

Economic Thinking on Labor Markets: Immigration and Minimum Wages

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Economic Thinking and Public Policy

- economic ideas can be very important
- Keynes: *“Practical (people) who believe themselves to be quite exempt from any intellectual influence are usually the slaves of some **defunct economist**”*
- “Chief economists” in US agencies; CEA in White House!

And yet....

- economic knowledge is imperfect and evolving
- policy choices depend on judgements about the relative value of different outcomes (e.g., equity / efficiency)
- policy choices often depend on factors that are not included in the simplest economic models

Today...

discuss 2 areas where economic thinking has changed

Evolving economic thought

Two examples of progress:

- Immigration
- Minimum Wages
- traditionally economists liked immigration (subject to caveat) and disliked minimum wages
- traditional views based on very basic supply and demand models

So what have economists been doing?

- evaluating benchmark models with empirical evidence
- considering (or reconsidering) alternative theories

Headlines

1. (immigration) Malthusian demand model is wrong
2. (min. wages) employers set wages (unless the min wage is binding)

Immigration research

Immigration

Plusses (traditional view)

- expand the economy (more workers → higher GNP)
- increase the value of land, capital...
- increase average wages (“diversification”)

Minusses (traditional view)

- lower wages for directly competing natives

Minimum wages

Minusses (traditional view)

- reduce employment of low-wage workers
- reduce investment
- raise consumer prices

Plusses (traditional view)

- (maybe) raise incomes of lowest-paid workers



Main caveat!

the downside of immigration

Many people intuitively think:
more people → lower wages
(Thomas Malthus, 1826)

AN ESSAY
ON THE
PRINCIPLE OF POPULATION
OR
A VIEW OF ITS PAST AND PRESENT EFFECTS
ON
HUMAN HAPPINESS

But...

- larger cities have more jobs and higher wages
- as women have entered the labor market, wages have not fallen
- many countries *subsidize* births (recent subsidy in China)
- some countries (Canada/Aus/NZ) even *encourage* immigration!

Escaping the Malthusian trap

- Malthus was thinking of the *medieval world* (only agriculture)
- later economists realized that in a modern economy we can avoid the Malthusian trap if *capital (machinery, infrastructure) can expand with population*
- when investment keeps pace with population, output per worker can rise if there are “increasing returns” (Paul Romer)
- BUT: if immigrant inflows have a different “skill composition” than natives, there could be a negative effect on natives who are most similar to the new immigrants (Malthus again)

Immigration agenda

Research agenda in past 3 decades:

- 1) how do we measure diversity of immigrants relative to natives?

*A: mainly by education groups (small age component)
canonical model has 2 ed. groups: college or not*

- 2) what is the evidence on diversity?

A: In US, share with BA+

natives: 33%

immigrants: 32%



B: what about a more granular analysis?

Measuring the diversity of the workforce

What are the immigrant shares of different education groups?

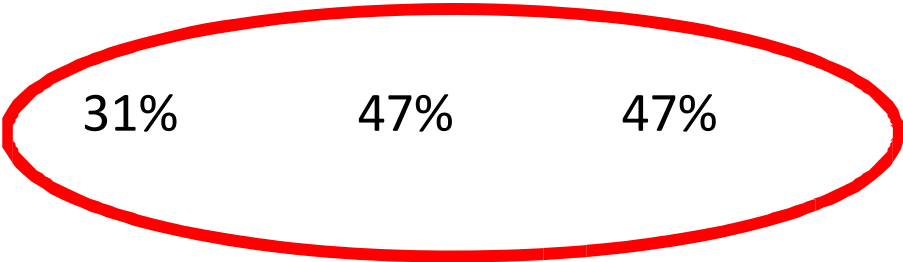
	<i>Percent Imm</i>	<i>Share of Workforce</i>
≤ 8 years	50%	2%
9-11 years	21%	7%
12 years (HS)	11%	34%
13 years	10%	16%
14 years (AA)	11%	9%
16 years (BA)	14%	20%
18 years (MA)	18%	9%
20+ years (PhD..)	22%	3%

largest concerns for lowest education groups (<12 years); also some concern for MA's and PhD's !

