

Dissertation Abstract

Friction and Exploitation in the Labor Market

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Introduction

My dissertation uses both contemporary and historical data to understand the underlying mechanisms of the labor market with particular attention on labor supply. My first chapter ties together the micro-foundations of the labor supply to the firm with the macroeconomic areas of on-the-job search theory and the business cycle. I estimate the elasticity of labor supply to a firm and how it changes over the business cycle. In the second chapter I focus on the unintended consequences of a New Deal policy within the agriculture labor market. In the final chapter I use a natural experiment to estimate the effect of decreasing immigration restrictions on the composition of incoming immigrants.

Elasticity of Labor Supply to the Firm Over the Business Cycle

For years economists have assumed that the elasticity of labor supply to the firm is perfectly elastic. The assumption implies that firms have no wage setting power and the last worker hired is paid her marginal revenue product of labor. On the other hand, a finite elasticity of labor supply suggests that if firms face no other constraints in setting wages, the finite elasticity will drive a wedge between a worker's wage and her marginal revenue product of labor. Recent work has argued that there exists some degree of monopsonistic competition in the labor market.¹ This is not monopsony in the sense of a single employer who is able to fully exploit labor but a dynamic monopsony setting in which frictions in the labor market cause firms to face upward sloping labor supply curves. On-the-job search models such as Burdett and Mortensen (1998) provide the theoretical structure of dynamic monopsony in the labor market.

Previous studies have only captured snapshots of the elasticity of labor supply to the firm. In this chapter I study this parameter over a long period of time in which there is substantial variation in the business cycle. Using a rich employee level dataset from the inter-war period, I am able to estimate the elasticity during several recessions and expansions. The results suggests that the elasticity of labor supply to the firm is indeed lower during recessions. This finding is consistent with the comparative statics from the Burdett-Mortensen search model. This differential wage setting power over the business cycle provides an alternative explanation of the pro-cyclicality of wages. This paper contributes a methodological extension to the empirical monopsony literature by deriving a more general relationship between the elasticity of separation and the elasticity of labor supply to the firm.

New Deal or No Deal in the Cotton South: The Effect of the AAA on the Agriculture Labor Structure

The history of the New Deal is important as many of our current social programs have direct ties to their policies. Even today's policy makers have cited New Deal policies as justification or motivation for new policy. This chapter focus is on the effect of the Agriculture Adjustment Act (AAA). Through the AAA the government paid farmers to take land out of production in effort to increase agriculture commodity prices. However, the AAA policies likely lead to unintended consequences in the labor market through imperfect contracts and lack of contract enforcement.

¹See Manning (2003) and Ransom and Oaxaca (2010).

A large narrative literature has argued that farm tenants were displaced as a result of the AAA policies, but the only attempt at examining the extent of displacement relied on state level census data from 1930 and 1940 (Whatley 1983). This chapter uses a large county level panel data set covering several years to identify the extent of displacement for both black and white share tenants and sharecroppers. I motivate the empirical analysis by first analyzing a simple on-the-job search model which shows that the cotton reduction program of the AAA incentivized landlords to displace tenants. The distribution of AAA funds was not exogenous as they were distributed through local agents who may have been influenced by composition of farmers in the county. I construct an instrument based on the amount of funds that a county was supposed to receive under the AAA rules. The results suggest that the AAA played a significant role in the displacement of black and white croppers and black managing tenants. These results are of particular interest given that it was a violation of AAA contracts for landlords to displace these workers.

Do Decreased Immigration Restrictions Lower Immigrant Quality? Evidence from a Natural Experiment of Pacific Island Immigrants

The economic consequences of immigration policy have long been debated. Most research on immigrant quality has been centered on the changing labor market outcomes of natives as the composition of incoming immigrants change. Often policies are enacted to regulate the quality of new immigrants. This chapter sets out to answer the question: “If restrictive immigration policies were lifted, how would the quality of new immigrants entering a country change?”

I focus my attention on a natural experiment that allows me to plausibly identify the same effect. To my knowledge, this is the first empirical analysis to make use of a policy change to answer this question. Human capital accumulation models suggest that direct costs to immigration cause only individuals from the upper end of the quality distribution to immigrate. However, empirical analysis of changes in immigration restrictions on immigrant composition is limited. I exploit a relatively unknown policy change which provides a natural experiment to study the effect of decreasing immigration restrictions on the quality, as measured by education levels, of new immigrants. In 1986, the United States agreed to exempt citizens of the Federated States of Micronesia and the Republic of the Marshall Islands from meeting U.S. passport, visa, and labor certification requirements. The identification strategy relies on a difference-in-difference framework with two contrasting control groups. Results suggest that the policy substantially decreased the average education level of both male and female immigrants from the treated countries who immigrated after the policy change.

References

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