
At the Intersection of the Minimum Wage and Illegal Immigration

BY HOWARD BAETJER

This question from a former student named Blake addresses the interaction of two hot political issues: “I remember in class that raising minimum wage is a bad thing to do. My question to you is, since illegal immigrants don’t get paid minimum wage most of the time, does that aid in bringing down wages and creating a positive outcome for the economy?”

My answer was an uneasy yes and no. Any positive or negative outcomes are not for “the economy” as such, only for people. And the people in the economy are all of us, including the illegal immigrants. Illegal immigration may reduce the overall harm done by increases in the minimum wage, but better all around would be legal immigration and no minimum wage. Let’s sort the issues out to see why.

First, Blake is correct that “raising minimum wage is a bad thing to do” because it does most harm to the least-advantaged among us. The benefits of a higher minimum wage are much easier to perceive than the harms. The benefits go to all workers who keep their jobs when the minimum is raised (without losing enough hours’ work to decrease their incomes). They get a pay raise. These are the benefits that minimum-wage advocates focus on.

The harm done by the minimum wage is harder to perceive. The key to understanding it is the insight that nobody will pay an employee more than that employee’s value to the business, at least not for long. If you are the

employer and you believe that a low-skilled young person contributes about \$6 of value to your company every hour, you’ll be willing to pay that person up to \$6 an hour. If an increase in the minimum wage then forces you to raise his pay to \$7 an hour, you’ll lose a dollar an hour if you keep him on. You’ll have to lay him off.

Minimum-wage laws that force wages above the rates that would be freely negotiated in the market throw people out of work. This is a fundamental conclusion of economic reasoning, supported by the vast majority of scholarly studies of the minimum wage.

What kinds of workers, exactly, get thrown out of work? Suppose you employ a number of low-skilled young people at \$5.15 an hour at your fast-food restaurant along with your higher-skilled managers. Some of these minimum-wage workers are more skilled, more responsible, or more experienced than others. Now suppose the minimum wage is raised to \$7.25 an hour (as is being discussed in Congress as of this writing). Suppose

you calculate that the higher wage rates you now must pay will make it unprofitable for you to keep your restaurant open during the same hours at the same prices. You’ll have to either raise prices or shut down at the least-busy times of day, or some combination of the

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two. Whatever course you take, you'll reduce the number of hours' work for your employees. If you raise prices, you won't have as many customers, so you'll need fewer workers to serve them. If you reduce your hours of operation, you won't need your workers for as long.

Whose hours will you cut back? Those of the more-skilled, more-responsible, more-experienced workers? Probably not. You will cut back on the hours of, or perhaps lay off altogether, the least-skilled, least-responsible, least-experienced workers. Those who will have the hardest time getting another job, those who most urgently need the experience of an entry-level job, are the ones who get laid off.

Who else is harmed by the minimum wage? In our example, your managers and other more-skilled workers are also harmed by having their hours cut back. Unlike the least-skilled workers who have nowhere else to go when they lose their entry-level jobs, the more-skilled workers can find work elsewhere. But when they do, it will be at jobs that don't pay quite so well or otherwise are not as attractive to them—or else they would have chosen to work there instead of at your restaurant in the first place. Thus these workers are hurt even if they keep the same number of work hours.

While some workers lose their jobs (or enough hours of work to reduce their total incomes), other workers get paid more. We can't know which effect is greater without unknowable details about the lives and values of the different workers. But clearly the law harms the most disadvantaged—the very workers that minimum-wage advocates claim to want to help. This is the overlooked human tragedy of the minimum wage.

What about consumers (who are rarely considered in public commentary on the minimum wage)? Consumers who would like to eat at your restaurant during off-hours are harmed because now you are closed at those times. If you stay open the same hours but charge higher prices, consumers are hurt by the added expense. The output of your laid-off workers is denied them, and

the output of the higher-skilled workers and managers driven into other work elsewhere is not worth as much to consumers as the lost output of your restaurant would have been—that's why the wages paid in those alternative jobs are lower than at your restaurant.

