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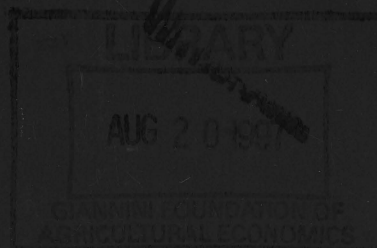
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*Immigration*

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UNIVERSITY OF CALIFORNIA, BERKELEY

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### *The Immigrant Subsidy in Agriculture: Farm Employment, Poverty, and Welfare in Rural Towns*

by

J. Edward Taylor and Philip L. Martin

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#### Abstract

This paper examines relationships among immigration, farm employment, poverty, and welfare usage in 65 towns and cities with populations ranging from 1,000 to 20,000 in 1990 in the major agricultural areas of California. It tests the hypothesis that expanding labor-intensive agriculture creates a negative externality by drawing large numbers of workers from abroad, offering many of them poverty-level earnings, and increasing public assistance use in rural towns.

Econometric findings reveal a circular relationship between farm employment and immigration. An additional 100 farm jobs are associated with 143 more immigrants, 132 more poor residents, and 69 more people receiving welfare benefits in rural towns. An additional 100 immigrants, in turn, are associated with 36 more farm jobs. Each additional California farm job was associated with \$987 in welfare payments in 1990. Since the average California farm worker in 1990 earned \$7320, the "welfare subsidy" associated with using immigrants to fill farm jobs was equivalent to 13 percent of farm worker earnings. In theory, a Pigouvian tax on farm employers could be used to internalize this public assistance externality.

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# **The Immigrant Subsidy in Agriculture: Farm Employment, Poverty, and Welfare in Rural Towns**

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## Introduction

Farm labor has always been an uncomfortable topic in American history. The plight of farm workers has been a leitmotiv of American literature for over a century. Books with the self-explanatory titles *The Grapes of Wrath*, *The Slaves We Rent*, and *Sweatshops in the Sun* pricked the nation's conscience with their descriptions of low farm wages and poor working conditions, and emphasized that most farm workers have not participated in the American dream of coming from a distant land and starting anew in the promised land. For most farm workers, economic mobility has required geographic mobility. It is only after farm workers and their children leave the farm labor market that most have a chance to achieve middle class lifestyles.

About 2.5 million individuals are employed sometime during a typical year on U.S. farms, including 800,000 in California. Most of these farmworkers are immigrants—about two-thirds in the U.S., and over 90 percent in California. Despite labor-saving mechanization, the number of persons employed for wages on U.S. farms has been stable over the past 25 years, largely because the production of hand-harvested fruits and vegetables has more than doubled. The U.S. is a net exporter of fruits and vegetables—for example, about 25 percent of the fresh fruit grown in the U.S. is

exported—and U.S. fruit and vegetable exports are projected to increase by over 5 percent annually for the next decade.

This paper investigates a seemingly simple question. What are the consequences of importing immigrant farm workers to harvest commodities, some of which are exported to the migrants' countries of origin, for the communities in which these workers settle? We focus on so-called "farmworker communities," cities of less than 20,000 that are often over 90 percent Hispanic, poor, and growing rapidly because of the immigration of young adults, scattered across California's 12 major agricultural counties. These 12 counties in 1993 had farm sales of over \$12 billion, larger than the farm sales of any U.S. state except California, itself.

California's San Joaquin Valley, where most agriculture and many farmworker communities are located, is also one of the areas of the U.S. with the highest degree of poverty among immigrants. In 1990, the eight-county San Joaquin Valley included seven of the poorest 20 U.S. cities, ranked by the percentage of foreign-born population living in concentrated poverty.<sup>1</sup>

Increasing farm sales and poverty exist side by side in rural America. This paper investigates the relationship between farm employment, immigration, poverty, and public assistance to determine whether the farm jobs that attract immigrants are creating externalities for the communities in which they settle, and potentially for U.S. cities to which immigrant farmworkers and their children may move.

