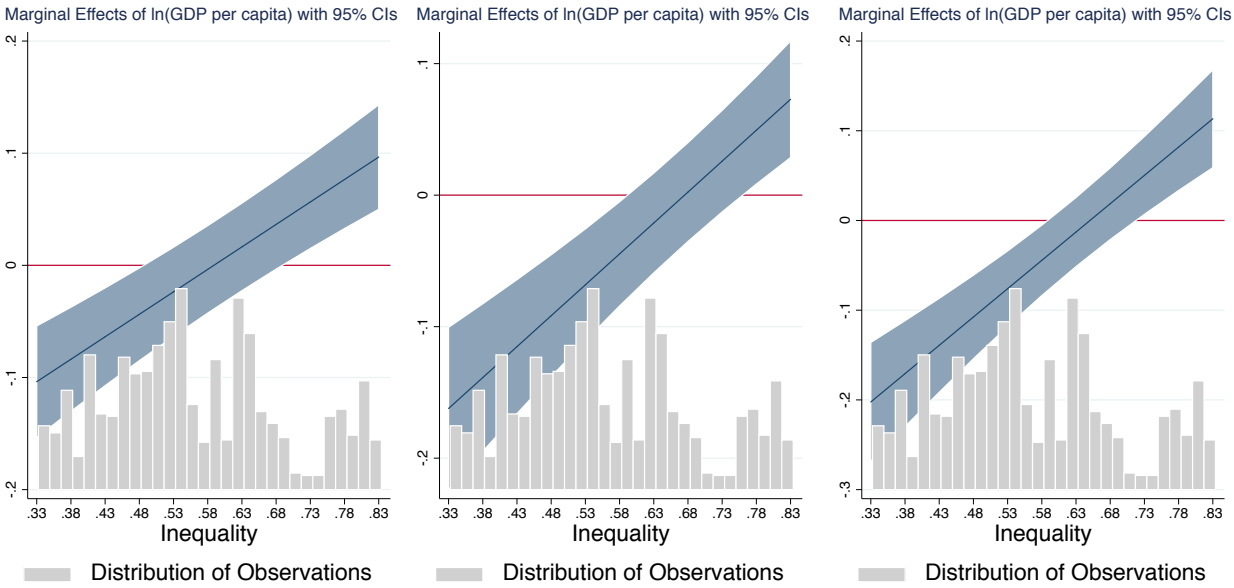
Note: This figure shows immigration policy (solid line) and inequality (dashed line) over time in country-year observations in which the natural log of GDP per capita is greater than or equal to 10.

Figure A3: Marginal Effects of Inequality on DV at Constant Levels of Education



(a) Model 7 (b) Model 9 (c) Model 10

Figure A4: Marginal Effects of Development on DV at Constant Levels of Inequality



(a) Model 1 (b) Model 3 (c) Model 5

Table A5: Inequality, Development and Immigration Policy with Country-Specific Time Trends

	(11)	(12)	(13)	(14)	(15)
Immigration Policy$_{t-1}$	0.868***	0.875***	0.873***	0.876***	0.871***
	(0.011)	(0.012)	(0.011)	(0.012)	(0.011)
ln(GDP per capita)	-0.470***		-0.442***	0.052	-0.497***
	(0.099)		(0.099)	(0.038)	(0.100)
Inequality	-6.847***	0.300*	-6.564***	0.318*	-7.232***
	(1.423)	(0.147)	(1.421)	(0.146)	(1.448)
ln(GDP per capita) × Inequality	0.713***		0.687***		0.790***
	(0.142)		(0.142)		(0.147)
Years of Tertiary Education		0.275**	0.102***	0.300**	0.458***
		(0.096)	(0.029)	(0.098)	(0.093)
Years of Tertiary Education × Inequality		-0.351^{+}		-0.386*	-0.661***
		(0.181)		(0.185)	(0.169)
ln(Population)$_{t-1}$	0.379*	0.401**	0.415*	0.351*	0.321*
	(0.159)	(0.144)	(0.171)	(0.161)	(0.163)
GDP Growth	0.250^{+}	0.340**	0.283*	0.311*	0.271^{+}
	(0.139)	(0.131)	(0.139)	(0.135)	(0.140)
Trade Openness	-0.006***	-0.004*	-0.005**	-0.004*	-0.005**
	(0.001)	(0.002)	(0.002)	(0.002)	(0.002)
Polity Score	-0.007^{+}	-0.009*	-0.007^{+}	-0.009*	-0.008^{+}
	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)
Observations	1067	1049	1049	1049	1049
Countries	24	24	24	24	24
R^2	0.973	0.974	0.974	0.974	0.974

Note: This table portrays a pooled cross-sectional time-series ordinary least squares (OLS) analysis of immigration policy in year t. All independent variables are taken from year t unless otherwise noted. Panel-corrected standard errors are shown in parentheses. ***, **, * and $^{+}$ indicate statistical significance levels of .1, 1, 5 and 10 percent, respectively. Country and year fixed effects as well as country-specific time trends are included in all models.

