

# Economic Research and Policy: Immigration and Minimum Wages

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# Economic Research and Policy

- economists often appear to be influential
- “Chief economists” in many gov’t agencies
- Council of Economic Advisors (CEA) housed in White House!
- significant progress in economic knowledge, driven by new data, expanding computer power, and new methods

And yet....

- economic knowledge is still imperfect
- impossible to achieve 100% consensus
- policy choices often depend on “non-economic” factors

# Economic Research and Policy

Today: discuss examples of important progress in economic research and their impact on policy, using two examples:

Immigration

Minimum Wages

- traditionally economists tended to “like” immigration and “dislike” minimum wages
- how was progress made? What were the new findings? Did the findings matter for policy?

# Side-by-side: Economist's assessment

## **Immigration**

### *Plusses (traditional view)*

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

### *Minusses (traditional view)*

- lower wages for directly competing natives

## **Minimum wages**

### *Minusses (traditional view)*

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

### *Plusses (traditional view)*

- (maybe) raise incomes of lowest-paid workers

# Side-by-side

## Immigration

### *Plusses (traditional view)*

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

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# Economic Research and Policy

“traditional” views based on simplest 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 (1)

- most people intuitively think:
  - more people → lower wages
- this was the idea proposed by Malthus in his famous 1826 essay on population and human misery

BUT:

- larger countries do not have lower income/capita
- larger cities have higher wages
- many countries try to promote population growth
- some countries (Canada/Aus/NZ) even *encourage* immigration!

## Immigration (2)

- Malthus was thinking of the *medieval world* (only agriculture)
- in the early 20<sup>th</sup> C economists realized that in an industrial 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 even with more population!
- if immigrant inflows are non-diversified, there could be a negative effect on natives who are most similar to the new immigrants (and + effect on other groups)



## Immigration (3)

### Research agenda:

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

*A: mainly, by education groups. Small age component*

- 2) what is the evidence on diversity?

*A: Big picture: share with BA+*

*natives: 33%*

*immigrants: 32%*



*B: more granular: education shares*

# impacts of immigration (3)

measuring the diversity of labor inflows

	<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%

# Deep dive: Immigrants and STEM

## Immigrant Shares in STEM fields

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

## Immigration (3)

### Research agenda:

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

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

2) what is the evidence on diversity?

*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?

## Immigration (4)

### Credible evidence....

#### 1) Big shocks (with treatment *and* control group)

- Miami Boatlift

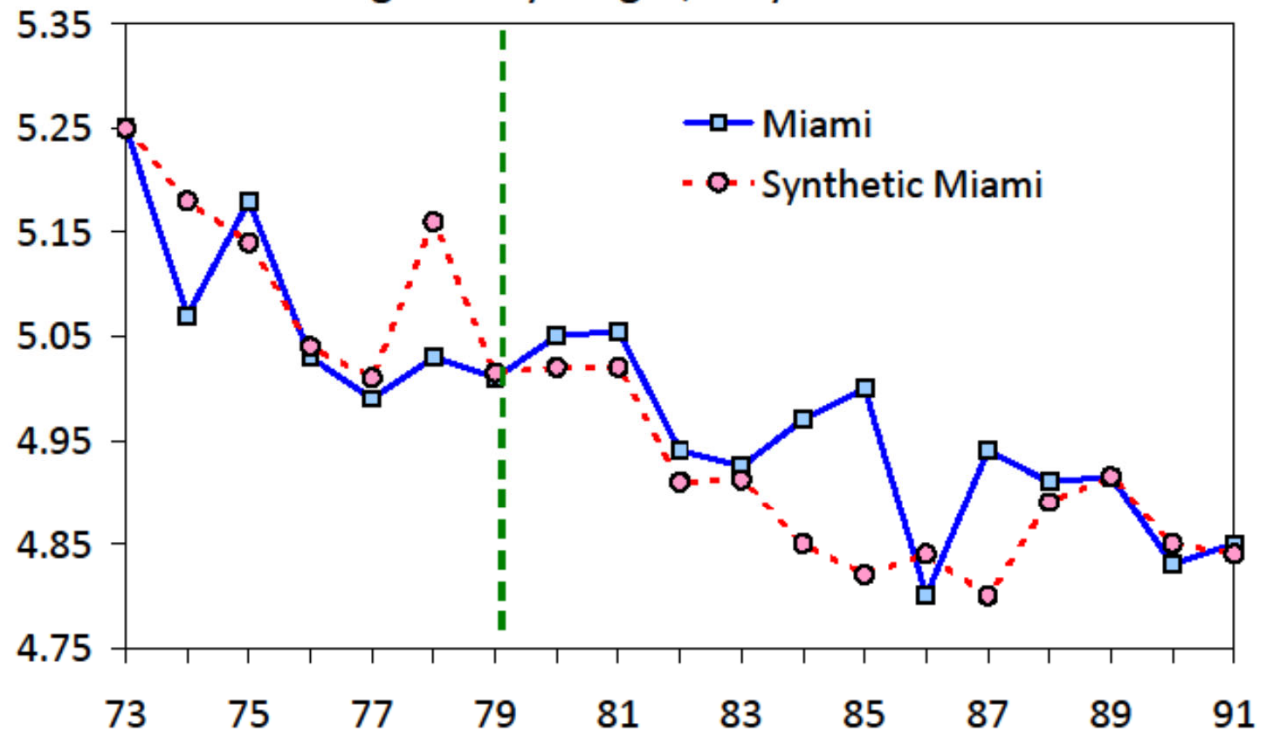
- mass exodus of Russian Jews to Isreal 1991-3

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

*small (close to 0) effect on native wages, even in short run*

*large increases in investment (Isreal)*

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



## Immigration (4)

### Credible evidence....

#### 1) Big shocks

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- mass exodus of Russian Jews to Israel 1991-3
- end of Algerian war (France), Angolan war (Portugal)