Deep dive: Immigrants and STEM (US)

Immigrant Shares in STEM fields (by education level)

	All STEM	CompSci	Engineering	Economics
BA	21%	25%	28%	23%
MA	34%	49%	42%	29%
PhD	31%	47%	47%	21%



in engineering and computer science, nearly HALF of all MA's and PhD's are foreign-born (though many get their final years of education in the US)

Immigration agenda

- 1) how do we measure diversity of immigrants relative to natives?

A: mainly, share of college+. Small age component

- 2) effects of non-diverse immigration?

A: immigrants concentrated at low and high ends of ed. distribution. But overall college share is the same as for natives

- 3) how do we get credible evidence on the effect of immigration inflows?

- 4) other approaches?

Credible evidence

How do we get credible evidence on effects of immigration?

a) Big shocks (with treatment *and* control group)

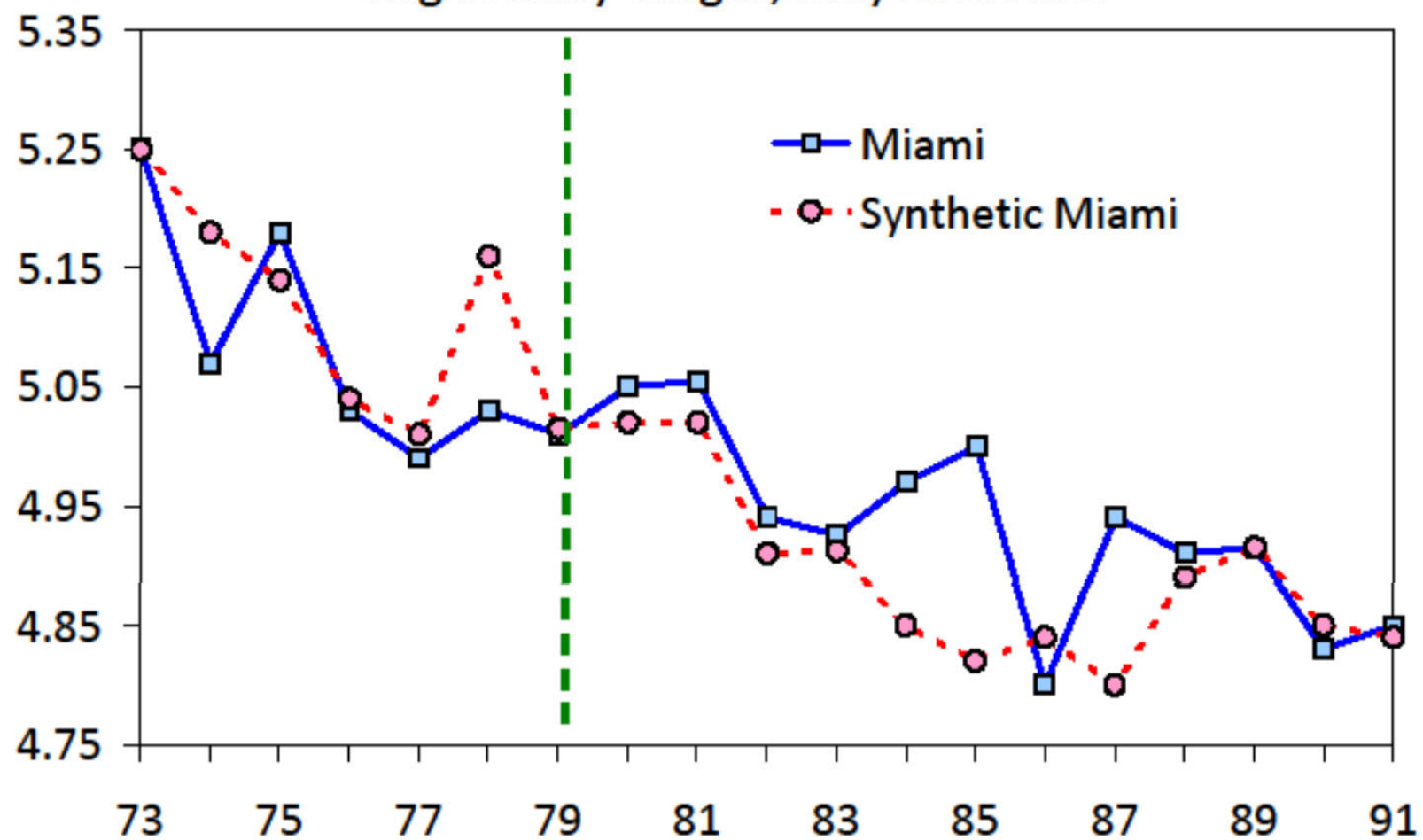
- Miami Boatlift (large injection of lower-skilled workers)

