



When the Minimum Wage Really Bites: The Effect of the U.S.-Level Minimum on Puerto Rico

ECAG-6665: Research Report

University of Puerto Rico

Author: Alejandro Ouslan

Research Question

- ▶ This research paper look to answer to what extent has the U.S¿-level minimum reduce employment in Puerto Rico.[4]

Justification of Research

- ▶ The mainland U.S. minimum wage was initially applied to Puerto Rico, setting it at \$0.35, which threatened to harm the island's economy.
- ▶ Recognizing the negative impact, Congress amended the law to establish industry-specific committees in Puerto Rico to set separate minimum wage levels.
- ▶ Between 1940 and 1974, amendments to the FLSA expanded minimum wage coverage in Puerto Rico, but the industry-committee system remained in place.

Literature Review

- ▶ The U.S.-level minimum altered the distribution of earnings in Puerto Rico to an extraordinary extent, creating marked spikes that dominate the earnings distribution. [1]
- ▶ Imposing the U.S.-level minimum reduced total island employment by 8-10 percent. [2]
- ▶ Migrants from Puerto Rico to the United States are drawn largely from persons jobless on the island, with characteristics that make them liable to have been disemployed by the minimum wage. [3]

Data Characteristics and Data Sources

- ▶ The first dataset consists of wage distributions for workers in covered industries obtained from BLS.
- ▶ The second dataset is an examination of earnings from the 1980 Census of Population for PR.
- ▶ The third dataset is PR earnings distribution is usual hourly earnings(= usual weekly earnings/usual hours worked) from the CPS in PR.

Methodology

- The model is a regressed ratio of net migrants to the PR population (MIG).

$$MIG = -.14 + \log(USGNP) - .05 \log(PRGNP) + .005 \log(MIN) - .17 PRUS \quad (1)$$

Results Figures

	Males				
	1988/86	1980	1970	1980	1970
Migrants	-.35 (.25)	-.53 (.05)	.18 (.10)		
Recent migrants				-.34 (.14)	-.66 (.24)
Earlier migrants				-.55 (.05)	.32 (.10)
Dummies for age	9	9	9	9	9
R^2	.06	.07	.08	.07	.08
N	5,442	56,809	18,850	55,809	18,850
	Females				
	1988/86	1980	1970	1980	1970
Migrants	-.76 (.20)	-.70 (.04)	.23 (.09)		
Recent migrants				-.65 .05	.57 (.22)
Earlier migrants				-.70 (.12)	.37 (.09)
Dummies for age	9	9	9	9	9
R^2	.13	.15	.12	.15	.12
N	6,451	63,561	20,921	63,561	20,921

Sources: 1970 and 1980 tabulated from the Public Use Files of the U.S. and Puerto Rican Censuses. 1988 tabulated from the June 1988 Puerto Rican CPS, with migrants from June 1988 and 1986 from the U.S. CPS.

Descriptive Statistics

Table 6.1 Minimum Wage, Minimum/Hourly Earnings in Manufacturing, and Coverage

Year	Puerto Rico				United States			
	Min. (\$)	Min./Mfg.	Cov.	(Min./Mfg.) × Cov.	Min. (\$)	Min./Mfg.	Cov.	(Min./Mfg.) × Cov.
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1950	.20	.47	.29	.14	.75	.52	.36	.19
1956	.45	.70	.29	.20	1.00	.51	.38	.19
1961	.61	.62	.29	.18	1.15	.50	.43	.22
1963	.72	.64	.29	.19	1.25	.51	.44	.22
1967	.97	.70	.44	.31	1.40	.50	.55	.28
1968	1.10	.71	.44	.31	1.60	.53	.54	.29
1974	1.68	.72	.47	.34	2.00	.45	.62	.28
1975	1.87	.73	.66	.48	2.10	.44	.60	.26
1976	2.03	.73	.64	.47	2.30	.44	.60	.26
1978	2.51	.75	.64	.48	2.65	.43	.62	.27
1979	2.77	.75	.64	.48	2.90	.43	.63	.27
1980	3.00	.75	.64	.48	3.10	.43	.63	.27
1981	3.26	.74	.64	.47	3.35	.42	.63	.26
1987	3.35	.63	.64	.40	3.35	.34	.64	.22

Results

- ▶ If Puerto Ricans of working age living in the U.S. returned to the island, the working-age population would increase by about 50%.
- ▶ Assuming 70-80% of these return migrants would be unemployed with a U.S.-level minimum wage, the unemployment rate would rise to 30-35%.
- ▶ The high unemployment rate suggests the U.S.-level minimum wage could not have been applied to Puerto Rico without massive migration.
- ▶ If migration and the minimum wage had not occurred, labor supply would have increased by 0.40 ln points in 1980.

Graphs

Graphs

191 Effect of the U.S.-Level Minimum Wage on Puerto Rico

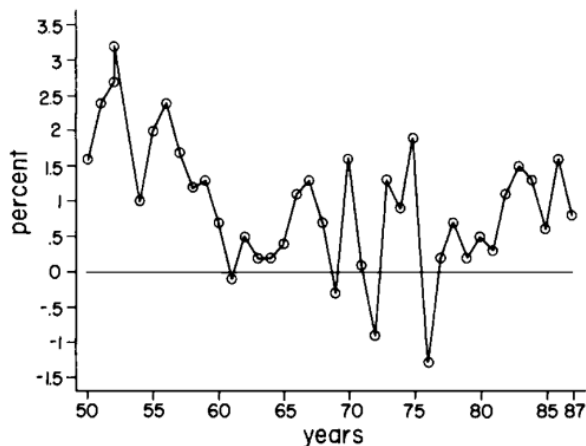


Fig. 6.2 Percentage of Puerto Ricans who migrated to the United States

Conclusions

- ▶ The U.S.-level minimum wage distorted Puerto Rico's earnings distribution, reduced employment, and led to labor reallocation across industries.
- ▶ Without migration, the imposition of the U.S.-level minimum wage would have caused a significant rise in unemployment, challenging the policy's viability.
- ▶ Migration, particularly of less-skilled workers, was crucial for implementing the U.S. minimum wage and contributed significantly to the growth of real earnings on the island.
- ▶ The paper highlights the link between domestic labor market policies (like the minimum wage) and migration, emphasizing migration's potential to foster real wage growth in the source economy.

Bibliography

- [1] Charles Brown. “Minimum wage laws: are they overrated?” In: *Journal of Economic Perspectives* 2.3 (1988), pp. 133–145.
- [2] Charles Brown, Curtis Gilroy, and Andrew Kohen. *The effect of the minimum wage on employment and unemployment: a survey*. Tech. rep. National Bureau of Economic Research, 1982.
- [3] Alida Josefina Castillo. “Jobless in the sun: a study of the impact of the Federal minimum wage on employment in Puerto Rico”. PhD thesis. Harvard University, 1983.

Bibliography

- [4] Alida Castillo-Freeman and Richard B Freeman.
“When the minimum wage really bites: the effect of
the US-level minimum on Puerto Rico”. In:
*Immigration and the work force: Economic
consequences for the United States and source
areas* (1992), pp. 177–211.