



Recent immigrants as labor market arbitrageurs: Evidence from the minimum wage[☆]



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ARTICLE INFO

Article history:

Received 10 July 2012

Revised 2 October 2013

Available online 14 October 2013

JEL classification:

J23

J61

J38

Keywords:

Minimum wage

Immigration

Labor mobility

Spatial equilibrium

ABSTRACT

This paper investigates the local labor supply effects of changes to the minimum wage by examining the response of low-skilled immigrants' location decisions. Canonical models emphasize the importance of labor mobility when evaluating the employment effects of the minimum wage; yet few studies address this outcome directly. Low-skilled immigrant populations shift toward labor markets with stagnant minimum wages, and this result is robust to a number of alternative interpretations. This mobility provides behavior-based evidence in favor of a non-trivial negative employment effect of the minimum wage. Further, it reduces the estimated demand elasticity using teens; employment losses among native teens are substantially larger in states that have historically attracted few immigrant residents.

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1. Introduction

Nearly all empirical evaluations of the effect of the minimum wage focus on demand-side responses, especially changes in employment, hours, and the price of the output good.¹ In this paper, I instead focus on how minimum wage increases affect the local supply of low-skilled labor. Canonical models imply that labor mobility is a key outcome in a complete study of the effect of the minimum wage; yet comparatively little research has focused on this margin of adjustment. There are two principal reasons that supply responses are of independent interest. First, labor mobility provides an alternative method of evaluating the disemployment

effect of the minimum wage.² Because the minimum wage could either increase or decrease expected earnings, workers' location choices among different policy regimes provide indirect information about the labor demand elasticity. This alternative empirical strategy provides a complementary approach to the standard methodology of examining local disemployment effects in response to policy changes. Second, when labor moves across affected and unaffected markets, this mobility has the potential to confound the interpretation of correlations between local employment outcomes and local policies.

Toward the goal of creating a more complete picture of the labor market effects of the minimum wage, I investigate how the location decisions of recently arrived low-skilled immigrants respond to local minimum wage policy changes. My empirical work takes advantage of questions regarding nativity and year of arrival that were added to the core of the Current Population Survey (CPS)

[☆] I am grateful for helpful comments from Rebecca Blank, Charlie Brown, Sheldon Danziger, John DiNardo, Ben Keys, Brian Kovak, Marie Mora, Terra McKinnish, Jim Sallee, David Neumark (the co-editor), two anonymous referees, and seminar participants at Colorado State University and the University of Colorado-Denver. Ramon Rodriguez provided excellent research assistance. Remaining errors are my own. I acknowledge generous support from the University of Michigan's Rackham Merit Fellowship while working on this project.

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¹ For a survey of early work, see Brown (1999). Neumark and Wascher (2007) provide an extensive survey of more recent work.

² Note that in this paper, as in most empirical evaluations of the minimum wage, a negative effect of the minimum wage means a lower level of employment than would have been expected in the absence of the minimum (given the location of the market and the time period). This negative effect could result from a slower growth of employment rather than from actual job loss. I use the term "disemployment" throughout the paper as a shorthand for employment levels or rates that are lower than suggested by the counterfactual.

in 1994. The inclusion of these additional variables allows for descriptive analysis revealing that recently arrived low-skilled immigrants are quite likely to work in jobs with wage rates bound by the minimum wage. In fact, these workers with relatively little US labor market experience work in much the same entry-level jobs as do native-born teens.³ Additionally, previous work suggests that immigrants' location choices respond more strongly to changes in labor market conditions than do those of natives (Borjas, 2001; Jaeger, 2007; Cadena, forthcoming; Cadena and Kovak, 2013). Further, teens are typically not choosing where to live independently of their larger household, which limits their ability to move in response to local demand changes.

Fortunately, the time period during which immigrants can be identified in the CPS also provides a particularly rich set of state policy regimes.⁴ In response to a federal minimum wage that remained fixed in nominal terms for nearly a decade, a majority of states set higher minimums, and several enacted multiple increases. The resulting mix of policies provides significant geographic variation in both the timing and the dollar amount of the minimum wage across multiple labor markets. This exceptional variation allows me to use an empirical framework that controls for unobserved permanent state characteristics (such as distance from sending countries, climate, and the historical location of ethnic networks), a flexible general time trend to account for changes in immigrant populations common across states, and state-specific linear trends to address the ongoing diffusion of immigrants away from traditional gateway cities.⁵

I find strong, significant evidence that low-skilled recent immigrants tend to prefer states with unchanged minimums to states experiencing increases in their wage floors. A ten percent increase in a state's minimum wage leads to a roughly eight percent decrease in the number of recently arrived immigrants who live in that state.⁶ This behavior suggests that a minimum wage increase decreases expected earnings for searching workers, i.e. that an increase in the minimum wage decreases the probability that a new worker will find employment by proportionately more than it increases successful job seekers' wages.⁷ As a falsification test, I repeat the analysis using immigrants with higher levels of education who generally command market wages significantly above any state's minimum wage. The location pattern of this group is roughly unrelated with changes in states' minimum wage policies, which supports interpreting the results for the low-skilled group as an optimizing response to changes in labor market conditions.