- mass exodus of Russian Jews to Israel 1991-3

- end of Algerian war (France), Angolan war (Portugal)

small (close to 0) effect on native wages, even in short run large increases in investment (Israel)

Effect of the Miami Boatlift:
Log Weekly Wages, May+OGR CPS



Credible evidence (2)

a) Big shocks

- Miami Boatlift
- end of Algerian war (France), Angolan war (Portugal)
- movement of people with German heritage from Russia to Germany after fall of Soviet Union
- mass exodus of Russian Jews to Israel 1991-3

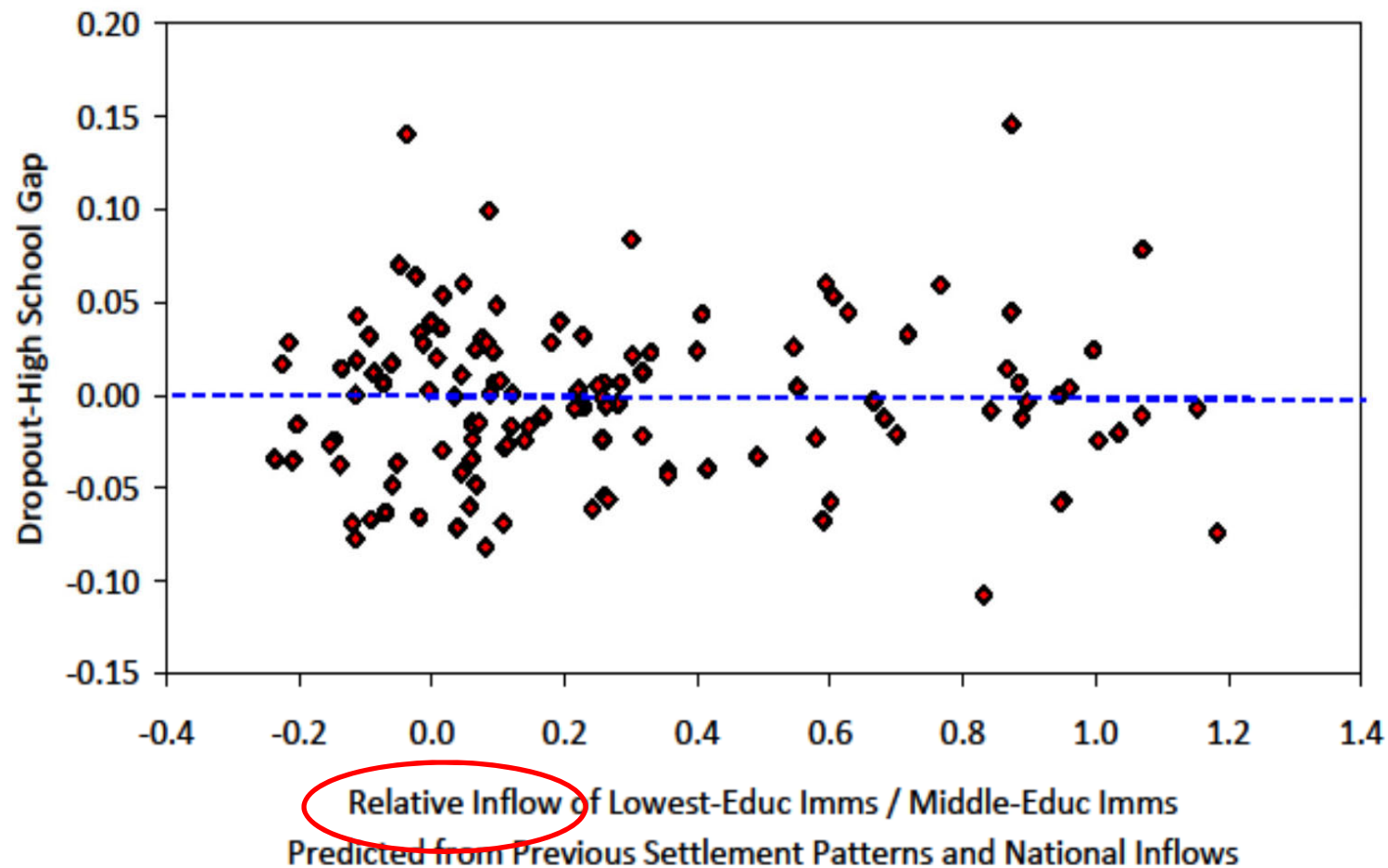
small (often close to 0) effect on native wages, even in short run; large increases in investment (Israel)

