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FARM LABOR CONTRACTORS, TURNOVER AND IRCA'S IMPACT ON THE FARM LABOR MARKET

by
J. Edward Taylor and Dawn Thilmany

Working Paper No. 91-4

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Abstract

Employer sanctions under IRCA were intended to force U.S. employers to adjust to a smaller, more legal workforce. This paper focuses on farm labor contractor activity as a vehicle to test IRCA's effectiveness. Findings do not support the hypothesis that IRCA has succeeded in reducing the reliance on new immigrants in California agriculture.

Farm Labor Contractors, Turnover and IRCA's Impact on the Farm Labor Market

Employer sanctions under the 1986 Immigration Reform and Control Act (IRCA) were intended to encourage U.S. employers to adjust their production and hiring practices to a smaller, more legal workforce that was expected to result from IRCA. Agriculture was considered a "special case" in IRCA. Farmers argued that they had become dependent on unauthorized immigrant workers because the U.S. government had not prohibited them from hiring such workers in the past. As a result, special provisions were included in IRCA to provide farmers with additional time to adjust to a more legal workforce. However, a 1989 survey of California farm employers found that, in anticipation of employer sanctions, employers were making little effort to attract or retain legal workers through changes in wages, benefits, or personnel practices (Martin and Taylor, 1990a and 1990b). Instead, farmers reported that they expected to hire more workers through farm labor contractors (FLCs) if the seasonal workforce contracts in coming years.

Farm labor contractors (FLCs) are the middlemen who, for a fee, recruit and supervise approximately one-third of the workers employed in California agriculture. There is evidence that they have been a major first employer of unauthorized immigrant workers in the past. Many farmers appear to perceive FLCs as a buffer between themselves and immigration and labor laws that regulate the employment of farmworkers. FLCs are poised to absorb many of the risks and costs associated with hiring illegal immigrant workers. Rather than shouldering these risks and costs by hiring seasonal workers directly, farmers may effectively shift them onto FLCs: it is exceedingly difficult to demonstrate that a farmer has knowingly hired illegal immigrants

through labor contractors and FLCs are usually regarded as employers in their own right under IRCA. The FLC offers a mechanism through which farmers can "comply" with employer sanctions without significantly reducing their reliance on unauthorized immigrant labor.

This paper presents recent trends in FLC activity and econometric findings on worker turnover as vehicles to test the hypotheses that IRCA reduced the flow of new immigrants into California agriculture and farmers used the extra time granted by IRCA to adjust to a smaller, more legal workforce. The basis for testing these hypotheses is presented in Part I. Empirical findings for California are reported in Part II; they support the hypothesis that IRCA has not been effective at curtailing the use of new immigrants in agriculture. Part III summarizes some of the main policy implications of these findings.

I. Immigration Reform and FLCs

Trends in FLC activity are a key indicator of the effectiveness of IRCA in forcing California agriculture to adjust to a more legal workforce, because of the importance of FLC employment, the nature of the FLC workforce, and the potential role of FLCs as buffers between farmers and immigration laws. FLCs employ over one-third of the 900,000 workers who have farm jobs sometime during a typical year and over half of the 600,000 workers with seasonal farm jobs in California.

FLCs are more than employers. Traditionally, they have reached across a porous U.S.-Mexico border to recruit large numbers of new, mostly

unauthorized, immigrant workers for short-term farm jobs (Vaupel and Martin, 1987; Vandemann, 1990). They often transport, house, feed, and train new arrivals; they are in effect one-person shops taking care of newcomers. The price they exact for providing both employment and social services is measured in lower wages, fewer hours, poorer working conditions, and often excessive charges for the settlement services needed by immigrant farmworkers.

