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The Economics of Mandating Benefits for H-2B Workers

TESTIMONY

Before the Domestic Policy Subcommittee of the
House Oversight and Government Reform Committee

For the hearing entitled
*The H-2B Guestworker Program and Improving the
Department of Labor's Enforcement of the Rights of Guestworkers*

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Chairman Kucinich, Ranking Member Jordan, and Distinguished Members of the
Subcommittee:

It is a privilege to be asked to testify in this forum today regarding the H-2B guest worker program and consideration of the Department of Labor's enforcement of policies related to guest workers. My name is Patrick McLaughlin, and I am a research fellow at the Mercatus Center at George Mason University. The Mercatus Center is a university-based research, education, and outreach organization affiliated with George Mason University and located on the Arlington, Virginia, campus. A core mission of the Mercatus Center is to provide a public service by conducting research in law, economics, and other social sciences that is directly relevant to the issues being considered by policymakers. My research covers a broad spectrum of policy issues, but one particular research focus of mine is the economic effects of federal immigration policies.

I have been invited to share my opinion of what economic effects we should expect if the US mandated that employers must pay certain employee benefits for H-2B workers. In order to understand what the effects of mandated benefits will be, it is useful to understand what the existing body of economic research on immigration has to tell us that is relevant to this H-2B worker conversation.

Much attention is given to possible adverse effects of immigration on the labor market outcomes of native workers – wage rates and employment rates. It is true that immigrants may compete with some native workers in labor markets, possibly driving down wages or increasing unemployment levels for particular native workers that are in

direct competition with immigrants.¹ Additionally, some research has indicated that less-skilled immigrants are more likely to qualify for and participate in public assistance programs, which are disproportionately paid for by native workers.² At the same time, immigrant workers convey benefits to consumers of goods in the receiving country. Particularly, immigrant workers may offer skills and abilities that complement the abilities of native workers and reduce the overall costs of production.³ Both through offering different skills and because they increase the supply of labor (lowering the cost of labor) low-skilled immigrants reduce the prices of goods that require relatively high amounts of low-skilled labor to produce.⁴ In addition, high-skilled immigrant workers have been shown to contribute substantially to the production of new ideas as measured by the amount of patents they generate.⁵ Overall, there are both costs to native workers as well as benefits to consumers from immigration that can affect policymaking choices regarding H-2B workers.

Economic theory on the effects of immigration on the wages and employment levels of native workers is ambiguous. On the negative side, there is a possible decrease in wages and increase in unemployment for substitutable native workers (native workers whose skill set is the same as immigrants). Let us consider the case of low-skilled immigrant workers specifically to understand this. Suppose there is a sudden influx of low-skilled immigrants to the US. If these immigrant workers are perfect substitutes for some native workers, then economic theory predicts a decrease in the wage rate for these native, substitutable workers, because the overall supply of workers of this type has increased.⁶ The magnitude of this decrease in wages is an empirical question which many economists have tried to answer.

If there is a negative wage effect, it appears to be small and focused on native substitutable workers. One influential review of the literature published in 1995 concluded that “[d]espite the popular belief that immigrants have a large adverse impact on the wages and employment opportunities of the native-born population, the literature on this question does not provide much support for this conclusion.”⁷ Another review, published a decade later, reconsidered the question of low-skilled immigrant impacts on native labor markets outcomes in light of the increasing low-skilled composition of immigrant inflows to the US. Again, the conclusion was that the “evidence that immigrants harm native opportunities is slight.”⁸ The National Academy of Sciences concluded that the economic impact of immigration on the wages of competing native workers is relatively small.⁹ What does small mean for these authors? Of those studies published in peer-reviewed economics journals that have found negative wage effects, the

¹ Friedberg and Hunt (1995) and Card (2005) offer somewhat broad reviews of the economics literature on the immigration effects on labor outcomes of native workers.

² Borjas (1994).

³ Ibid.

⁴ Cortes (2008); Lach (2007).

⁵ Chellaraj et al (2005); Kerr and Lincoln (2008).

⁶ Friedberg and Hunt (1995).

⁷ Ibid., p. 42.

⁸ Card (2005).

⁹ Smith and Edmonston (1997).

most negative conclude that a 10 percent increase in the proportion of low-skilled immigrants in the labor force leads to somewhere between a 0.25 and 4 percent decrease in the wages of the substitutable native workers.¹⁰ Examining particular subgroups can increase the magnitude of that figure, as the impact appears to differ fairly dramatically across education groups. For example, one study estimated that low-skilled immigration between 1980 and 2000 led to no change in wage rates for male native workers with some college education but an 8.9 percent wage decrease for native male high school dropouts.¹¹

Counteracting negative labor market outcomes is the benefit native consumers may receive from decreased prices for low-skilled-labor-intensive goods. The net impact on the welfare of natives' depends on changes in purchasing power – the amount of goods an individual can buy. While decreases in wages represent decreases in purchasing power, a decrease in prices leads to an increase in purchasing power. Only a handful of papers so far have empirically assessed immigration's impact on the prices of goods and services, and I am only familiar with one that specifically looks at low-skilled immigration's impact on US prices. That study concluded that a 10 percent increase in the share of low-skilled immigrants in the labor force leads to a 2 percent decrease in the price of immigrant-intensively produced goods and services.¹²

Thus, there may be a net positive or negative effect on the purchasing power of natives, but that net effect is difficult to estimate and will be different for different types of workers and consumers.

