



Does Immigration Hurt the Poor?

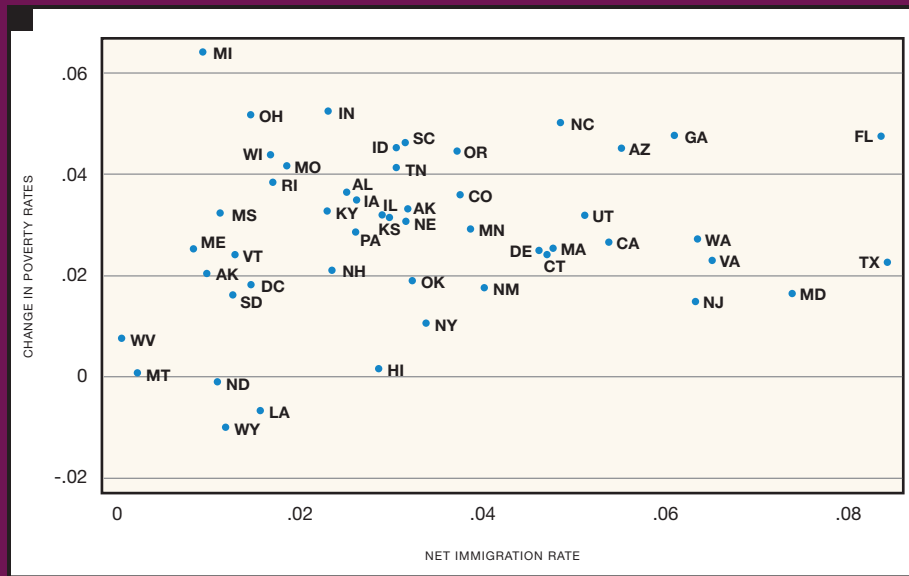
The United States has a famously high poverty rate. In recent years, the Great Recession and the slow recovery have only exacerbated the plight of low-skilled workers in the United States, and the poverty rate would likely have grown substantially during this period were it not for the relatively aggressive stimulus packages. The poverty rate has since remained stubbornly high, even as the recovery plays out. We might therefore pose the following simple, but key, question: Why is there so much poverty in the United States?

It is perhaps natural that immigration receives very close scrutiny by policy makers and the media as a possible important source of this high poverty rate. As the story goes, if the U.S. economy is unable to create enough jobs and pay decent wages to its own citizens, allowing a steady influx of immigrants can only worsen the situation. Many immigrants are unskilled and have continued to flow into the United States over the past decade, with inflows slowing only during the last several years. Moreover, many of these immigrants are undocumented and, as a result, may be hired at lower wages than domestic workers or legal immigrants, putting downward pressure on the wages of those groups. The policy prescription from this economic logic is straightforward: A simple and effective approach to helping the U.S. working poor is to reduce the number of immigrants (or even to deport those currently in the country).

But is this line of thought sound? Does it withstand closer scrutiny of the mechanisms through which immigration is supposed to hurt native wages? And is it supported by the economic data that have emerged in the last decade? As I will argue in this article, the answer to all these questions is a resounding *no*. Economic analysis and empirical evidence suggest that immigration over the past decade was largely inconsequential for native poverty and might have even helped to slightly reduce it in some locations.

BY GIOVANNI PERI

FIGURE 1. Net Immigration and Change in Poverty Rates, U.S. States 2000–2010



Note: Net immigration is defined as the change in the foreign-born population of working age (18–65) between 2000 and 2010 and the total population of working age as of 2000. The poverty rate is the share of people of working age under the poverty line.

Three Important Facts

I address the foregoing questions by drawing on data from the last decade. Why focus on this relatively limited time period? Besides providing the most recent data available, the period includes a phase of sustained economic growth (2001–2006) and of deep recession (2007–2009), thus allowing us to examine the relationship between poverty and immigration within the context of very different economic circumstances. The main attraction of this period, however, is that the time series provide at least superficial support for the claim that immigration causes poverty; in fact, this is precisely the time period that is often featured by those who argue that immigration brings about poverty.

The poverty and immigration time series do indeed move together during this period. Between 2000 and 2010, poverty rates increased significantly in the country as a whole and in most individual states, while at the same time the stock of immigrants continued to rise. The connections between trends in immigration and poverty, however, end here. Three facts that contradict the story of a causal nexus between immigration and poverty rates are worth reviewing in some detail.

No state-level correlation: First, there is no correlation between the inflow of immigrants into states and within-state changes in poverty rates over the 2000–2010 period, as shown in Figure 1. This fact is prima facie evidence against an immigration-poverty nexus, but it is not entirely telling. This is because the impact of immigration may not be circumscribed to a state; if natives move out of the state as a consequence of immigration, wage (or poverty) effects may spread. Moreover, other factors may be offsetting a negative effect of immigrants on native poverty, especially economic ones. For instance, states with a booming economy may attract immigrants and experience declines in

poverty at the same time. This will result in a positive (or attenuated negative) correlation between the two, even if immigrants hurt native incomes. Finally, if we are mainly concerned with wage competition for the working poor, aggregate immigration is not the right variable to consider. The skill composition of immigrants is possibly more important than their total number.