Table A6: Inequality, Development, and Immigration Policy with Lagged IVs

	(16)	(17)	(18)	(19)	(20)
Immigration Policy$_{t-1}$	0.884***	0.890***	0.886***	0.890***	0.883***
	(0.011)	(0.010)	(0.010)	(0.010)	(0.010)
ln(Log of GDP per capita)$_{t-1}$	-0.431**		-0.455**	0.021	-0.514***
	(0.141)		(0.145)	(0.050)	(0.155)
Inequality$_{t-1}$	-5.933**	0.231	-6.392**	0.238	-7.101***
	(1.927)	(0.171)	(1.983)	(0.170)	(2.097)
ln(Log of GDP per capita)$_{t-1}\times$ Inequality$_{t-1}$	0.611**		0.659***		0.768***
	(0.192)		(0.198)		(0.216)
Years of Tertiary Education$_{t-1}$		0.257*	0.047	0.267*	0.420**
		(0.128)	(0.037)	(0.128)	(0.136)
Years of Tertiary Education$_{t-1}$ $\times$ Inequality$_{t-1}$		-0.411^{+}		-0.425^{+}	-0.691**
		(0.248)		(0.247)	(0.256)
ln(Population)$_{t-1}$	0.299	0.246	0.299	0.223	0.222
	(0.220)	(0.223)	(0.235)	(0.232)	(0.234)
GDP Growth$_{t-1}$	-0.015	-0.011	-0.049	-0.022	-0.057
	(0.164)	(0.165)	(0.168)	(0.169)	(0.169)
Trade Openness$_{t-1}$	-0.006***	-0.004*	-0.005*	-0.004*	-0.005**
	(0.001)	(0.002)	(0.002)	(0.002)	(0.002)
Polity Score$_{t-1}$	-0.001	-0.001	0.000	-0.001	0.000
	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)
Observations	1067	1049	1049	1049	1049
Countries	24	24	24	24	24
R^2	0.974	0.974	0.974	0.974	0.974

Note: This table portrays a pooled cross-sectional time-series ordinary least squares (OLS) analysis of immigration policy in year t. All independent variables are taken from year $t-1$. Panel-corrected standard errors are shown in parentheses. ***, **, * and $^{+}$ indicate statistical significance levels of .1, 1, 5 and 10 percent, respectively. Country and year fixed effects as well as country-specific time trends are included in all models.

Table A7: Inequality, Development, and Immigration Policy in Autocracies

	(1A)	(2A)	(3A)	(4A)
Immigration Policy$_{t-1}$	0.816***	0.837***	0.816***	0.729***
	(0.039)	(0.028)	(0.035)	(0.031)
Log of GDP per capita	-0.042*	-0.028*	-0.042***	-0.049*
	(0.018)	(0.012)	(0.011)	(0.020)
Inequality	0.714**		0.714***	1.189***
	(0.165)		(0.127)	(0.158)
ln(Population)$_{t-1}$	-0.134**	-0.113**	-0.134***	-0.212***
	(0.038)	(0.029)	(0.034)	(0.056)
GDP Growth	0.023	-0.048	0.023	0.020
	(0.033)	(0.061)	(0.036)	(0.036)
Polity Score	0.001		0.001	0.002*
	(0.001)		(0.001)	(0.001)
Standard Errors	Clustered	Clustered	PCSE	PCSE
Country-Specific Time Trends				✓
Hong Kong & Venezuela Included		✓		
Observations	370	461	370	370
Countries	11	13	11	11
R^2	0.856	0.875	0.984	0.985

Note: This table portrays a pooled cross-sectional time-series ordinary least squares (OLS) analysis of immigration policy in year t. All independent variables are taken from year t unless otherwise noted. ***, **, * and $^+$ indicate statistical significance levels of .1, 1, 5 and 10 percent, respectively. Country and year fixed effects are included in all models. Models 1A, 3A, 4A exclude Hong Kong and Venezuela due to missing values of inequality.

Table A8: Autocracies Included in the Sample

Group	Country	Years of Autocracy
Settler States	Argentina	1955–1982
	Brazil	1964–1978
	Chile	1973–1989
	South Africa	1950–1993
	Venezuela	1950–1958, 2009–2012
Asian Tigers	Singapore	1960–2010
	South Korea	1948–1987
	Taiwan	1951–1995
	Hong Kong	1966–2010
Oil-rich Monarchies	Saudi Arabia	1950–2010
	Kuwait	1963–2010
Other Autocracies	Spain	1950–1976
	Botswana	1966–2013

Note: Argentina, Brazil, Chile, South Africa, South Korea, Taiwan, and Venezuela have democratized in various years. The sample only includes country-year observations under authoritarian regimes. Some countries are included after 1950 due to missing data on immigration policy, explanatory variables, or controls.