

Policy Brief

CENTER FOR POVERTY RESEARCH

The Impact of Immigration on Native Poverty through Labor Market Competition

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Background

The effects of immigration on low-skilled native workers in the United States is both an active area of research among academics and a critical component of policy discussions of the costs and benefits of immigration policies. In a new study, Center for Poverty Research faculty affiliate Giovanni Peri quantifies the effects of immigration on wages and poverty rates of native workers in the United States over the past two decades.

Methods

A major difficulty in quantifying the effects of immigration on poverty in local areas is that wages (and poverty rates) can both affect the number of immigrants that move to a particular area (higher wages make immigration to certain areas more attractive) and can be affected by immigrant flows (if immigrants compete with native workers and lower wages). Peri begins by using what we know from prior studies about the extent to which the size and labor supply of a particular group affect productivity and wages of other groups and how different skill groups interact with one another in the production process. These factors are used within a model of the labor market, and combined with detailed data from U.S. Census and the American Communities Survey on the number of immigrants at the national, state, and city levels by education, gender and age during the 1990s and 2000s.

Results Summary

At the national, state, and local levels, Peri shows that effects of immigration on poverty rates of natives are very small. Peri's model shows that, among the least educated workers in California, immigration may have actually increased native wages by 2 to 3% during the 2000-2009 period. The reason for this wage increase is that highly educated immigrants have stimulated demand and job creation for less educated natives more than offsetting the competition of other less educated immigrants. The wage effect during the 1990s was negative but very small.



Giovanni Peri

Giovanni Peri is a Professor of Economics at the University of California, Davis and an affiliate of the Center for Poverty Research. He received his degree in Economics from UC Berkeley in 1998. Peri's research focuses on the determinants of international migrations and their impact on labor markets, productivity, and investments.

Peri is also a Research Associate of the National Bureau of Economic Research, a CESifo Research Fellow, a CReAM External Fellow and member of the editorial board in the *Journal of Urban Economics*, *Journal of Population Economics* and *Urban Economics*. Prior to coming to UC Davis, he visited the European University Institute as the Jean Monnet Fellow in 2000-01 and taught at UCLA Economics Department as a Global Fellow in 2004-05.

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Download the full paper at:
<http://www.nber.org/papers/w17570.pdf>

Results

To understand the effects of immigration on native poverty rates, Peri first documents changes in the extent of immigration and in the skill distribution of immigrants between 1990 and 2009. Among young individuals with less than a high school diploma in the 1990s, flows of international immigrants amounted to 11 to 16% of the group population. In contrast, in the period from 2000 to 2009, there was a net outflow of young, less-educated migrants. (See Table 2) Immigration also increased the pool of more educated labor in the United States, and this increase was more equal across the two decades studied by Peri. Net inflows of immigrants with a college degree accounted for 5 to 14% of the most educated groups over the 20 years studied.

Peri next estimates how these net inflows of immigrants affected the wages of native U.S. workers between 1990 and 2000 (when there was more low-skilled immigration, and thus more potential threat to the wages of less-skilled U.S. workers), and between 2000 and 2009. Under the assumptions most likely to produce large, negative effects on U.S. wages, Peri shows that immigration is estimated to have lowered wages of young workers without a high school degree by a modest 2 percent. Under alternative assumptions, there is even less change (and sometimes a positive effect) of immigration on wages of the lowest-paid U.S. workers.

For more educated groups of U.S. workers in the 1990s, there is even less evidence of a negative effect on wages from immigration. These small effects on wages of low-skilled workers lead to even smaller, and generally negligible, effects of immigration on poverty rates. In states and regions where many immigrants choose to locate, there is the potential for larger effects of immigration. On one hand, more immigrants with low levels of education may compete with low-earning natives for jobs. On the other hand, a larger inflow of highly educated immigrants will create more local demand and

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opportunities for less educated natives. Peri considers the effects across states and cities with larger than average shares of immigrants.

California, for example, had an immigration rate over the 1990s of 12% (across all education groups), roughly double the rate in the nation as a whole. After 2000, however, the immigration rate for California fell to less than 5% and the immigration flow during the 2000's was especially concentrated among college educated. Peri's model shows that, among the least educated workers in California, immigration may have actually increased native wages by 2 to 3% during the 2000-2009 period. The wage effect during the 1990s was negative but very small. The reason for this wage increase is that highly educated immigrants have stimulated demand and job creation for less educated natives more than offsetting the competition of other less educated immigrants.

Turning to poverty rates, Peri finds little effect of immigration on poverty rates at the state level. In the 1990s, immigration in the highest-immigration states is estimated to increase poverty by at most 1 percentage point. In the 2000's, no increase in poverty due to immigration is detected in any state. At the national, state, and local levels, Peri shows that effects of immigration on poverty rates of natives are very small. The largest estimated effects come from combining data on immigration flows by skill group with assumptions suggesting that native and immigrant workers are highly substitutable. Even these "pessimistic" estimates, however, show that, at most, less than half a percentage point of increased poverty rates over time can be attributed to immigration flows.

For further reading:

Peri, Giovanni. 2011. "The Impact of Immigration on Native Poverty through Labor Market Competition" National Bureau of Economic Research Working Paper # 17570.

Raphael, Steven and Eugene Smolensky. 2008. "Immigration and Poverty in the United States." Working Paper, UC Berkely, April 2008.

Borjas, George, Richard Freeman, and Larry Katz. 1997. "How Much Do Immigration and Trade Affect Labor Market Outcomes?" Brookings Papers on Economic Activity (1): 1-90.

Card, David. 2009. "Immigration and Inequality." American Economic Review 99(2): 1-21.