Here is the clear harm done to “the economy”—the people in society—taken as a whole: Because of the legal minimum wage (or its increase) valuable productive resources are forced into idleness. In our example, lower-skilled workers, better-skilled managers, the restaurant, and its equipment are all idled (or, in the case of your managers, diverted to less-valuable production), even though workers, owners, and customers all would prefer

that those resources be at work in your restaurant. Productive effort and mutually beneficial exchanges that would have occurred don't occur. Society overall is poorer as a result.

Illegal Immigration's Effects

How might illegal immigration reduce this harm?

Some immigrants, here illegally to begin with, are also willing to work for illegally low wages. When they do, they help produce goods and services that would otherwise go unproduced, or be produced only at greater cost. Their willingness to work for below-minimum wages thus reduces costs

and increases output for consumers. This is probably what Blake had in mind when he referred to illegal immigration “bringing down wages and creating a positive outcome for the economy.” In our example, after the legal minimum wage is raised, you might be able to find illegal immigrants willing to work for less than the minimum. If so, you will be able to keep your prices down and/or stay open later in the evening. Your store, equipment, and workers would stay in productive use; consumers would benefit.

But not everything about this scenario is positive even if illegal immigration does keep actual wages and costs down closer to an appropriate, market-determined level. In certain cases it would be better still for “the economy”—for the people in the economy—to

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have certain illegal immigrants paid *higher* wages than they would receive while immigration is illegal.

Some illegal immigrants who would earn higher wages in a free labor market find themselves trapped in jobs that pay below minimum wage. Why? Because they are afraid that if they leave those jobs for others that pay more, they might be reported and thrown out of the country. This hurts consumers: it would be better to have those immigrants working at the higher-paying jobs instead, because the output of those jobs is more valuable to consumers. Let us imagine, for example, a talented carpenter who can find little work in his own country—let's call him Juan. Suppose Juan sneaks across the border, or gets himself smuggled into the United States, to work as a manual laborer at a landscaping company for below minimum wage. Though it is not much to us, that wage is much higher than he can earn in his home country.

Now suppose that a local carpenter needs an assistant whom he would pay \$15–20 an hour. Juan's greatest value in the economy would then be to work as the carpenter's assistant. This is clear because the local carpenter's willingness to pay him \$15 or more an hour shows that people in the community value at that amount the carpentry Juan might do each hour. For Juan's manual labor, by contrast, people are willing to pay only \$6 or \$7 an hour. Juan is worth more in the economy as a carpenter.

Nevertheless, when immigration is illegal Juan might well choose to do the less-valuable work because he is afraid of being deported. Perhaps the man who smuggled him in has an agreement with the head of the landscaping company and Juan worries that if he moves to a better job the smuggler might report him. Or he might worry that working as a carpenter's assistant would put him at risk of being turned in by other carpenters who

would resent his competition. Or the state might require a license for carpenter's assistants, for which only legal immigrants may apply.

For these kinds of reasons illegal immigrants often hold jobs in which their work is less valuable than elsewhere. All such cases represent a clear loss to society because even though the illegal immigrants' willingness to work for below minimum wage keeps wages and costs down in the markets for lower-skilled labor, their talents are sadly wasted. They would be better used providing services that people in the community value more.

Reducing Production

Just as minimum-wage laws reduce society's overall wealth by decreasing the production of valuable goods and services, so also do laws hindering immigration. Both interfere with the labor market's essential function of directing human talent—what the late, great economist Julian Simon called “the ultimate resource”—to their most valued uses.

In answer to Blake, then, yes, it may be that illegal immigration helps to reduce the damage done by minimum-wage laws and minimum-wage increases. But no, it is incorrect to think that illegal immigration as such is beneficial for the economy. It is better than no immigration at all, but compared to free immigration, it is worse.

The problem with illegal immigration is not that it's immigration, but that it's illegal. The proper immigration policy for a free and prosperous nation is open borders—free immigration for all people who will live and work peacefully. Liberty, including liberty to move peacefully about the planet, cannot justly be infringed. It is a basic human right, and it promotes economic well-being. 