The rise of high-skill immigration: Focusing on the skill composition of new immigrants in the United States, a second fact becomes apparent. For the United States as a whole and for most states with substantial immigration (such as Nevada, Arizona, Texas, and Georgia), immigration over the decade was usually balanced between workers with low education (e.g., no diploma) and workers with high education (e.g., college degree). As a whole, immigration has brought to the United States as many or more new engineers, entrepreneurs, and scientists as it has manual, unskilled, and blue-collar workers.

The first type of workers is made up of those who help firms grow, increase productivity, create jobs, and stimulate demand for manual and blue-collar jobs. Because highly skilled immigrants typically locate in the same areas as less-skilled immigrants, states and cities with large immigration inflows were likely to experience increases in demand, productivity, and opportunities together with increases in their supply of workers.

A small effect at best: This leads us to the third fact that makes immigration an unlikely cause of increased poverty among natives. When we combine the positive effect of immigrants on the economy with their competition effect on natives, even with simple labor market models the wage effects are quite small. This is because immigrant flows into the economy have been balanced across skill levels and are generally quite small relative to the size of the native labor force.

The balance of this article will be devoted to describing the logic of these labor market models and the results secured under them. The main conclusion of these models is that any rise in poverty rates among native workers over the last decade cannot be blamed on immigration. To the contrary, in some localities, particularly those with large inflows of highly educated immigrants, there may have been faster economic growth and expanded opportunities available to the working poor.

The Role of High-Skill Immigration

It is useful to turn now to this more formal treatment of how skill differentiation can alter the effects of immigration. The starting point is to document the often-unappreciated role of high-skill immigration in the U.S. case.

Table 1 shows the net inflow of immigrants between 2000

Table 1. Immigration Rate, by Education Group, 2000–2010. Representative Immigration States and the U.S. Total

State	No Diploma	High School Diploma	College Education	College Degree	Total Immigration Rates 2000–2009
Arizona	9.7%	7.6%	5.8%	9.3%	7.8%
California	-1.2%	3.2%	5.3%	9.8%	4.6%
Florida	2.0%	5.2%	8.3%	11.1%	6.8%
Georgia	7.9%	4.0%	4.7%	7.5%	5.6%
Nevada	21.7%	8.7%	12.0%	16.0%	12.6%
New Jersey	0.5%	1.9%	5.9%	9.1%	4.8%
New York	0.6%	-0.7%	3.7%	6.4%	2.4%
Texas	11.0%	5.5%	6.3%	8.9%	7.5%
United States	2.8%	2.6%	4.0%	4.8%	3.5%

Note: Immigration rates for each group are calculated as the change in the number of foreign-born aged 18–65 in the group during the decade 2000–2010 as percentage of the number of people aged 18–65 in the group as of the year 2000.

and 2010 as a percentage of different skill groups in eight “high-immigration” states and in all of the United States. Over that decade, the total net inflow of immigrants, or the total “immigration rate,” was equal to 3.5 percent of the U.S. population in 2000, as shown in the table’s last row. Each column of the table, then, shows the immigration rate specific to a group, defined according to its educational attainment. We report, from left to right, the percentages pertaining to those with no diploma, a high school degree, some college education, and a college degree. The national immigration rate was 2.8 percent for workers with no degree, 2.6 percent for workers with a high school diploma, 4.0 percent for those with some college education, and 4.8 percent for workers with a college degree.

Labor economists emphasize that workers with similar skills (as determined by their education levels) tend to compete for similar jobs and can be considered a homogeneous group. By contrast, workers with different skills do not compete for similar jobs, and in fact tend to perform different and interconnected productive tasks within firms. For example, an increase in the number of foreign-born college-educated engineers does not increase competition for native construction workers, but instead increases their job opportunities and productivity because construction workers are needed to implement the projects of engineers.