In theory, these externalities may be positive or negative. The arrival of immigrants might stimulate job and wage growth. If local economic activities expand to meet immigrants' demands for transportation, housing, food, and other services, the demand for labor may shift outward, exerting new upward pressure on local employment and possibly wages, but also triggering new rounds of immigration.

The distribution of direct and indirect expenditures associated with immigration is important. The employment and income generated by immigrant expenditures may accrue not to capital-poor immigrants, but instead to those with the physical and human capital necessary to meet farm worker service demands. These include labor contractors and foremen, whose main form of capital is networks of personal contacts with farmers who can provide jobs for immigrants; *raileritos*, local residents with vans who provide transportation services in many rural areas; local residents

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<sup>1</sup> The Urban Institute's definition of concentrated poverty is neighborhoods (census tracts) where 40 percent or more of all residents have below poverty-level incomes.

with rooms to rent out to seasonal workers; and food, check cashing, and other service providers.<sup>2</sup>

In an agricultural sector characterized by a highly elastic immigrant labor supply, immigration is demand-driven; that is, one should observe a positive association between changes in farm employment and immigration. The association between immigration and poverty, however, is theoretically ambiguous. If a lack of capital prevents new immigrants from benefiting from the multiplier effects of farm worker incomes, there can be simultaneous income growth and increased poverty.

### **Previous Research**

There have been many attempts to describe how immigrants affect local populations and economies, and they can be framed by two extremes. One extreme argues that the presence of immigrant workers creates economies of scale and multiplier effects—the arrival of immigrants increases local economic activity and creates or preserves good jobs for local residents. This view characterizes much research done in the 1980s.

The other extreme, which dominates the immigration literature in the 1990s, argues that immigrants take over local jobs and freeze low wages into place, or that the continued arrival of unskilled immigrants transforms the economy of the destination area into something resembling the migrants' place of origin. In response, local workers who might have to compete with immigrants tend to move away.

### **Little Worker Displacement: the 1980s**

Many 1980s studies concluded that immigrants do not have a negative impact, and in some cases have positive impacts, on employment and wages in the urban labor markets to which they move (i.e., in U.S. Census Standard Metropolitan Statistical Areas, or SMSAs; see Borjas (1984); DeFritas (1988); Altonji and Card (1991); Bean, Lowell, and Taylor, (1988); LaLonde and Topel, 1991; Borjas (1990); Grossman (1982); Muller and Espenshade (1985); Winegarden and Khor (1991); Simon, More and Sullivan (1993); Card (1990); Butcher and Card (1991); Vroman and Worden (1992); Fix and Passel (1994)). These findings generally support Michael Piore's (1979) argument that recent immigrants are concentrated in distinct labor-market segments. According to Piore,

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<sup>2</sup>The incentives to employ all available capital to supply services to seasonal farmworkers in impoverished towns are strong. In California's Coachella Valley, we observed a small market renting spaces in its parking lot to migrant workers for a nightly fee. The city ultimately required the owners of the market to place port-a-potties in its parking lot during the peak farm labor months.

The jobs [immigrants take] tend to be low-skilled, generally but not always low paying, and to carry or connote inferior social status; they often involve hard or unpleasant working conditions and considerable insecurity; they seldom offer chances of advancement toward better-paying, more attractive job opportunities (p. 17).

Immigrants, in other words, tend to complement native workers in production.

Most of these studies regress hourly or annual earnings and employment or weeks worked for different native-worker groups on the number of immigrants in local labor markets (SMSAs) and other labor market indicators. Some studies disaggregate the total number of immigrants in the local labor market into distinct immigrant groups, for example, recent (last five years) versus earlier immigrants (e.g., see DeFritas, 1988), and legal versus (as proxy for) undocumented immigrants (Bean, Lowell and Taylor, 1988). All have a common goal—to simulate a statistical experiment in which immigrants are randomly injected into a number of closed labor markets, so that coefficients relating immigrants to earnings or employment indicators can be interpreted as the effects of immigrants on native workers. A negative coefficient implies that immigrants and native workers are substitutes, while a positive coefficient implies that immigrants and natives are complements.<sup>3</sup>

Most empirical studies found that immigrants had small estimated impacts in local labor markets: a typical finding is that a 10 percent increase in the immigrant labor force reduces hourly earnings by less than 5 percent. Borjas summarized the 1980s literature with the assertion that "modern econometrics cannot detect a single shred of evidence that immigrants have a sizable adverse impact on the earnings and employment opportunities of natives in the United States" (Borjas, 1990, p. 81).