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## Immigration (5)

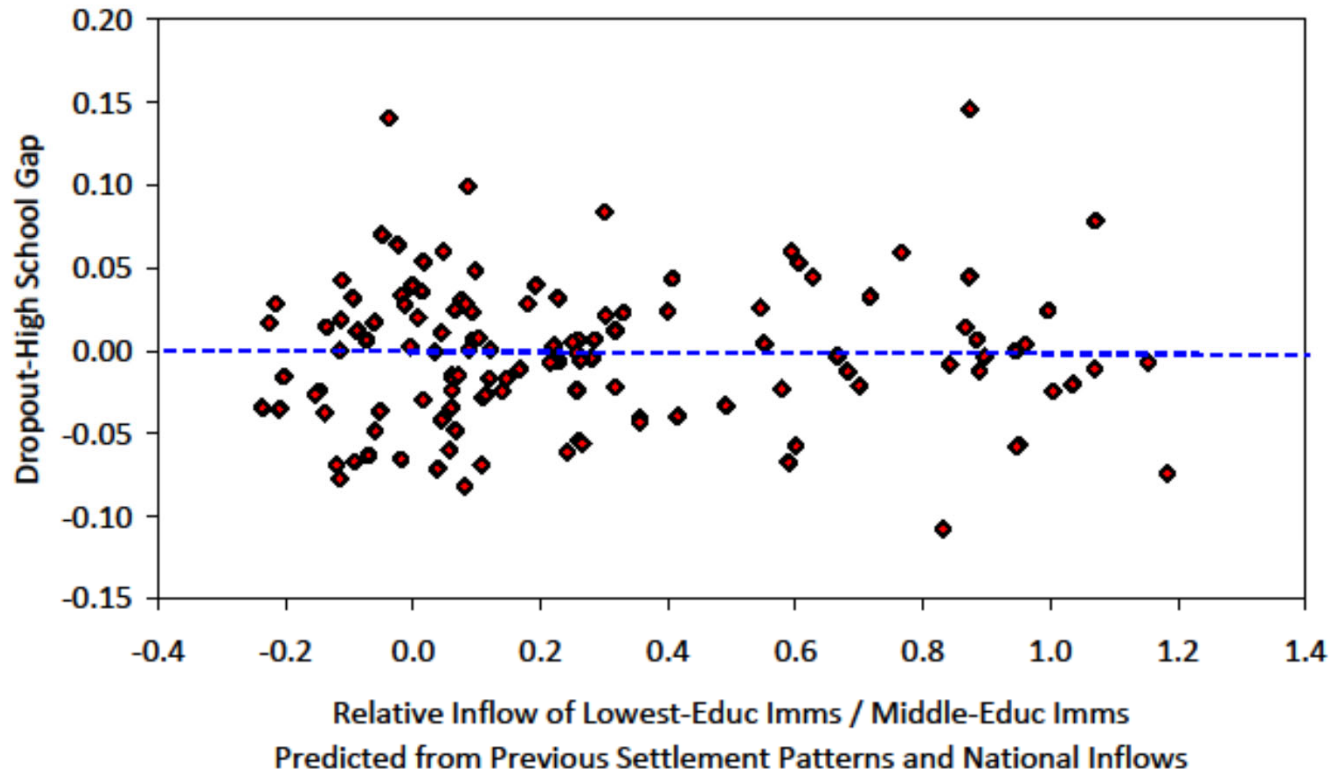
### Credible evidence....

#### 2) 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)
- can find “predicted” inflows that do not depend on current conditions in a city
- Example: predict *relative inflows* of <High school immigrants relate inflows to *relative wage* of native dropouts



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



## Immigration (6)

What about the longer-run?

a) comparisons from Canada: Montreal vs Toronto

- post 1970: language laws and policies divert immigrants away from Montreal. (confounding factors?)

b) comparisons from different sectors of W. Germany after WWII: Am. sector accepts refugees from East; Fr. sector does not. Ciccone-Nimczik (2022)

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# Immigration (7)

## Policy reaction?

- US immigration policies tightened after 2001
  - and again under Trump administration
  - H1-B caps now severely binding
  - refugee policies now among strictest in world
- 
- Conclusion: immigrant policy driven by non-economic factors (in US, UK,...): concerns over 'composition'

# Minimum wages (1)

## Backstory (theoretical framework)

- Econ 1 textbook says: raise minimum wage, employers cut employment
- implicit assumption: employers hire each worker at her “market wage”
- but what if employers set wages? Robinson (1933) showed in that case, imposing a min wage can raise employment!
- intuition: why not raise wages in face of vacancies? Because you have to pay more to the incumbents!

## Minimum wages (2)

### 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 (many) subsequent studies

## Minimum wages (3)

### Credible evidence...

- US: cross-border studies of dozens of minimum wage increases that affect one side of the border
- 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?)
- (elsewhere): growing evidence of employer wage setting power

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## Minimum wages (4)

### Policy reactions

- initial reaction to NJ-PA study was “mixed”
- strong backlash from conservative economists, e.g., Nobel laureate James Buchanan (1996)

*no self respecting economist would claim that increases in the minimum wage increase employment. Such a claim ... becomes equivalent to a denial that there is even minimal scientific content in economics, and that, in consequence, economists can do nothing but write as advocates for ideological interests*

## Minimum wages (5)

### Policy reactions

- post 2000: many states adopted min. wages > Federal floor  
(interesting combination of voter propositions, laws...)
- BUT: Federal min wage is stuck. And the opposition still uses concern over job losses as the lead argument.
- even if min wage has limited employment effects it can still lead to lower profits for business. So is “concern over job loss” really the main issue?

# 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 in the US