These results have important implications for both the minimum wage and immigration literatures. First, this mobility provides indirect evidence of a noticeable displacement effect of the minimum wage. If, as some authors have found, there is little to no effect of the minimum wage on local labor demand, then immi-

grants should be drawn toward states that increase their minimums. This study finds the opposite result, and implies that the disemployment effects are non-trivial, especially for searching workers.

Further, studies of the effects of the minimum wage on local labor demand often examine employment to population ratios among teenagers as the primary outcome. The evidence I present in this paper suggests that these types of analyses will underestimate the true disemployment effects of a minimum wage increase because the outflows of competing workers will tend to mitigate the incidence of demand changes on workers who remain in the affected state. In fact, I provide additional specifications showing that the estimated demand elasticities using *native teens* are substantially larger in states that have tended to attract relatively small immigrant populations.

The present study therefore complements Orrenius and Zavodny (2008) who examine the effect of minimum wages on labor market outcomes for immigrants. Their analysis reveals smaller estimated disemployment effects for immigrants than for native workers, and they present some suggestive evidence that immigrants tend to favor locating in areas with stagnant minimum wages. Their analysis, however, does not consider whether this settlement pattern is consistent with earnings-maximizing behavior nor does it address the impact of immigrants' movement on estimates of employment effects of the minimum wage among other workers.

This paper also contributes to a growing literature demonstrating that recently arrived immigrants select destinations within the United States based, in part, on differences in labor market conditions. Earlier cross-sectional work including Bartel (1989) and Zavodny (1999), tended to find a relatively small influence of labor market opportunities on location choices. More recent studies examining *changes* in location choices in response to changing labor market conditions tend to find more robust evidence that immigrants select locations based on expected earnings (Borjas, 2001; Jaeger, 2007; Cadena, forthcoming; Cadena and Kovak, 2013). The current study's use of policy-induced changes to local labor demand therefore provides further strong evidence of a causal relationship between a location's expected earnings for new entrants and the growth of its immigrant population.

The findings in this paper therefore lend additional support to the interpretation that weak correlations between immigrant inflows and local wage or employment changes result in part from immigrants selecting locations with relatively larger unobserved demand increases for their type of labor. In fact, this mechanism has frequently been cited as a challenge to studies that rely on geography-based research designs to determine how the change in skill mix created by immigrants affects the wage distribution.⁸ The extent of the selective location choices documented in this paper provides direct evidence of this phenomenon, and it re-emphasizes the importance of isolating immigration inflows that are unrelated to changes in demand.⁹

The remainder of the paper is organized as follows: Section 2 presents a straightforward conceptual framework, emphasizing that labor mobility from one market to another is a central prediction of the theory of the minimum wage; Section 3 presents the central analysis, including robustness checks and evidence that immigrant mobility affects the estimated demand elasticity among native teens; Section 4 concludes.

³ Smith (2012) reaches a similar conclusion that there is substantial labor market competition among members of these two groups.

⁴ Burkhauser et al. (2000) demonstrate that state fixed effects and time dummies account for nearly all of the variation in the minimum wage in earlier time periods. Sabia (2009) shows that the policy environment provides much more useful variation over the time period I study in this article.

⁵ Hellerstein et al. (2010) demonstrate the importance of networks in job-finding for Hispanic workers with low English proficiency (likely immigrants), and they find that networks are especially important in new growth areas. This result provides an important motivation for the state-specific time trends as the relative strength of network ties across states is likely changing with the diffusion of the immigrant population across geography during this time period.

⁶ Data limitations prevent a further decomposition of this change into channels such as initial location choices or mobility subsequent to arrival. Cadena and Kovak (2013) provide a decomposition in a different context showing that each of these channels contributes to an earnings-maximizing reallocation of immigrant labor.

⁷ This finding is consistent with recent work finding that a minimum wage increase tends to slow down both hiring and separation rates, which are likely of particular relevance for a new entrant (Dube et al., 2012; Brochu and Green, 2013).

⁸ See Borjas et al. (1997, 2006) and Borjas (2003) for examples of papers discussing this criticism.

⁹ Card (2001) popularized the use of the so-called "supply push" instrument based on the location of previous waves of immigrants from the same source countries, which is intended to isolate exactly this type of inflow.

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