According to the U.S. Department of Labor, over two thirds of all FLCs it investigates are violating at least one labor law. Legislation which made farm employers "jointly liable" with the FLC for violations of labor laws was expected to encourage farmers to avoid FLCs and to hire workers directly (Vaupel and Martin, 1987). However, regulatory legislation has not achieved this goal; there are more FLCs today than before this legislation began. Many seasonal workers are recent immigrants without other U.S. job options who are dependent on FLCs for their U.S. farm jobs. Legislation which regulates FLC activities by permitting them to operate if they comply with laws and regulations, but which then relies on complaints to ensure compliance, fails because there are few complaints. Interviews reveal that FLCs are just slightly more sophisticated than the new immigrants they employ. There is a widespread perception by workers and worker advocates that FLCs abuse workers they hire and undermine or destabilize farm labor markets (Martin and Taylor, 1991). Because some of the savings achieved by FLCs at the expense of workers are passed on to farmers, farmworker advocates accuse farmers of deliberately encouraging FLC activities to retard union activities, to hold down labor costs, and to shield themselves from farm labor laws.

Immigrant farmworkers employed by FLCs soon learn that they are at the very bottom of the U.S. job ladder, and many succeed in moving up to a better farm or nonfarm job. This means that FLCs as employers experience extraordinary job turnover, as we show below. The FLC fills these frequent vacancies by recruiting new workers from immigration networks that bring immigrants to the United States. (Martin and Vaupel, 1987; Vandemann, 1990).

Because of FLCs' heavy reliance on new and vulnerable immigrant workers, IRCA, like earlier labor-law legislation, was expected to result in the gradual disappearance of California FLCs in the 1980s. Increased enforcement by the Immigration and Naturalization Service (INS) was expected to disrupt the flow of new immigrants to farm and nonfarm jobs. Employer sanctions in IRCA were designed to discourage hiring of illegal-immigrant labor and thus create a disincentive to illegal immigration. Deprived of their major labor source, FLCs were expected to decline. (Martin and Taylor, 1991).

FLC activity offers a vehicle to test competing hypotheses about IRCA's effectiveness at reducing the reliance on new immigrant labor in California agriculture. However the growth or decline of FLC activity alone is not sufficient to test the effectiveness of IRCA at lessening California's dependence on new immigrant farmworkers because the comparative advantage of FLCs can change in response to policy changes. If IRCA is effective, labor contractors could be an answer to the puzzle of how to provide a smaller number of (legal) farm workers with more stable employment despite high seasonality of labor demand on individual farms. In theory, crews of workers employed by a contractor could be moved from farm to farm

to satisfy a series of short-term labor demands, benefitting from relatively stable work with a FLC. That is, FLCs could play employment-stretching roles similar to hiring halls or labor exchanges, reducing unemployment spells for workers between seasonal jobs. If IRCA succeeded in forcing agriculture to rely on a smaller, legal workforce, the ability to manage such a workforce in the face of highly seasonal labor demands on farms would become the comparative advantage of the labor contractor.

However, if immigrant labor continues to be abundant as it has been in the past, and if IRCA fails to create an effective deterrent to the use of unauthorized immigrant workers by FLCs, the FLC's old comparative advantage remains. In the past, FLCs have not been characterized by an ability to offer stable employment to farm workers. Their comparative advantage has been their ability to tap into migrant "networks" that extend from the fields of California to villages throughout Mexico. They have been a waystation for new immigrants en route to other farm or nonfarm jobs. If IRCA does not succeed in forcing California agriculture to adjust to a smaller, more legal workforce, the FLC's comparative advantage continues to be to recruit new workers from abroad.

Under both of these scenarios, we would expect an increase in FLC employment as employers shift the costs and risks associated with employer sanctions onto labor market intermediaries. However, under the first scenario we would expect farmworker turnover to decrease as farmers and labor contractors adjust to a smaller, more stable workforce. Because of this, patterns of worker turnover for FLCs and other employers, not just the growth of FLC activity, are the focus of our empirical test of the hypothesis

that California agriculture began to adjust to a smaller and more legal workforce by the end of 1988, when sanctions against hiring illegal aliens went into effect for most farm employers.

II. Empirical Findings

The FLC and worker turnover hypothesis was tested using a probit corresponding to a simple employment model in which workers are assumed to change employers if

$$\ln(W_n) - \ln(W_c) > C$$

where W_n and W_c denote the worker's expected earnings from a new employer and the current employer, respectively, and C reflects nonpecuniary aspects of changing employers. If the current employer is a FLC, it is likely that the worker could obtain higher earnings from a non-FLC employer, particularly as the worker gains commodity-specific or even general farm experience. In addition, because FLCs offer few benefits and often require workers to pay for high priced housing and transportation services, nonwage considerations may be an added incentive for FLC workers to change employers, once they become established in the United States and acquire better labor-market information and contacts.