Credible evidence – another approach

b) Enclave patterns

- immigrants go where previous immigrants from the same source went many years ago (e.g., Cubans to Miami, Polish imms to Chicago, Filipino imms to Naval bases)
- identify “predicted” inflows that do not depend on current conditions in a city (e.g., post-NAFTA → flows to LA, Tx)
- Card (2001, 2011): predict *relative inflows* of low vs. higher-educ. immigrants, and relate relative inflows to *relative wage* of low versus higher education natives in different cities

Inflow of Lowest-Education Immigrants vs. Dropout Wage Gap for Natives



Traditional approach to studying immigration

Model-based simulations

- leading proponent: George Borjas
- simplified theoretical model of labor demand + measures of supply changes due to immigration
- 3 parameters, summarizing degree of substitutability between different education groups, and between immigrants and natives with the same education
- allow capital to grow with population (escape the Malthusian trap “on average”)
- Borjas’ model: immigration 1990-2010 caused wages of natives with no high school degree to fall 2 percent, but raised average wages by 0.6 percent

return to the scorecard

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- (maybe) raise incomes of lowest-paid workers

very small effect



Immigration Research and Policy?

-despite research findings, immigration policies in US and many EU countries have tightened since 2000

-immigration has become a key issue for right-wing parties, e.g. in France, Sweden, Hungary, UK (Brexit), US (Trump)

-WHAT IS CONVENTIONAL ECONOMIC RESEARCH MISSING?

Card-Dustmann-Preston 2012

- people care about economic effects of immigration (on wages taxes, etc) and about the effects of immigration on the “composition” of the population (race, ethnicity, religion, language...)
- similar to models of neighborhood choice: whites prefer to live in places with few nonwhites.

labor market and compositional concerns:

Economic questions:

1. Do immigrants *lower wages*?
2. Do immigrants *harm the poor*?
3. Do immigrants *fill job shortages*?
4. Do immigrants *take away jobs* from natives or create new jobs?
5. Do immigrants *take out more* in social benefits than they contribute in taxes?

Compositional questions:

1. Is it better if *everyone shares the same customs and traditions*?
2. Is it better if everyone *shares the same religion*?
3. Is it better if everyone *shares the same language*?
4. Do immigrants *undermine or enrich the culture* of the country?
5. Should the country *stop immigration to reduce social tensions*?

