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Immigration and wealth inequality in old age: The case of Israel

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Abstract

Relatively little research has been devoted to the long term implications of immigration for the accumulation of household wealth. This accumulation has significance both for the well-being in old age and for intergenerational transmission of advantage and disadvantage. Our study addresses the nativity wealth gap and examines its sources. Data for the analysis were obtained from the SHARE-Israel study conducted in 2005–2006. Our sample includes 1366 Jewish households, either native-born or immigrant. We use OLS regression to estimate the nativity wealth gap and arrive at a number of noteworthy findings. First, immigrant–native disparities are large and do not disappear even after many decades of residence. Second, an important source of the disparity in accumulated household wealth is the fact that immigrants are considerably less likely than natives to have received a substantial inheritance. Third, wealth is strongly related to household income and more so among some immigrant groups than among natives. Fourth, there is substantial variation in the wealth of immigrant groups defined by their geo-cultural origin.

Keywords: Household wealth; Net worth; Immigrants; Nativity gap; Israel

1. Introduction

Studies of immigration across a wide range of countries have invariably noted the disadvantage that immigrants face upon arrival in the host society; a disadvantage exemplified in their occupational distribution and their earning patterns compared to the native population (Chiswick, Cohen, & Zach, 1997; Semyonov & Lewin-Epstein, 2002). The lower earnings of immigrants are attributed to language difficulties, skill disparities, information gaps and discriminatory practices. They typically decline and, in some cases, disappear with the passage of time (Borjas, 1994). Yet, the long term consequences of immigration for the economic well-being of immigrants and for the distribution of resources across groups in society have not yet received sufficient attention.

Even if immigrants reach earning parity with natives at some point in the course of their working life, the gap in accumulated assets may still be substantial. This is of particular importance when attention is turned to older cohorts of the population; those whose well-being depends primarily on the assets and benefits accumulated in the past. Indeed, a more complete account of the position of immigrants in the stratification system of receiving societies will benefit from the study of the nativity wealth gap (Bauer et al., 2007; Hao, 2007; Semyonov & Lewin-Epstein, 2011) to complement our knowledge of labor market disparities.

In the present study we aim to contribute to this endeavor by studying differences in household wealth

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between the native-born and the immigrant populations in Israel and the factors that contribute to this gap. The questions our study addresses are: what is the wealth gap between Jews born in Israel and Jewish immigrants? To what extent is the nativity wealth gap accounted for by different labor market experiences of natives and immigrants, and to what extent do differences in intergenerational transfers contribute to the nativity wealth gap? As immigrants to Israel comprise a rather heterogeneous population, our study also investigates wealth differences among sub-populations of immigrants. Our study focuses on the older segment of the population (age 50 and older) and will therefore provide important insight into the understudied topic of the economic well-being of the aging immigrant population.

2. Theoretical considerations

2.1. Beyond labor market integration

Sociological research on wealth has been rather sparse (for review see Keister & Moller, 2000; Spilerman, 2000) and focused primarily on racial and ethnic differences in the United States (Conley, 2001a, 2003; Oliver & Shapiro, 1995). Recently, however, there has been growing interest in incorporating the study of household wealth within the framework of socioeconomic attainment and stratification research (Conley, 2001b; Pfeffer & Hällsten, 2012; Semyonov & Lewin-Epstein, in press; Torche & Spilerman, 2006; Zissimopoulus & Smith, 2011). Such an approach draws attention to the micro-determinants of wealth accumulation and its importance for understanding social and economic disparities among different population groups.

The reasons for considering wealth as a distinct dimension of stratification, and for the study of wealth distribution and its determinants, can be grouped into two broad categories. First, wealth is more unequally distributed than income or earnings (Keister, 2007; Wolff, 1995). Therefore, studies of labor market earnings do not capture the full extent of inequality in economic well-being. Second, the distribution of wealth affects not only present members of the household but the life chances of future generations as well (Conley, 2001b; Spilerman, 2004). The study of household wealth is important, therefore, not only for understanding the life chances of older cohorts who are no longer economically active, but also for the link it creates between family and societal processes over the life-cycle.

Unlike income, which represents the household's economic position at a given point in time wealth represents assets typically accumulated over an extended period. It is a measure of stock rather than flow and, as such, provides a useful indication of economic potential (Gittleman & Wolff, 2004). This is particularly relevant when studying older cohorts, some of which may no longer be in the labor market. Their standard of living and quality of life are more dependent on household wealth than on current income.

Since wealth is more unequally distributed than income (Wolff, 1995) differences in standard of living associated with wealth are more extreme than what is typically estimated on the basis of income. From a societal standpoint excessive wealth inequality may undermine social solidarity and the democratic process by increasing social separation, conflicts and exclusion (Bauman, 2001; Domhoff, 1990; Keister & Moller, 2000; Wright, 2000). This is particularly crucial when wealth disparities overlap with status characteristics such as race, ethnicity, and citizenship.

Sociological interest in wealth further derives from the fact that household wealth and its uses are strongly linked to intergenerational processes. In vivo transfers and inheritance are important mechanisms of wealth creation in some families and differences in wealth in one generation may have strong implications for the development of human capital and living standards in subsequent generations (Elmelech, 2008; Spilerman, 2004). While the magnitude of family transfers varies quite widely, it is by no means marginal to the process of household economic well-being and to wealth accumulation (Gale & Scholz, 1994; Menchik & Jiankoplos, 1998; Semyonov & Lewin-Epstein, in press; Szydlik, 2004; Zissimopoulus & Smith, 2011). Immigration by its very nature is disruptive to family links and in many circumstances involves the loss of assets. This too is likely to affect intergenerational transfers and contribute to the wealth gap between immigrants and natives.

2.2. Immigration and wealth

Household wealth accumulation is strongly related to income patterns, spending and saving behavior, economic returns, and intergenerational transfers – both in vivo and inheritances. Differences in any one of these factors and a combination thereof could lead to wealth disparities between native-born and immigrants. With respect to labor market earnings there is ample research that illustrates the earning disparities between immigrants and natives. The disparities are typically large upon arrival in the host country and tend to diminish with years of residence in the receiving country (Chiswick, 1979, for US; Hutton & Williamson, 2008; Semyonov, 1996, for Israel). Disparities in earnings,