However, in the case of newly-arrived immigrants, C may include vital services. For example, new immigrants with few contacts and limited information may have no alternative but to work for a FLC that offers housing and transportation – even if it is costly. But most important, C may represent the FLC's willingness to employ an alien of illegal status or ability

to "find" the proper papers to allow the immigrant to work. For new immigrants, a short period with a FLC may be necessary to get settled and gain experience so that changing employers becomes possible. Farmworker advocates go further, arguing that recent immigrants who get attached to a poor FLC after arriving in California are reluctant to switch to better jobs because they become indebted—financially or psychologically—to the FLC who helped them after their arrival. Newly-arrived workers may also fear that their illegal status may become known if they switch employers. All of these effects are compounded in C, so the nonpecuniary aspects of FLC employment may play a central role in a farmworker's decision to change employers. In general, both wage and nonwage considerations should create incentives for workers to gravitate away from FLCs in time. If IRCA is not effective at curtailing new immigration, new immigrants will be available to fill vacancies with FLCs, and high turnover rates will persist.

II. 1. Econometric Model

The farmworker turnover hypothesis was tested using a probit to estimate differences in turnover rates across employers and over time, controlling for other variables assumed to influence wages and nonpecuniary characteristics of farm jobs. The sample size is 3,792. The (dependent) dichotomous worker turnover variable (MOVE) is defined as:

$$\mathrm{MOVE}_{i,\,t+1} = \begin{cases} 1 \text{ if worker i changed principal employers} \\ \quad \text{between quarters t and t + 1} \\ 0 \text{ otherwise} \end{cases}$$

The probability of a move is modeled as $\mathrm{Prob}(\mathrm{MOVE}_{i,\,t+1}) = \Phi(Z'_{i,\,t}\beta)$ where $\Phi(\cdot)$ is the normal density function, $Z_{i,\,t}$ is a vector of explanatory

variables, and β is a vector of parameters reflecting the effect of these explanatory variables on the transitional probability.

The explanatory variables are summarized in Table 1. They include five regional dummy variables; six commodity variables, constructed from the worker's primary employer's SIC code; a time trend (TIME) to capture changes in worker turnover over time; a dummy variable for FLC employment; and worker's time-t earnings with the principal employer (EWAG). Six experience variables are used to capture the effects of general, firm-specific, commodity-specific and region-specific experience on workers' turnover. These variables are: worker experience (SAMEE) and number of consecutive quarters (CONS) with the current employer; worker experience in the current farm region (SFIP); and worker's number of quarters since 1984 in seasonal agricultural, other farm, and nonfarm work (SASQ, FARMQ, and NFARMQ, respectively). The explanatory variables also include the number of quarters of unemployment (NOWORK), the principal employer's total time-t payroll (QPAY), and a measure of the current employer's 3-month trend in total employment (ETREND).

II. 2. Data

The probit was estimated using data from a 5-year matched farmworker file assembled from California unemployment insurance (UI) records. Considerable effort went into creating this data file. Therefore, we will describe the data file in some detail.

California unemployment insurance laws require employers who pay $100 or more in wages during a calendar quarter to report the names, Social

Security numbers, and earnings of their employees and to pay a tax of 3% to 6% on the first $7,000 of each employee's earnings. The Employment Development Department (EDD) maintains a computerized data file of all Social Security numbers reported by employers in a given year. From these, we obtained a random sample of farmworkers, whom we defined as individuals, reported at least once by a crop, livestock, or agricultural services employer in any of the five years from 1984 to 1988. Of the 1.2 million farmworkers reported on average each year, 906,000 were employed on crop or livestock farms or by "farm" agricultural service firms. The others worked for pet or landscape services or multi-establishment employers, such as retailers who also own a farm.