Drivers of opinions about allowing more immigrants:

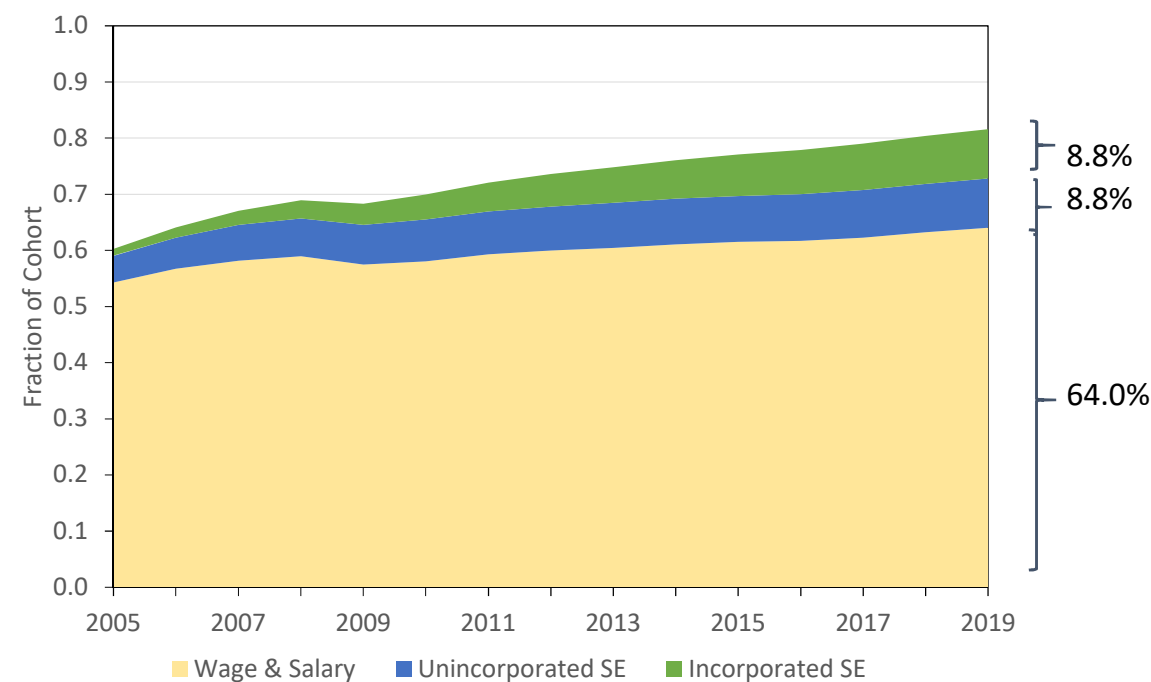
20% economic concerns; 80% compositional concerns

Future directions in immigration research:

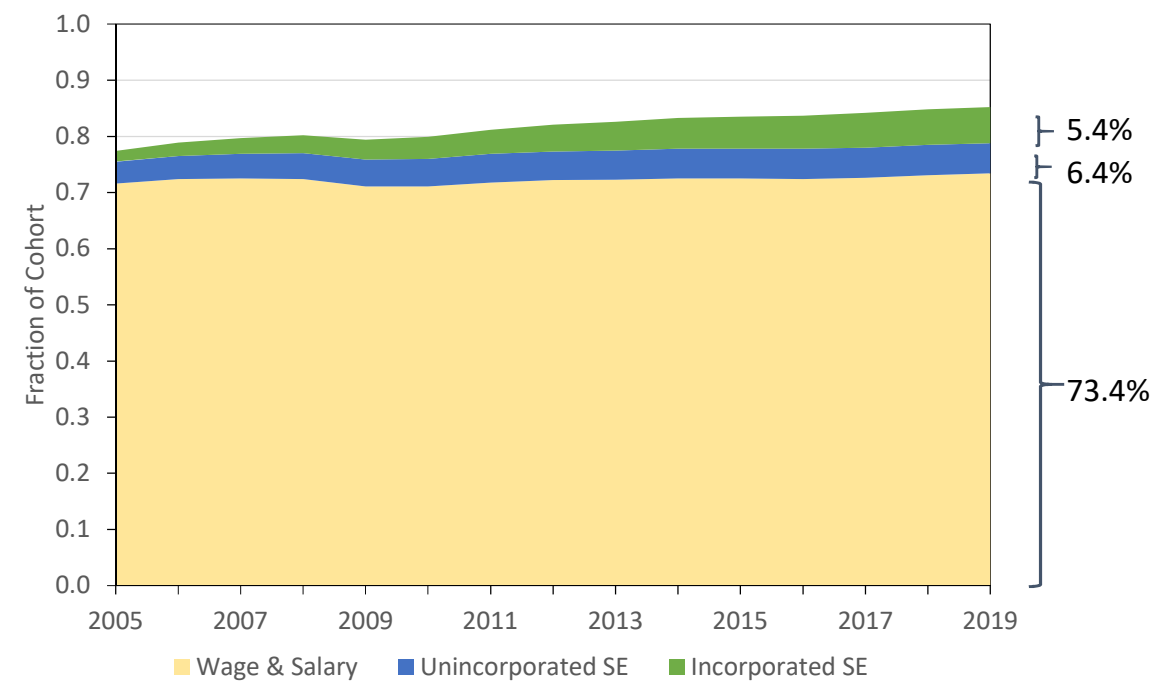
1. Can we quantify benefits(?) of population growth
2. What will happen to countries like Japan/Korea that have falling population yet little or no immigration?
3. To what extent do lower-skilled workers “complement” native workers (e.g., by providing services that allow women to work more/longer?)  already some good studies
4. Why are compositional concerns so important to voters? Are they becoming even more important?
5. Will countries like US respond to need for workers + compositional concerns with strictly enforced “guest worker” policies (à la Saudi Arabia)?