### **Migration and Displacement: the 1990s**

In the 1990s, evidence has begun to shift in favor of the view, inspired by neoclassical trade theory, that immigrants compete with at least some workers in local labor markets. Two important changes explain the shift. First, the 1980s assumption that immigrants are injected into a closed labor market was relaxed. If native workers respond to the arrival of immigrants by moving to less immigrant-impacted labor markets, the outward shift in the labor supply will be reduced or

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<sup>3</sup>The finding that native-worker earnings are positively related to immigration may indicate production complementarity between the two labor groups or it may reflect the creation of employment for native workers through immigrants' demand for goods and services.



eliminated, explaining why hourly earnings did not fall with immigration, and instead the composition of the work force will change in response to immigration.

White and Hunter (1993) and Filer (1992) find that the cities to which immigrants move have less native-worker in-migration, and more native out-migration, than metropolitan areas where immigrants do not cluster. Frey (1994) calls such native-born migration in response to immigration "the new white flight." The movement of native-born residents away from immigrant areas reduces the estimated effects of immigrants in such areas—"native mobility...dissipates the impact of immigration." Borjas (1994)

The second 1990s shift in immigrant impact studies was the realization that the wages of many workers, including many of those thought to compete with immigrants, are largely immune to immigration. For example, the wages and earnings of federal, state, and local government employees, as well as workers under national or regional collective bargaining agreements, may not be affected very much by the immigration of unskilled workers. The wages of school teachers, postal employees, government bureaucrats and corporate managers may have little to do with local labor market conditions, so that, if a high percentage of e.g., Afro-Americans are employed in government, then estimates of the effects of unauthorized Mexican immigrants on the earnings of Afro-Americans may be biased because the Blacks who do not compete with immigrants remain, and many of those who compete with unskilled immigrants move away.

### **Farmworker Communities**

California has about 450 cities, including 65 rural *colonias*—independent towns and cities that are over 50 percent Hispanic. In the latter, sometimes referred to as "overgrown labor camps," a majority of residents were typically born abroad, and 25 to 50 percent of the families have incomes below federal poverty levels. Seven of California's ten poorest cities are farm worker towns.

Parlier, 20 miles southeast of Fresno, is an example of such a city. It had 10,000 residents in 1990, and over 97 percent were Hispanic. Half of the residents immigrated since 1985 or are the children of recent immigrants. The city's economy is based on serving farm workers, including those employed in nonfarm but ag-related industries such as packing and processing tree fruits and grapes. Parlier grew rapidly during the 1970s and 1980s as farmers eliminated on-farm housing for workers and farm workers settled or stayed in Parlier while they did farm work.

Provision of non-tradable services like housing, job contracting, transportation and food to a large seasonal influx of farm workers creates some income and

employment for established residents, in a manner analogous to a tourist town. However, the poverty-level earnings of most farm workers severely limits incomes in these immigrant service activities. Linkages are also limited by the openness of small rural communities. Many of the goods demanded by farm workers are tradables, often purchased in commercial centers located outside the towns that house the farm work force. To the extent that the immigrants exert downward pressure on farm worker wages, land owners surrounding these communities also benefit. The best local jobs are held by those who have access to public funds to provide education, health, and other services to farm workers.

Both the 1980s and 1990s models of immigrant impacts characterize the impacts of immigrants in the agricultural areas of California such as Parlier. Most of the immigrants moving to agricultural areas have very low levels of education few have completed eight years of schooling. These newcomers create markets for established, usually older immigrants, many of whom have some access to capital--the established immigrants provide newcomers with services such as housing, transportation, food, and job placement.

