

HOW MIGRATION CAN CHANGE INCOME INEQUALITY?

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Abstract

Motivated by the unique experience of Israel of a supply-side shock of skilled migration, and the concurrent rise in disposable income inequality, this paper develops a model which can explain the mechanism through which a supply-side shock of skilled migration can reshape the political- economy balance and the redistributive policies. First, it depresses the incentives for unskilled migrants to flow in, though they are still free to do so. Second, tax-transfer system becomes less progressive. Nonetheless, the unskilled native-born may well become better-off, even though they lose their political clout.