Self Employment and Wage and Salary Employment Rates: Canada

A. Activity of Immigrants: Age 25-34 at Arrival



B. Activity of Natives: Age 25-34 in 2000-2004



Minimum wages

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#1

problem

Economic thinking about minimum wages

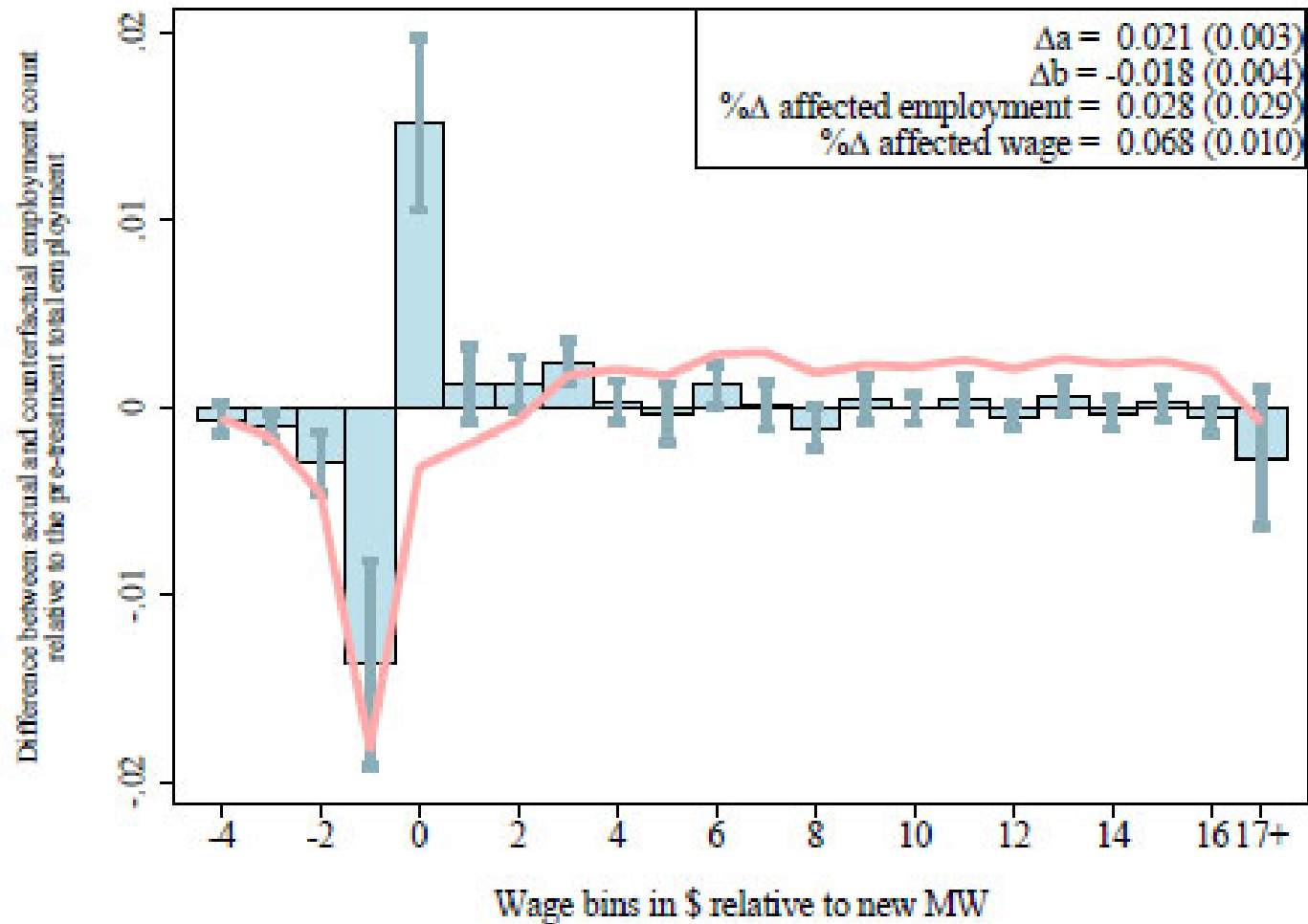
- key assumption in traditional framework: employers have no ‘market power’ to set wages. Each worker has the same wage at all jobs
- same framework (“perfect competition”) was widely used to describe product markets in 1950s and 1960s
- what if employers set wages? Robinson (1933) showed in that case, imposing a min wage can raise employment!
- intuition: if lowering wages does not lead all workers to quit, then a firm has to trade off lower wages and higher vacancies. Imposing a min. wage removes vacancies.