For each worker drawn in a given year, information on all jobs held by the worker over the 5-year period was placed into the worker data file. This information includes the commodity (SIC code) and region (county) in which each job was worked and the worker's total earnings in each job. We also performed a backward search on each worker to calculate the number of quarters since January, 1984 in which the worker has worked for the same employer, in the same commodity, and in the same region. We also calculated the number of consecutive quarters with the same employer prior to quarter t.

For each job the worker held during the year, the UI data include an employer identification number. This identification number was used to assemble data on characteristics of the worker's employer in each job from a parallel UI employer file. For each job in which the worker was observed, characteristics of the employer were woven into the worker's data record.

The augmented worker record makes it possible to track the worker's movements across regions and commodities as well as across "types" of employers. It also provides information on worker/employer combinations, including the worker's earnings with the employer and number of quarters working with the employer since the start of the data series in 1984.

The UI information is the best available "census" of people employed on farms, but it has several shortcomings. First, not all of the employees reported by farms have farmworker occupations. About a third of the unemployed workers claiming UI benefits on the basis of work on farms have nonfarm occupations such as clerk or mechanic. Second, the UI worker analysis is based on Social Security numbers. If a substantial proportion of farm workers use several numbers, the UI figures inflate the numbers of farm workers and lower the average earnings and weeks worked. Conversely, if several workers share the same social security numbers, the size of the work force will be understated and average earnings and weeks worked will be exaggerated. Finally, some employers may not report all their workers, and wages and weeks in the UI data are not verified unless workers file UI benefit claims. These caveats should be kept in mind when interpreting our results, although it is not clear to what extent they might create biases or what sign these biases might take.

The units of observation are individual workers (social security numbers) at different points in time (quarters) from January 1, 1984 to December 31, 1988.

Two central hypotheses were tested using the probit model: first, that FLC employment has a significant positive effect on worker turnover and second, that turnover rates decreased during the period granted to farmers and FLCs to adjust to employer sanctions under IRCA.

In addition to these two central hypotheses, several subsidiary hypotheses were tested. We would expect positive coefficients in the turnover probit on dummy variables for regions and crops with the most seasonal labor needs. (Martin and Taylor, 1990a) The ETREND variable, which measures average month-to-month changes in employers' total employment, captures seasonality of employment; we expect it to be negatively related to the probability of worker turnover. Workers' earnings with their principal employer at time t should be negatively associated with their probability of employer change at t+1. Unfortunately, the UI files do not provide data on worker characteristics other than those mentioned above. The wage and employment variables in Table 1 for time t are the best measures available of the opportunity cost of workers changing principal employers at time t+1.

Findings

The probit findings are reported in Table 2. They support the hypothesis that FLC employment increases the probability that workers change employers. The coefficient on the FLC dummy variable is positive and significant at well below the 0.01 level. It is particularly striking that FLCs are the only employer group with significantly higher turnover rates than the default category, which primarily includes multi-establishment employers.

Vegetable growers, the only other employer group with a significant coefficient, have a lower turnover rate than the default group.

The findings do not support the hypothesis that farmworker turnover has decreased. The coefficient on TIME is positive and significant, indicating an *increase* in farmworker turnover over time. These findings contradict the scenario that farmers and FLCs are having to adjust to a smaller, more stable workforce. Although these data only run through 1988, the year IRCA began to be enforced, farmers and FLCs have had since 1986, the year IRCA became law, to adjust their employment practices in anticipation of employer sanctions. The intent of delayed implementation of employer sanctions in agriculture was to provide farm employers with extra time—through December 1988—to adjust to IRCA. Yet, our findings do not support the hypothesis that employers, including FLCs, took steps to retain legal farm workers, or that IRCA had succeeded in reducing the influx of new immigrants into California agriculture, by the end of this adjustment period.

Workers' earnings with their principal time-t employer are inversely related to their probability of changing primary employers at time t + 1. Employment changes are also discouraged by the number of consecutive quarters of experience with the same employer and by experience in the same region, although not by experience in the same type of work or unemployment. Large employers are associated with significantly lower worker turnover than smaller employers. Employers' quarterly employment trends, which primarily reflect seasonality of employment, are inversely related to turnover.

