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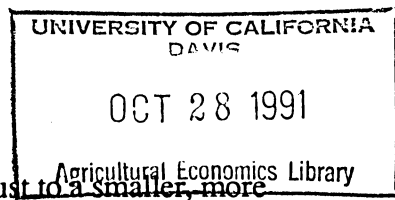
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Farm Labor Contractors, Turnover and the Impact of IRCA on the Farm Labor Market

by J. Edward Taylor and Dawn Thilmany

Abstract



Employer sanctions under IRCA 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 flow of new immigrants to California agriculture.

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Farm Labor Contractors, Turnover and the Impact of IRCA on the Farm Labor Market

Employer sanctions under the 1986 Immigration Reform and Control Act (IRCA) were intended to force U.S. employers to adjust to a smaller, more legal workforce. Agriculture was considered as 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. They are a wild card in assessing the effectiveness of IRCA in agriculture because 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. The FLC offers a mechanism through which farmers can "comply" with employer sanctions without significantly reducing their reliance on unauthorized immigrant workers.

This paper presents recent trends in FLC activity and econometric findings on worker turnover as vehicles to test two competing hypotheses about IRCA's impact on the farm labor market. These hypotheses are advanced 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 supply of new immigrants to 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; Vandemann). 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. Interviews reveal that FLCs are just slightly more sophisticated than the new immigrants they employ. There are widespread complaints by workers and their advocates that FLCs abuse workers they hire and undermine or destabilize farm labor markets (Martin and Taylor, 1991).

The U.S. Department of Labor finds that over two-thirds of all the FLCs it investigates are violating at least one labor law. 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. An abundant supply of new immigrants

permits FLCs to meet their labor needs without offering more competitive wage packages to retain workers.

FLC activity offers a vehicle to test competing hypotheses about IRCA's impact on the farm labor market. On the one hand, if IRCA is effective, labor contractors could be an answer to the puzzle of how to provide a smaller number of farm workers with more stable employment despite the tremendous seasonality of labor demand that characterizes California 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 on individual farms, while benefitting from relatively stable work with the 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.

By contrast, 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, the FLC's comparative advantage is different. In the past, FLCs have been characterized not by their ability to offer stable employment to farm workers, but rather by the highest worker turnover rates of all employers in California agriculture. 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 the conduit through which California farms have become a waystation for new immigrants en route to other sectors. If IRCA does not succeed in forcing California agriculture to adjust to a smaller, more legal workforce, the FLC's comparative advantage will continue 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.

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 worker is currently working for a FLC, it is likely that earnings would be higher with a new employer, especially if the worker has gained specific commodity or even general farm experience. In addition, because FLCs offer few benefits and high priced housing and transportation services, nonpecuniary considerations may be an added incentive for FLC workers to change employers.

However, in the case of newly-arrived immigrants, C may include vital services. For example, new immigrants 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 these new immigrants, a short period with the FLC is necessary to get settled and gain experience so that changing employers becomes possible. If IRCA is not effective, and immigrants continue to follow this cycle, high turnover rates will be observed.

The farmworker turnover hypothesis was tested using a probit to estimate differences in turnover rates across employers and over time, controlling for other variables, using a 5-year matched worker file assembled from California unemployment insurance (UI) records. 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. We obtained 5%

random samples of all workers who were reported at least once by a crop, livestock, or agricultural services employer in each of 1985-1989. Of the 1.2 million workers 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.

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. The units of observation are individual workers (social security numbers) at different points in time (quarters) between 1985 and 1989. The (dependent) worker turnover variable (MOVE) is defined as:

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

The probability of a move is modeled as $\text{Prob}(\text{MOVE}_{i,t+1}) = \Phi(Z'_{i,t+1}\beta)$ where $\Phi(\cdot)$ is the normal density function, $Z_{i,t+1}$ 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; worker's time-t earnings with the principal employer (EWAG); worker experience (SAMEE); number of consecutive quarters (CONS) with the current employer; worker experience in the current farm region (SFIP); worker's number of quarters since 1984 in seasonal agriculture, farm, and nonfarm work (SASQ, FARMQ, and NFARMQ, respectively); 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).

Two central hypotheses are tested using the probit model: first, that FLC employment has a significant positive effect on worker turnover and second, that turnover rates are decreasing over time.

In addition to these two central hypotheses, several subsidiary hypotheses emerge from the turnover model. For example, we would expect positive coefficients for regions and crops with the most seasonal labor needs. The ETREND variable also 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 $t+1$.

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 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 includes primarily 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 there is a decreasing trend in farmworker turnover over time. The coefficient on TIME is positive and significant, indicating a secular increase in farmworker turnover. 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.

Not surprisingly, 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 consecutive years 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' month-to-month 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. For example, average earnings are low for FLC workers (74 percent below the average earnings of other workers.) Low earnings, in turn, significantly increase the probability of employer change.

III. Conclusions

The findings from the probit support the scenario that IRCA has not been effective in curtailing the immigrant labor supply. 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 services (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.

