

## **The Effect of Minimum Wages on Immigrants**

The recent Congressional debate over raising the federal minimum wage and the growing number of states that have imposed or raised a state minimum wage in recent years have brought new urgency to the debate over how minimum wages affect the labor market outcomes of low-skilled workers and other affected groups. This study examines the effect of minimum wage increases on employment and earnings among immigrants as compared with natives in the U.S. over the last decade. The U.S. labor force has evolved rapidly in recent years, particularly on the low-skilled end, and the foreign-born have accounted for most low-wage job growth. So while many studies have addressed the general question of minimum wage effects, especially among youths, a timely and comprehensive study of the impact on immigrants is needed.

Conventional economic theory predicts that higher minimum wages lead to higher average earnings and lower employment-to-population rates. The effects should be largest among groups that earn near the minimum wage, groups that are likely to include youths and the low-skilled. However, some research suggests that higher minimum wages are not necessarily associated with lower employment rates (Card and Krueger, 1995). Potential explanations for these results include noncompetitive labor markets, decreases in hours per worker instead of in the number of workers, and improvements in the quality of workers and their productivity that offset the effects of higher wage mandates. Another possibility is that employment rates measured by surveys of

individuals are unchanged if some individuals work under the table at subminimum wages but report being employed.

From a theoretical standpoint, the impact of minimum wages on the foreign born likely is larger than for natives, but there are also reasons why the impact could be smaller. On the one hand, immigrant workers on the low end of the skill distribution have lower levels of human capital, institutional knowledge and language skills, on average, than natives. Given their lower productivity, immigrants should experience more adverse employment effects than natives when the minimum wage increases. However, if immigrants have more inelastic labor supply or are more likely to work off-the-books, then minimum wage increases might have *less* of an employment and wage effect among immigrants than among natives.<sup>1</sup>

We are not aware of any previous research that has directly examined whether the effect of the minimum wage is different among immigrants than among natives. Stylized facts suggest that immigrants are more likely to be affected by increases in the minimum wage; among less-educated workers, the foreign-born earn 14 to 18 percent less than natives (Economic Report of the President, 2005). One-third of adult immigrants lack a high school degree compared to only eleven percent of natives. Previous research by Butcher and DiNardo (2002) finds that the minimum wage had a sizable impact on the wage distribution among immigrants, with the higher real minimum wage in 1970 compressing the bottom of the wage distribution among immigrants more than among natives.

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<sup>1</sup> However, Fry and Lowell (1997) find that immigrants are less likely to earn subminimum wages than natives.

We examine the relationship between minimum wages at the federal and state level and employment-to-population rates and average hourly earnings among the employed during the period 1994 to 2005. We combine data on the higher of federal and state minimum wages with individual-level data from the March Current Population Surveys (CPS) and the CPS outgoing rotation groups for each month during 1994-2005. We construct state-level employment-to-population ratios for all foreign- and native-born individuals aged 16 and older as well as state-level average earnings among foreign- and native-born workers aged 16 and older from the CPS. We examine immigrants as a whole as well as subgroups of immigrants that are more likely to earn near the minimum wage, such as immigrants who have at most a high school diploma and immigrants from Mexico and the rest of Latin America. We also estimate results for teenagers to provide a benchmark since teens are the group conventionally examined in the minimum wage literature (e.g., Neumark and Wascher, 1995, 1996)

Preliminary results indicate that minimum wage increases have more of an effect among immigrants than among natives as a whole, and particularly among low-skilled immigrant groups. We find virtually no effect on employment or earnings among natives as a whole, which is not surprising given the relatively low level of the minimum wage in most areas during this period. We find some evidence of positive wage effects and adverse employment effects among immigrants, and these effects are larger among immigrants who have at most a high school diploma or are from Latin America.

**References:**

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