Figure 1 shows the rising trends in predicted probabilities of turnover (employer change) for FLC workers and for other workers over the five years covered by the sample. The difference in transition probabilities between FLCs and other employers in this table is larger than that indicated by the coefficient on FLC in the probit. This is because the probability of changing employers is affected by other variables (e.g., earnings) which are different for the two employer groups. Overwhelmingly, variables that are inversely related to turnover (earnings (EWAG), firm-specific experience (CONS), regional experience (SFIP)) have lower means for FLC workers than for other workers (see Tables 1 and 2). For example, average earnings are low for FLC workers (74 percent below the average earnings of other workers.) Low earnings in the previous quarter, in turn, significantly increase the probability of employer change.

III. Conclusions

The findings from the probit do not support the hypothesis that IRCA has been effective initially in curtailing the supply of new immigrant labor to agriculture and that farmers used the extra time granted to them by IRCA to adjust to a smaller, more legal workforce. If IRCA were effective at decreasing new immigration and discouraging the use of unauthorized immigrant labor, certain trends should emerge in the late 1980s. These trends include a greater use of FLCs for seasonal work, as employer sanctions increase the costs and risks of hiring seasonal workers directly; a change in the role of FLCs toward managing a more stable and legal workforce; and greater stability in the farm labor market, where stability means less worker turnover and more regular employment for more workers.

Our statistical analysis of farm employment in California does not reveal such trends. Use of FLCs is increasing in the wake of IRCA. However, farmworker turnover is increasing, not decreasing, as both FLCs and other seasonal agricultural service (SAS) employers are offering less stable employment opportunities to workers over time. This analysis paints a picture of a farm labor market that is still being fed by streams of new and vulnerable immigrants. In addition, FLCs appear to be fragmenting into smaller operations (Martin and Taylor, 1991). This may be a response to IRCA: many small operations increase the cost of immigration and labor law enforcement. In the wake of IRCA, the role of FLCs promises to increase.

If farmers continue to turn hiring over to FLCs who, in turn, continue to be recruiters and first employers of new immigrants, the welfare problems of illegal immigrants, if anything, will be greater than before. Growth in FLC employment and intense competition among many FLCs may mean low wages, unstable employment and poor working conditions for a large and growing share of the farm workforce. The most promising approach to regulate the activities of FLCs is to make farmers jointly liable with FLCs for labor law violations. Currently, joint liability is easily evaded because FLCs and farmers maintain an arm's-length contractual relationship and because IRCA (unlike the California Labor Relations Act) treats FLCs as employers of record responsible for complying with employer sanctions under the law. Meanwhile, a proliferation of FLCs, who appear to be fragmenting into smaller operations, results in high enforcement costs; it can be argued that evasion of law enforcement is one "comparative advantage" of FLCs and a "service" FLCs provide to their farmer clients. Farmers who use FLCs must

be brought fully into the worker-FLC-employer circle if U.S. immigration policy is to reassert control in the farm labor market.

In theory, it could be argued that the increasing trend in farm turnover revealed by the probit regression is caused by high exit rates of SAWs from agriculture or by a reshuffling of jobs within agriculture by SAWs in search of more desirable employment. (More than 700,000 California farmworkers were legalized under the SAW program.) However, the available evidence to date does not support either of these explanations. There is no evidence of high exit rates for SAWs from agriculture. The only comprehensive data available on farmworkers by legal status since IRCA is the Department of Labor's National Agricultural Worker Survey (NAWS). Just under half of all workers in this survey are reported to be SAWs, but the exit rate for these workers is low (below ten percent). This finding was instrumental in the decision by the Secretaries of Agriculture and Labor not to authorize any Replenishment Agricultural Workers (RAWs) for 1990. High turnover could be caused by SAWs seeking better jobs within agriculture; however, there appears to be less, not more mobility among legal workers than among illegal workers in California agriculture after IRCA. Mobility of legal workers who are employed is discouraged by a preference among employers to hire "documented illegals" over legal workers.[1] According to testimony to the Commission on Agricultural Workers (CAW), new illegal workers are continuing to enter the United States, saving their pay stubs and receipts in the hope of a second amnesty. Evidently, the SAW program has convinced aliens from Mexico that they must be in U.S. agriculture if they wish to obtain

legal immigrant status. Over 90 percent of the almost 700,000 illegal aliens who applied for RAW visas gave U.S. addresses.

