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Eco-Fun-Omics: Can minimum wage actually affect migration?!

I began working on this topic about 8 months back. I had a very special motive behind choosing this topic. However, it no longer serves the purpose. No hard work can ever be wasted; especially mine. So, here I am presenting a small part of my research.

Impact of changes in the minimum wage on immigration

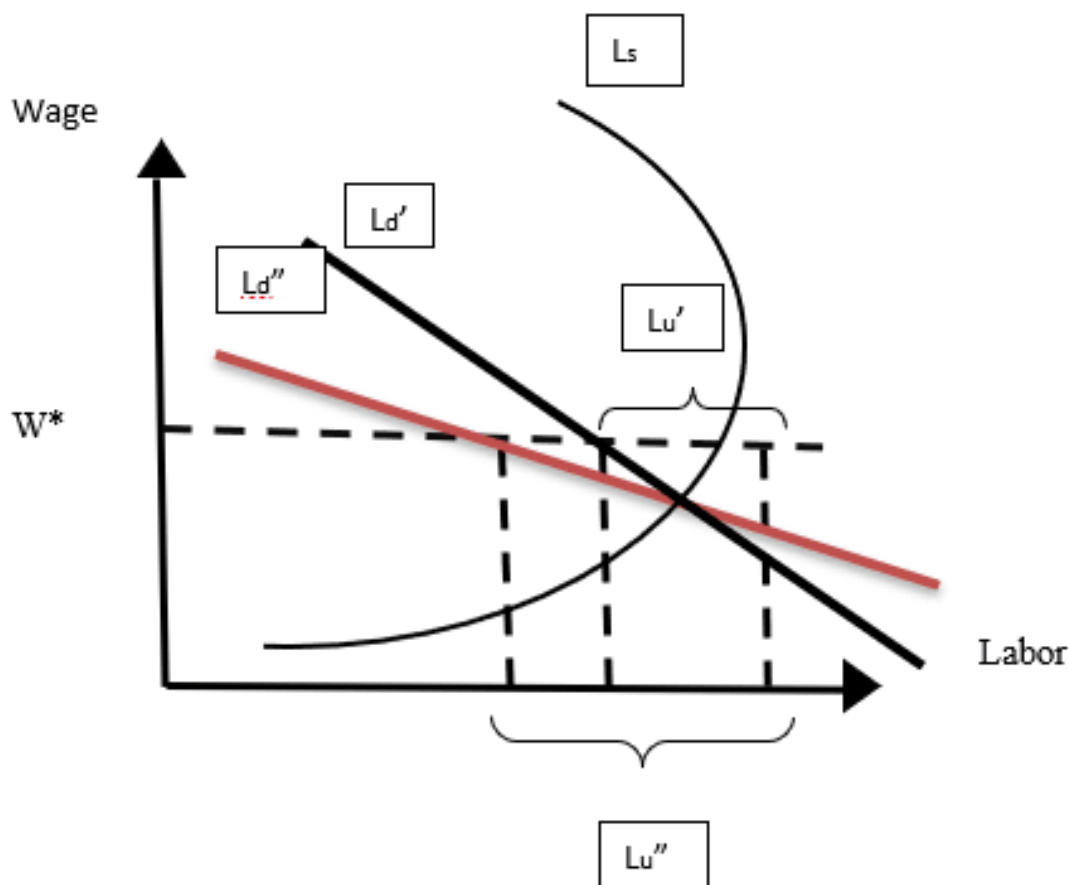
A minimum wage can have ambiguous effects on immigration: on one hand, it increases the average wage, hence attracting more immigrants from abroad; on the other hand, it could adversely affect employment perspectives, thereby deterring immigration.

The basic issue which I want to address here is the impact of minimum wage on immigration. Can minimum wage actually affect immigration?!

Laborers immigrate with the scope of a better standard of living which also include higher real wage. However, this is not always how things turn up. There are significant cases where immigrants are hired and made to work in unethical and health deteriorating conditions. Workers immigrate alone, leaving their family behind and hence a part of their wage is sent back to their home countries. As a result of which even though they might receive a higher wage, their standard of living deteriorates in relative terms. Further study is required to analyze if immigrants actually benefit from minimum wage policy or is it just a myth.

