Immigrants at the Margin: Labor Market Effects of the Minimum Wage

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Extended Abstract
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One of the foundational findings in modern labor economics is the complex ways in which the labor market adjusts to increases in the minimum wage. This paper examines the important differential effects of the minimum wage on immigrant and native-born individuals. This focus is important because immigrants for a large share of the low-wage population in the United States and the belief that immigrants, especially the undocumented, face significant barriers in the labor market.

We have several key findings: first, increases in the statutory minimum wage raise the earnings of both immigrants and native-born workers. This is important because of a perception that many undocumented workers are paid less than the minimum wage and have little recourse to upholding their rights. Our second key finding is that increases in the minimum wage lead to reductions in hours worked among immigrants. These declines largely offset the increase in the hourly wage and so there is little growth in earnings. In line with the large existing literature, we find no effect on employment and also find no effect on hours worked among the native-born.

We next document that these effects are strongest among immigrants with the weakest ties to the labor market and in industries with the most flexible hours. In particular, the negative effect on hours worked is concentrated on among non-citizens, those who have been in the country for a shorter period of time, and – based on their characteristics – are more likely to be undocumented.

Our data and empirical strategy follow that in Cengiz et al. (2022). In particular, data from the Current Population Survey (CPS) from 1994 to 2019, as the question on nativity was introduced with the CPS redesign in 1994. Because most prominent state-level minimum wage increases occurred after 1990, dropping the sample before 1994 is likely to have minimal impact on the estimates. The minimum wage data are obtained from Cengiz et al. (2022). We focus on the 168 "prominent" minimum wage increase events from 1994 to 2019, where the minimum wage was increased by more than \$0.25 and more than 2% of the workforce earned between the old and new minimum wages. We employ machine learning techniques to identify workers most likely to be affected by the minimum wage increase, and then focus on analysis on individuals who have the top 10% probability of being affected by minimum wage increases. Our results are

presented in the form of event study models that allow us to assess pre-trends in outcomes and following time-varying treatment effects. We also assess whether treatment effects are associated with announcement or enactment of minimum wage changes.

This work makes a number of contributions to the literature. First, a key concern with the minimum wage is that firms may substitute undocumented workers, and immigrant workers in general, when the minimum wage increases – particularly if immigrant workers are paid below the legal minimum. Our work suggests this is not a particularly widespread phenomenon. Second, our work highlights heterogeneity in the effects of minimum wage increases, which has not been well studied. This heterogeneity is important for understanding the low-skilled labor market generally and how the labor markets for immigrants and native-born differ. Our results are consistent with the idea that minimum wages lead to declines in the demand for immigrant labor. Firms respond by cutting hours, rather than employment, so as not to lose potentially valuable workers.

References

Cengiz, Doruk, Arindrajit Dube, Attila Lindner, and David Zentler-Munro. 2022. "Seeing beyond the Trees: Using Machine Learning to Estimate the Impact of Minimum Wages on Labor Market Outcomes." *Journal of Labor Economics*, 40(S1): S203–S247.