Research on minimum wages

How to get credible evidence...

- Big shocks again!
- studies of (new) Federal min wage in 1940s looked at Southern textile mills
- same idea but with a clearer “control group”: NJ – Pennsylvania study (CK, 1994)
- many subsequent studies with bigger samples, using multiple min. wage events, with data before and after the increase
- e.g. Cenzig et al: pool 138 state-specific minimum wage increases and examine changes in employment in wage bins relative to changes in control states

Figure 2: Impact of Minimum Wages on the the Wage Distribution



Notes: The figure shows the main results from our event study analysis (see equation 1) exploiting 138 state-level minimum wage changes between 1979-2016. The blue bars show for each dollar bin (relative to the minimum wage) the estimated average employment changes in that bin during the 5-year post-treatment relative to the total employment in the state one year before the treatment. The error bars show the 95%

More credible evidence

- UK: introduction of national min. wage in 1996
- Germany: introduction of national min. wage in 2016
- now clear that employment effects of modest minimum wage increases are very small (sometimes positive?)

OTHER effects of min. wages

prices: rise in min. wages causes rise in prices
reflecting share of labor in costs

family incomes: rise in min. wages raises relative
income of low-inc. families / reduces poverty

Broader picture

- growing evidence of employer wage setting power
- and growing evidence that employers offer systematic pay premiums that affect wage inequality, wage gaps between groups, etc

return to the scorecard

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Policy responses

- US: many states adopted min. wages > Federal floor
BUT: Federal min wage is stuck. And the opposition still uses concern over job losses as the lead argument.
- Europe: introduction of min wage in Germany
EU: min=60% of median wage
- rest of world?
 - general pattern of increases in min wages
 - is this driven by evidence / new thinking?

Future directions in min wage research:

1. integration of imperfect competition models into empirical studies
2. more research on longer-term impacts on investment (some recent model-based studies)
3. more research on impacts on poverty and outcomes for lower-income families

Conclusions

- we now understand much more about the effects of immigration and minimum wages
- state of the art: massive data sets covering nearly all workers and their employers
- many economists have updated their “go to” models
- research has (possibly) influenced minimum wage policies
- probably not influenced immigration policy
- many open questions in both areas