According to the neoclassical view minimum wage reduces employment since the firm has to pay a higher wage and hence there is an upward shift in their cost function. However, the impact on employment depends on the elasticity of labor demand. If the demand for labor is relatively inelastic then, no matter how high the

ceiling is set, the firms will hire labor since they cannot do without them. Contrarily, if the labor demand is elastic the minimum wage will easily influence the demand for labor.



As we all know labor is not an exception to the law of supply and demand. If wages do not fall after an immigration-induced increase in labor supply, this could be due to the fact that workers may not be perfect substitutes (difference in education, wage rigidities, unions or any other related issues leading to the violation of ceteris paribus assumption).

Harris and Todaro's (1970) model of migration associates urban migration to expected wages as a function of minimum wages. The link between minimum wage policy and labor movement was first hypothesized in the context of developing

countries, where the minimum wage was thought to explain high levels of urban unemployment. The key aspect of such a framework is that individuals who plan to migrate from rural to urban areas make decisions based on expected (rather than actual) earnings and a higher standard of living. Workers continue to migrate from rural to urban areas up to the point at which the expected minimum wage in urban areas is equivalent to the actual earnings attainable in the rural/agricultural sector. Thus, due to the excess of labor that migrated to the city, a part of it remains unemployed.

Now, let us consider a two-sector distorted market where:

Let, the wages in the developed sector (or sector 2) be fixed by the institution at W^* ; whereas the wages in the developing sector are flexible.

Since there is distortion in the labor market, unemployment is bound to exist.

Therefore the total labor supply should be $L_1 + L_2 + L_u = L$

Where L_1 is the labor in sector 1 (under-developed sector)

L_2 is the labor in sector 2 (developed sector)

L_u is the unemployed labor

The probability to get employed in sector 2 is $L_2 / (L_2 + L_u)$

Thus labor will migrate only if the expected wage is higher than the existing wage

i.e. $W^* [L_2 / (L_2 + L_u)] > W$

Hence, we can easily see that the minimum wage is an essential factor but not the sufficient factor to motivate labor to immigrate or migrate.

However, this only factor does not decide if the immigrants will benefit from immigration. A detailed study is required to understand the market, the employment

conditions and other relating factors which shall affect the result. For instance, if the skills of the immigrants are complementary to those of existing workers, all workers experience increased productivity which can create new jobs. Hence, this is again not true that immigration will deteriorate the condition of the existing labors of a region/country. Sometimes, immigration might give wings to new job opportunities to the existing workers.

A study using US Current Population Survey monthly data for 1995–1998 found that before the 1996–1997 increases in the minimum wage in the US, more than 11.1% of male immigrants and 14.6% of female immigrants aged 16–64 earned the minimum wage or below it. The increase in the US federal minimum wage led to a 7–8% wage increase for immigrants. In 2015-16, net overseas migration reflected an annual increase of 182,165 persons in Australia, 3% more than in 2014-15. And as per records of 2016, 28.5% of Australia’s estimated resident population (6.9 million people) was born overseas.

According to ‘Anthony Edo and Hillel Rapoport’ 10 percent immigration-induced increase in labor supply reduces the employment rate of competing natives by 0.3 percent and by 0.9 percent after instrumenting. Some empirical evidence implies that the minimum wage does not affect the inflow of undocumented immigrants. Orrenius and Zavodny (2005) showed that undocumented immigrant flows are highly responsive to changes in the returns to migration. According to them, the migration decisions are a function of push and pull factors.

The main statistical sources regarding immigration are censuses, administrative registers, and surveys. However, traditional censuses are costly and require frequent updates. Empirical research methodology can be used for analyzing immigration. Apart from that comparative should be helpful to analyze the impact on immigration.

The immigrants face a lot of onerous problems including cultural shocks, psychological distress, depression, unhealthy working conditions, and other living complications. There are contrasting and conflicting results showing the impact of minimum wage on immigration. However, we must not forget that the conflicting results may be due to the difference in methodology, biased records. Most of the

documents talk about low skill labors and as it is a known fact that proper documents and information are not maintained for low skilled or under skilled labors.

Nonetheless, we can now easily state that ‘immigration does not depend solely on minimum wage’