I have been asked to consider the economic effects of mandating that some benefits be paid by employers to H-2B employees. There is also an extensive economics literature on the topic of mandated benefits, including both theoretical and empirical work on topics such as mandating that employers pay maternity benefits, unemployment insurance, and Workman's Compensation.¹³ Regardless of the specific nature of the mandated benefit, the effect is always that employers are forced to pay more for each worker they hire who receives mandated benefits. Some or all of these costs may be shifted onto the employee in the form of lower wages.¹⁴ To whatever degree the employee values the mandated benefit, this amounts to a transfer of wealth from the employer to the employee, just like the payment of wages – only, in this case, it is a non-voluntary transfer.¹⁵ There are two possible scenarios that could result from mandating benefits for H-2B workers that I would like to discuss, one for H-2B workers who are paid the minimum wage or the required prevailing wage, and one for H-2B workers who are paid more than minimum wage or the required prevailing wage.

¹⁰ Altonji and Card (1991); Borjas (2003 and 2006). Card (1990), Card (2001), LaLonde and Topel (1991).

¹¹ Borjas (2003).

¹² Cortes (2008). See also Lach (2007), who examines immigration's impact on prices in Israel and finds that a 1 percentage point increase in the proportion of immigrants in the labor force causes a 0.5 percentage decrease in prices on average.

¹³ Anderson and Meyer (1997); Anderson and Meyer (2000); Gruber (1994); Gruber and Krueger (1991); Summers (1989).

¹⁴ Summers (1989); Gruber (1994).

¹⁵ Summers (1989).

To make these scenarios somewhat more concrete, suppose that the mandated benefit in question is inbound transport costs. What would occur if employers were required by law to pay inbound transport costs for all temporary employees – in other words, if employers must pay the costs for the employee to travel to the worksite?

First, consider those employees being paid more than minimum wage or the required prevailing wage. The papers I examined that address the distribution of the burden of paying for mandated benefits consistently present the same message: the beneficiaries of the mandated benefits mostly end up paying for the benefits with lower wages. For example, one study on the implementation of the Pregnancy Discrimination Act and how it affected wages, hours worked, and employment of married women of child-bearing ages, found results that “consistently suggest shifting of the costs of the mandates on the order of 100 percent” to those women.¹⁶ When the cost of mandated benefits can be passed along entirely to their beneficiaries, theoretically there should be little to no change in employment levels.¹⁷ This result is confirmed empirically in many studies.¹⁸ This leads to one possible outcome: if transport costs are passed along to H-2B workers in the form of lower wages, then the number of H-2B workers likely will not change and their effective wages (their wages plus their benefits) will not change. This scenario can only occur, of course, if wages can be lowered. Minimum wage or prevailing wage requirements may prevent this for low-skilled workers, making this scenario somewhat unlikely.

This second scenario seems more likely: employers are prevented because of some legal mechanism from offering lower wages to H-2B workers. If minimum wage, prevailing wage requirements, or some other factor means that wages cannot be lowered to compensate for employers paying transport costs, then the results are fairly straightforward from an economic perspective. Firms will seek out workers with lower benefit costs.¹⁹ In this scenario, that means companies are less likely to hire workers whose costs employers must bear to transport them to their new jobs. This implies that, overall, those industries that rely heavily on this type of worker, such as the landscaping and tourism industries, will have higher labor costs and higher consumer prices for the goods they produce. Consider, for example, a theme park where the total number of employees needed each summer may exceed the number of local workers available each summer in the geographical vicinity. If all non-local employees (i.e., those for whom the company would have to pay transport costs) suddenly cost more to the company, then that company would become less profitable, hire fewer employees, or both. Hiring fewer employees would reduce the supply of some of the services offered by these firms, possibly leading to shorter operating hours or longer waiting lines in the case of theme parks.

¹⁶ Gruber (1994), p. 623.

¹⁷ Summers (1989).

¹⁸ Anderson and Meyer (1997); Anderson and Meyer (2000); Gruber (1994); Gruber and Krueger (1991).

¹⁹ Summers (1989).

In the economics literature, minimum wage and prevailing wage requirements are referred to as wage rigidities.²⁰ Wage rigidities decrease the ability of the firm to pass along the costs of mandated benefits to employees. If this leads to scenarios where the cost of an employee would be greater than the benefit that employee provides to the employer, then one would expect that the employer would choose not to hire that employee. As Larry Summers puts it, “Suppose... that there is a binding minimum wage. In this case, wages cannot fall to offset employers’ cost of providing a mandated benefit, so it is likely to create unemployment.”²¹ In the case where employees must pay transport costs, the effect would be that potential employees that are geographically distant (such as immigrants) would be less likely to be hired compared to potential employees that are physically closer to the job location or compared to employees who circumvent legally mandated benefits, such as illegal immigrants.

While the exact effects of mandating benefits for H-2B workers are not obvious, the literature referenced here suggests two qualitative economic implications of such a policy. First, while those workers who receive the mandated benefits would be made better off, some employers may opt to hire fewer H-2B workers or may choose to replace them with native low-skilled workers or illegal immigrant workers instead. It is not clear whether immigrant workers, both legal and illegal, would be made better off as a group. Second, it is also relevant to consider whether mandating H-2B benefits would help or harm native workers and consumers. The answer depends on a number of factors. The resulting decrease in the use of H-2B workers would imply an increase in the price of consumer goods produced with their labor, harming natives who consume those goods. At the same time, the negative wage effects of immigration on native workers may be reduced somewhat, helping substitutable native workers. The net effect on natives overall is ambiguous.

Finally, if the goal is to extend more benefits to H-2B workers, one other policy option that might be explored is allowing H-2B workers to be “free agents” – that is, giving them the ability to transfer their H-2B visa from one employer to another. This would encourage employers to compete for their services. If demand for H-2B workers is greater than the available supply, which is constrained by the H-2B visa cap, a “free agent” model would allow employers to bid for employees’ services so that employees will end up in the job that is highest value to the economy and highest paying to the employee.

I thank you again for inviting me here today.

²⁰ Ibid.

²¹ Ibid., p. 181.

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