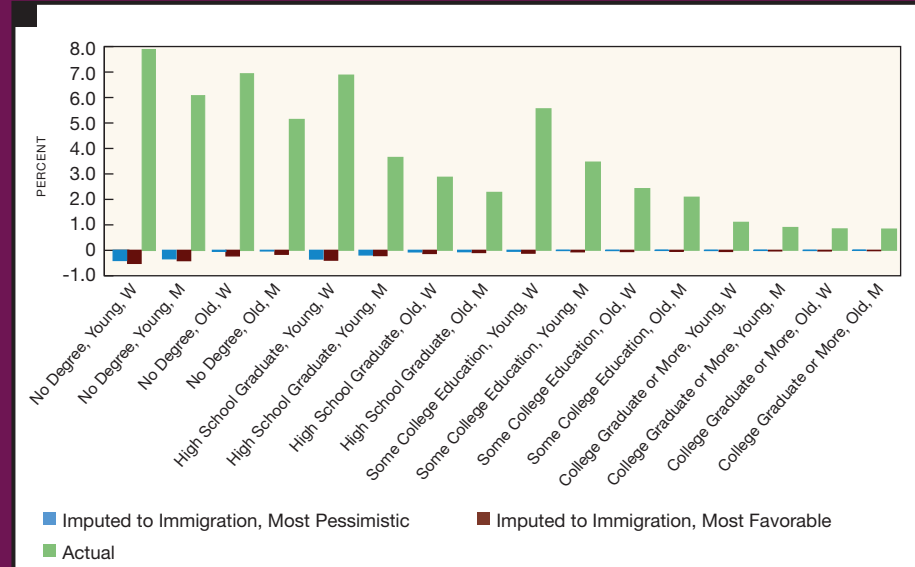
This concept is called *complementarity* between workers. Where there are more engineers, they are likely to create and expand firms, in turn generating opportunity to employ more construction workers. Firms will compete for their labor and may therefore pay better wages. If we focus on the immigration rates among the less educated in states with large influxes of immigrants (e.g., Arizona, Nevada, Texas, or Florida), we notice that those same states also experienced high immigration rates for the college educated (see Table 1). It follows that immigration may actually increase demand for less-educated natives because the receiving states tended to welcome both less-skilled immigrants and college-educated professionals, and because the latter provided a “stimulus” to local economies, especially to local labor demand.

How much did the extra supply of college-educated and other immigrants translate into extra demand for native jobs rather than competition with native workers? This depends on the types of productive interaction among members of different skill groups. For instance, if one extra engineer generates demand for several extra construction workers, and if the growing share of college-educated workers leads to the adoption of better technologies and enhances local learning, then the local effect of immigration on the wages of less-educated natives could be positive and quite large. Also, immigrants and natives may take different jobs even when they have the same educational level, which can generate gains from specialization. Another possibility is that natives will move into or out of a state or city to take advantage of productive opportunities, a possibility that also must be incorporated when formally evaluating immigration’s effects.

A Formal Model of the Effects of Immigration on Native Poverty

These mechanisms can be represented with widely used models that have been employed by economists for years.¹ These models allow native and immigrant workers with different education and experience to fill different jobs. They then evaluate how the change in supply of each group of workers affects the productivity and wage of each other group, based on estimates of the wage response of each group to the change in supply of others. Using such a model, we estimate the percentage changes in poverty rates due to immigration’s effects on the labor market. Figure 2 summarizes the changes in national poverty rates over the period 2000–2010 for four basic education groups, for women (W) and men (M), and for younger (under 40 years) and older (40 years and over) workers. As there is some disagreement in the economic literature on the exact wage response of each group, we report the results obtained using most optimistic parameter estimates as blue bars, and those obtained using the most pessimistic estimates as red bars. We also report the actual percentage changes in poverty rates for each group as green bars.

FIGURE 2. Change in Native Poverty Rates, 2000–2010, by Skill Group



Note: The imputed effects are calculated considering the competition and complementarity effects of immigrants nationally on native wages, and comparing poverty rates of natives with or without these effects.

Three results stand out. First, the actual percentage changes in poverty rates are substantially greater than the changes attributed by labor market models to the effects of immigration, even taking into account the most pessimistic estimates reported by economists. The actual increase in poverty rates for women with no degree, both younger and older (the two most-affected groups), was between 7 and 8 percent, while the changes due to immigration's effects for these same groups were -0.5 and 0.1 percent. Second, the effects of immigration for the most pessimistic and most favorable estimates are small and do not differ much from each other across all education levels, age groups, and gender. Third, the labor market model implies that immigration reduced the poverty rates for young native workers with no degree, albeit only slightly. This reduction can be attributed to jobs and production created by highly educated immigrants, an effect that more than compensates for the competition generated from less-educated immigrants.

Conclusions

There are all manner of debates about why the United States has so much poverty. But one frequently advanced account is that immigrants to the United States flood the low-skill labor market, drive down wages within that market, and create much poverty as a result. It is worth asking whether the evidence accords with

this account.

The simple conclusion laid out here: It does not. Immigration brings to the United States new workers, skills, human capital, and ideas. It increases the labor supply, and because new immigrants expand firms, generate innovation, become entrepreneurs, and promote specialization, it also engenders a larger set of broader economic opportunities. Between 2000 and 2010, immigration was particularly suited to “stimulate” the economic opportunities of the U.S. working class, in part because the immigration rate was highest among the highly educated. Moreover, immigrants of all skill levels co-located in the same destinations, together delivering a push to expand the local economy and, possibly, bringing benefits to the native working poor. Although the Great Recession still increased, sometimes substantially, the poverty rates of less-educated Americans, we find no evidence to support the claim that these increases in poverty rates were the result, in total or in part, of immigration. ■

Giovanni Peri is a professor of economics at the University of California at Davis and a research associate of the National Bureau of Economic Research. He studies human capital, growth, technological innovation, and the impact of international migration on receiving countries' labor markets, housing markets, and productivity.

Endnotes

1. The details of the analysis are in: Peri, G. (2013). “Immigration, native poverty, and the labor market.” In D. Card and S. Raphael (Eds.), *Immigration, poverty, and socioeconomic inequality*, New York: Russell Sage Foundation.