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Footnotes

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[1]Statement of Dolores Huerta to the Commission on Agricultural Workers (CAW, 1990), Coachella Hearing, December 5-7, 1990.

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Table 1. Definitions of Variables and Summary Statistics

		FLCs		Non-FLCs	
Variable	Definition	Mean	Standard Deviation	Mean	Standard Deviation
Endogenous Variables:					
MOVE	= 1 if worker changes principal employers between quarters t and t + 1; 0 otherwise	0.647	0.479	0.393	0.489
Exogenous Variables:					
TIME	= Quarter (Winter 1985-Fall 1989)	9.979	5.654	10.523	5.700
NC	= 1 if principal employer is in North Coast; 0 otherwise	0.005	0.073	0.029	0.168
SAC	= 1 if Sacramento Valley	0.037	0.189	0.027	0.162
SJ	= 1 if San Joaquin Valley; 0 otherwise	0.742	0.439	0.202	0.402
SOC	= 1 if South Coast; 0 otherwise	0.137	0.345	0.178	0.383
CC	= 1 if Central Coast; 0 otherwise	0.058	0.234	0.072	0.258
FLC	= 1 if principal employer is a farm labor contractor; 0 otherwise	1.000	0.000	0.000	0.000
VEG	= 1 if vegetable producer; 0 otherwise	0.000	0.000	0.071	0.257
BER	= 1 if berry producer; 0 otherwise	0.000	0.000	0.021	0.142
DAI	= 1 if dairy producer; 0 otherwise	0.000	0.000	0.003	0.055
GEN	= 1 if general crop farm; 0 otherwise	0.000	0.000	0.044	0.206
GRA	= 1 if grapes; 0 otherwise	0.000	0.000	0.035	0.184
DEC	= 1 if deciduous tree fruits; 0 otherwise	0.000	0.000	0.019	0.135
EWAG	= Earnings with principal employer at time time t (thousands)	989.070	984.030	3734.700	4409.400
SAMEE	= Quarters with same employer since 1985	2.205	2.169	5.296	5.453

CONS	=	Consecutive quarters with same employer	1.095	1.318	4.659	5.426
SFIP	=	Quarters in same region since 1985	3.563	3.448	5.991	5.630
SASQ	=	Quarters in Seasonal Agricultural Services (SAS) work since 1985	4.895	4.167	2.988	4.431
FARMQ	=	Quarters in farm work since 1985	0.095	0.909	0.707	2.596
NFARMQ	=	Quarters in nonfarm work since 1985	1.195	2.021	4.303	5.424
NOWORK	=	Quarters without UI earnings since 1985	4.521	4.568	3.122	4.392
QPAY	=	Total payroll of principal employer at time t (hundred thousands)	431.990	656.270	258.750	115.560
ETREND	=	Monthly trend in principal employer's total employment during quarter t (calculated as $(E_3 - E_1)/\bar{E}$, where E_3 is employment in month 3, E_1 is employment in month 1 and $\bar{E}$ is average employment over the three months in the quarter)	0.178	0.972	0.014	0.519

