

Comment on:

“Monopsony, Efficiency, and the Regularization of Undocumented Immigrants”

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This paper examines a 1st-order policy question

What are the economic effects of documenting undocumented immigrant workers (UIWs)?

- This is one of the **great** questions facing many countries today.
- The paper provides novel evidence using France's 1981-1983 reform.

The paper's surprising results

Regularizing UIWs was a win-win-win:

- **It increased employment and wages for (formerly) UIWs and low-skilled native men and boosted GDP.**
 - ❖ Regularization reduced a labor market inefficiency—the monopsony power of firms.
 - ❖ Efficiency improvements and labor complementarities improved labor markets for immigrant and native workers.

The paper's model explains these results

1. What is regularization's initial impact on UIWs?
 - a. Increases costs of hiring UIWs, reducing demand for UIWs
 - b. Reduces monopsony distortion, increasing demand for UIWs

➤ **If monopsony effect dominates → UIW employment rises.**

2. If UIW employment rises, what happens to other workers?
 - It depends on whether UIWs and unskilled/skilled natives are substitutes or complements.

➤ **If UIWs complement unskilled/skilled natives (and the monopsony effect dominates), demand for other workers rises.**

The theory's contributions are broader

- The theory offers insights beyond explaining the paper's empirical findings for 1981-1983 France.
- The model clarifies how regularizing UIWs can influence labor demand more generally.
- The impact depends on whether:
 - Regularization primarily (a) reduces monopsony power or (b) increases hiring costs.
 - UIWs are complements or substitutes for unskilled and skilled workers.

Outline

1. Theory/Intuition: Complementarities
2. Empirics: Interpretation considerations.
3. Beyond this paper.

On Complementarities

- ❖ Unskilled UIWs complementing unskilled natives is central to linking the model to the empirical results.
- ❖ **Question:** Are there examples/evidence about when unskilled UIWs complement unskilled authorized workers?
 - ❑ Customer-facing vs. behind-the-scenes?
 - ❑ Is this more likely in some industries, which might offer additional tests?

Empirics: Interpretation Considerations

- 1) Potential confounding factors
- 2) External validity
- 3) More micro?

Potential confounding factors

- 1981: France elected its first left-wing president of the Fifth Republic, Francois Mitterrand.
- There were significant policy reforms during Mitterrand's early years beyond regularization.
- It is conceivable that some of those disproportionately affected Paris-region labor markets in the construction, hospitality, and domestic service industries.

The authors conduct a DDD examination

$$\frac{L_{srt}}{L_{rt}} = \beta (T_s * Paris_r * T_{1982-88}) + \theta_{sr} + \theta_{st} + \theta_{rt} + \varepsilon_{srt}$$

- Any confounding factors would have to (1) disproportionately “treat” particular sectors within Paris after Mitterrand’s election or (2) systematically alter the control groups to affect the authors’ interpretation.
- It is a clever and powerful test.
- A valuable addition

Policy changes

Social Mix Policies / Infrastructure	Construction of lower-income housing and public infrastructure investment; redevelopment of lower-income neighborhoods and urban renewal projects. Concentrated in Paris.
Decentralization	Empowered local governments and shifted some industries away from Paris while attracting others to the region. Potentially complex, cross-region, cross-industry effects on labor markets.
Missions Locales Initiative	It focused on the employment and education of 16-25-year-olds. Cross-regional, cross-industry differences in 16-15 unemployment and demographics could, potentially, shape results.
Nationalization	It could have had distinct effects in Paris due to the concentration of key industries there.
Min Wage / Work Hours / Benefits	Increases the minimum wage, reduced working hours, and expanded social benefits.
Public Employment	Increased public sector hiring, with potentially distinct effects on Paris.
Others	Support for cooperative worker-owned enterprises, job stability reforms, etc.

These policies could:

1. Differentially affect particular industries in Paris.
2. Could systematically affect the control group
 - Stable Unit Treatment Value Assumption
 - Ex: Trigger migration across regions and industries

Bottomline on potential confounding factors

- I am not arguing these other reforms drive the paper's results.
- Indeed, I have no evidence that they disproportionately affected labor markets in ways that can account for the paper's findings.
- However, I'm unsure, suggesting some caution in interpreting the findings.

External validity

- The model suggests that the impact of documenting UIWs on labor markets depends on
 - Whether documentation primarily (a) reduces monopsony power or (b) increases hiring costs.
 - Production functions (the degree to which UIWs complement or substitute for unskilled and skilled workers).
- Technologies/production functions have changed in 45 years.
- The relative importance of monopsony power and hiring costs likely differs across countries, industries, and time.

Bottomline on external validity

- We should be cautious in applying the paper's findings concerning France in the early 1980s to any economy today.
- However:
 - The paper's model and findings highlight a general insight that is likely applicable in all environments.
 - Understanding labor complementarities, monopsony power, and hiring costs is crucial when assessing the impact of regularizing UIWs on overall labor market conditions and economic efficiency.

More micro?

- Can the authors use more granular data to link the theory and empirics more tightly?
 - Ex: Use past work on cross-industry differences in monopsony power and/or complementarities between UIW and unskilled authorized workers. Do results conform with theory?
 - This might provide evidence on the mechanisms and reduce identification concerns.

Beyond this paper

1. What were the political implications?
 - US: Surges in local UIWs increase voting for Republicans, reduce non-police spending, and increase spending on policing
 - France: Did reductions in UIWs—through regularization—alter local voting and expenditures?
2. Did regularization attract more illegal immigrants?
 - This is a (the?) primary concern about regularization.

Thank you

- It was a pleasure to read and learn from this paper.
- The paper's surprising empirical results and insightful model guided me on how to think more carefully about the issue.
- Thanks to George for writing such a stimulating paper and to the organizers for including me.