Table 1. Definitions of Variables and Summary Statistics

		<u>Mean</u>	<u>Standard Deviation</u>
Endogenous Variables:			
MOVE	= 1 if worker changes principal employers between quarters t and t + 1; 0 otherwise	0.393	0.488
Exogenous Variables:			
TIME	= Quarter (Winter 1985-Fall 1989)	10.523	5.700
NC	= 1 if principal employer is in North Coast 0 otherwise	0.029	0.168
SAC	= 1 if Sacramento Valley	0.027	0.162
SJ	= 1 if San Joaquin Valley; 0 otherwise	0.202	0.401
SOC	= 1 if South Coast; 0 otherwise	0.178	0.382
CC	= 1 if Central Coast; 0 otherwise	0.072	0.258
FLC	= 1 if principal employer is a farm labor contractor; 0 otherwise	0.000	0.000
VEG	= 1 if vegetable producer; 0 otherwise	0.071	0.257
BER	= 1 if berry producer; 0 otherwise	0.021	0.142
DAI	= 1 if dairy producer; 0 otherwise	0.003	0.055
GEN	= 1 if general crop farm; 0 otherwise	0.044	0.206
GRA	= 1 if grapes; 0 otherwise	0.035	0.183
DEC	= 1 if deciduous tree fruits; 0 otherwise	0.019	0.135
EWAG	= Earnings with principal employer at time t (thousands)	3.735	4.409
SAMEE	= Quarters with same employer since 1985	5.296	5.453
CONS	= Consecutive quarters with same employer	4.659	5.426
SFIP	= Quarters in same region since 1985	5.991	5.630
SASQ	= Quarters in Seasonal Agricultural Services (SAS) work since 1985	2.988	4.431
FARMQ	= Quarters in farm work since 1985	0.707	2.596
NFARMQ	= Quarters in nonfarm work since 1985	4.303	5.424
NOWORK	= Quarters without UI earnings since 1985	3.122	4.392
QPAY	= Total payroll of principal employer at time t (hundred thousands)	25.875	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)	0.014	0.519

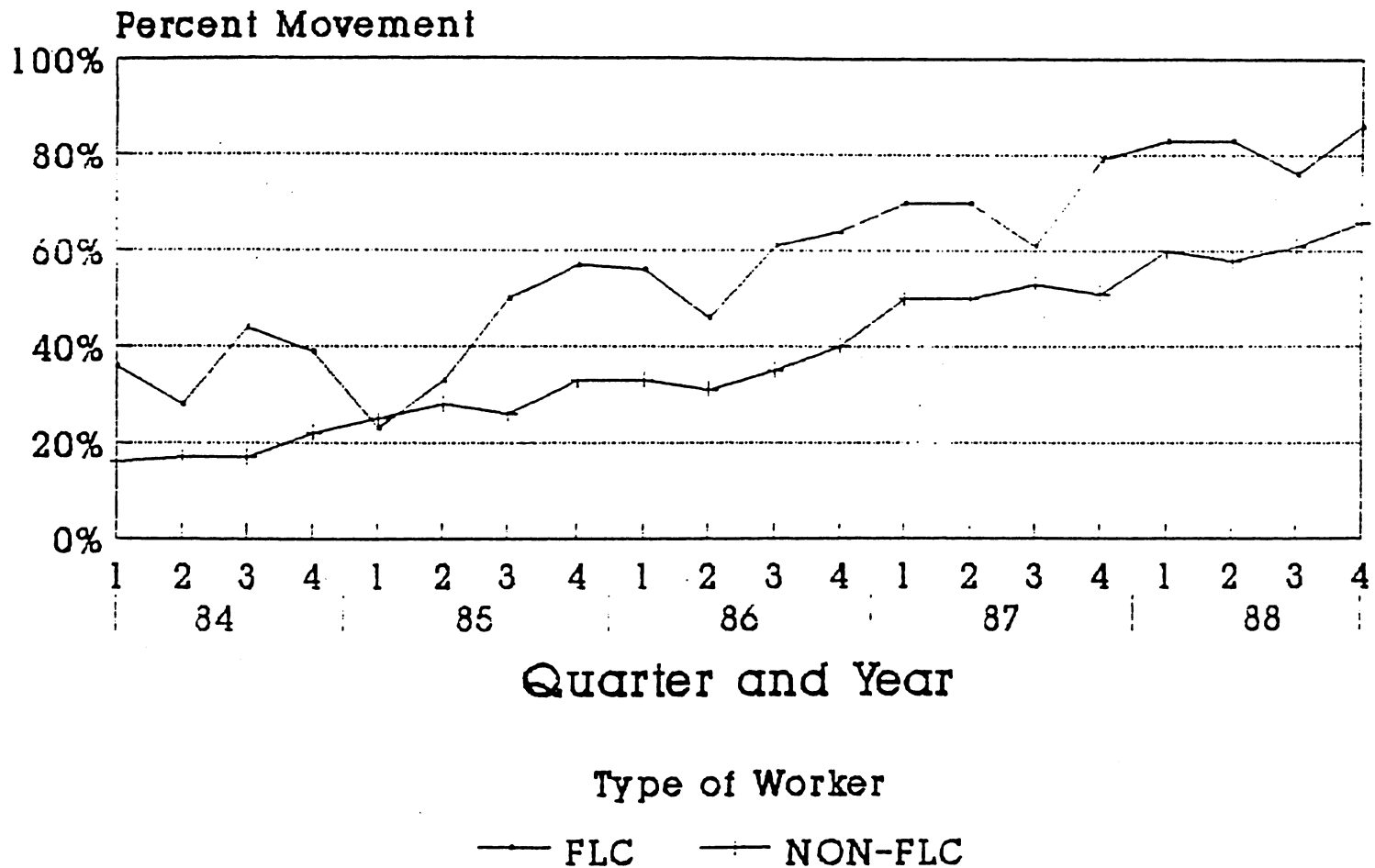
Table 2. Results of Probit for Employer Change, 1985-1989

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
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

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