Sample size = 3,792

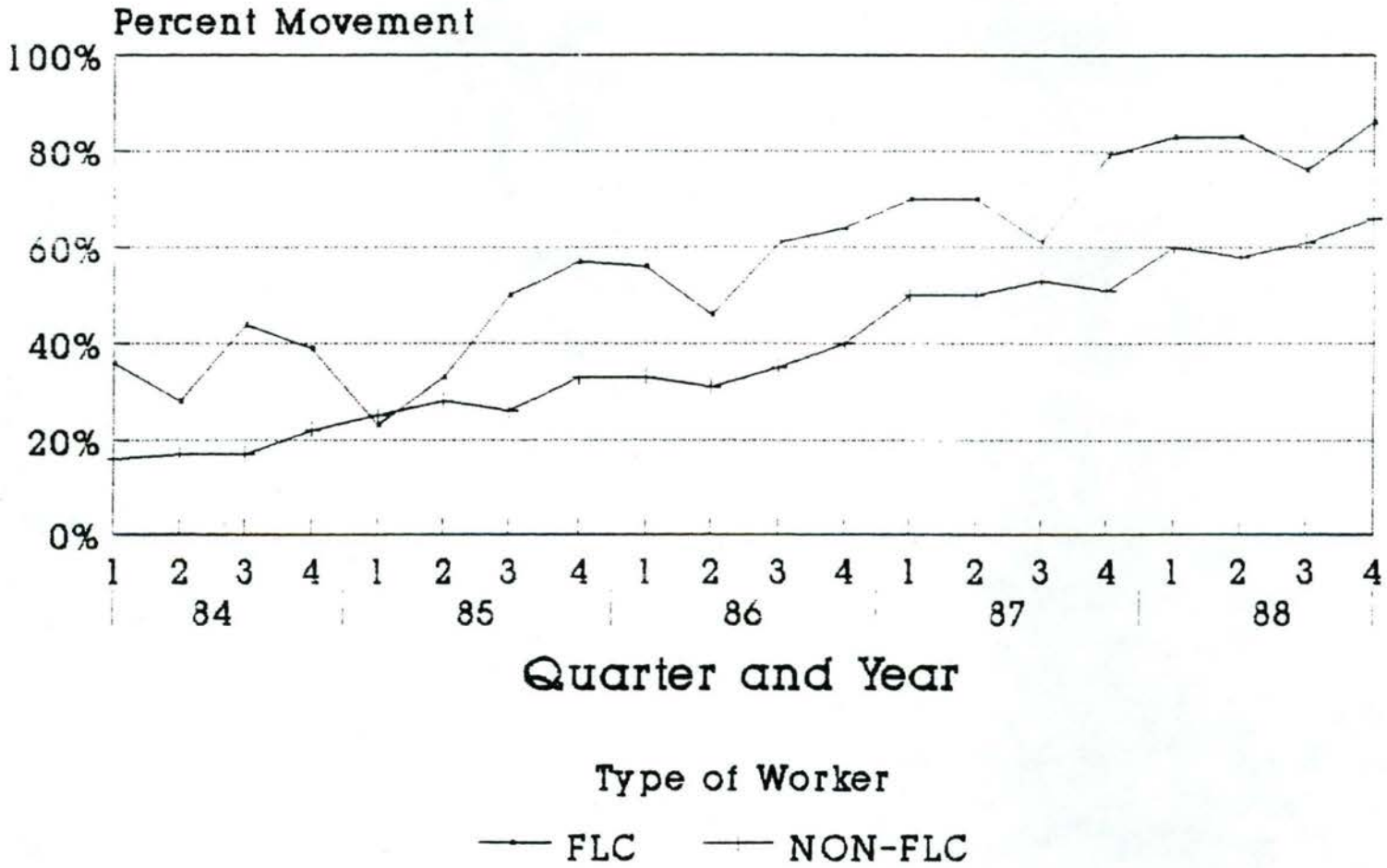
Table 2. Results of Probit for Employer Change, 1985-1989

Variable	Est. Coefficient	T-Ratio
TIME	0.082	3.624
NC	-0.589	-3.901
SAC	-0.237	-1.528
SJ	-0.377	-5.203
SOC	-0.496	-7.230
CC	-0.383	-3.802
FLC	0.312	2.852
VEG	-0.254	-2.457
BER	-0.185	-1.072
DAI	-0.313	-0.553
GEN	0.002	0.018
GRA	0.168	1.283
DEC	0.133	0.778
EWAG	-0.011	-12.532
SAMEE	-0.002	-0.099
CONS	-0.074	-5.413
SFIP	-0.042	-3.357
SASQ	0.013	0.694
FARMQ	-0.018	-0.892
NFARMQ	0.016	0.849
NOWORK	-0.008	-0.334
QPAY	-0.002	-5.637
ETREND	-0.257	-6.273
CONSTANT	0.020	0.338

Likelihood Ratio Test (df) 1401.65 (23)

FIGURE 1

PREDICTED PROBABILITY OF CHANGING EMPLOYERS FOR FLC AND NONFLC WORKERS



Source: UI Longitudinal Data

Original