The farm operators who employ immigrant farm workers typically do not live in farmworker colonias. In most cases, farm operators live in a nearby town that has fewer than 50 percent Hispanic residents and fewer recently arrived immigrants.

Farm operators create farm jobs, and migration networks fill them. Migration networks refer to the informal systems that link rural California to rural Mexico, transmitting information on job availability, wages, and often providing the funds needed to be smuggled into the U.S. and to obtain false documents. Seasonal farm work is performed primarily by foreigners who have recently arrived in the United States through these networks--most have little human or other capital and few U.S. job options.

Community studies provide evidence of competition between old, established migration networks (e.g., Mestizo, from central Mexico) and new networks (e.g., Mixtec, from southern Mexico) for more desirable, year-round jobs (Taylor, Martin and Fix). This competition often takes the form of rivalry between labor contractors for jobs--the labor contractor with a crew of Indian Oaxacan workers who underbids the contractor with Michoacan workers and wins the job of picking fruit (Taylor and Thilmany, 1993).

Despite a stable demand for labor on California farms, real wages for California farm workers have fallen since 1980 (Taylor and Martin, 1995). Although real wages have fallen for most unskilled U.S. workers, farm worker benefits and working

conditions have deteriorated disproportionately, as farmers shift from hiring workers directly to hiring them through farm labor contractors. For example, the shift to labor contractors often reduces take home pay of migrant workers by 25 percent, from \$200 weekly (\$5 x 40 hours) to \$150 or less after the worker pays for housing and rides to work; in the past, many farm employers housed migrant workers on their farms at no cost.

The mixture of positive income linkages for some groups and competition for low-wage, seasonal farm jobs among low-skilled immigrants describes the socioeconomic geography of rural California. It also highlights a distributional issue: the communities that house immigrant farm workers are often remain pockets of poverty even as the regions around these towns prosper.

### **Farm Employment–Immigration–Poverty Interactions**

Our research employs a simple head-count measure of rural poverty. More complex and richer poverty measures are available, including measures sensitive to both the number of people in poverty and distance between impoverished persons' incomes and the poverty line (see Foster, Greer, and Thorbecke, 1984). These, however, are based on household-level, rather than community-level, data. Moreover, use of the head-count measure facilitates intuitively appealing estimates of impacts of absolute numbers of farm jobs., immigrants, etc., on numbers of people in poverty, arguably the most critical poverty variable from policy makers' and the public's point of view.

The number of people in poverty in town  $j$ ,  $N_j$ , is given by

$$N_j = N(y_{ij} < y_{\min}) \quad (1)$$

i.e., the number of individuals in town- $j$  households  $i=1, \dots, I$  with income  $y_{ij}$  less than the poverty income  $y_{\min}$ . Household income is the product of employment,  $e_{ij}$ , and wage conditional on employment,  $w_i$ . Employment is assumed to be an increasing function of the employment rate. For a household in labor market  $j$ ,

$$e_{ij} = \phi \left( \frac{E_j}{L_j} \right), \quad \phi' > 0 \quad (2)$$

where  $E_j$  is total employment and  $L_j$  is the size of the local workforce, including the immigrant workforce.

The poverty line is invariant across locales for given household compositions. Thus, poverty is a function of employment and wage. *Ceteris paribus*, increases in

total employment,  $E_j$ , increase  $e_{ij}$ , while increases in the total labor force decrease  $e_{ij}$ , pushing some marginal households into poverty.

In an expected-income migration model (i.e., Todaro 1969), immigrants equilibrate expected incomes for given labor-skill groups (low-skill farm workers) across labor markets:

$$\frac{E_j \tilde{w}_j}{L_j} = \frac{E_k \tilde{w}_k}{L_k}$$

where  $L_j$ ,  $L_k$  are labor forces in markets  $j$  and  $k$ , and  $\tilde{w}_j$ ,  $\tilde{w}_k$  denote effective wages, including benefits like on-farm housing, meals, etc. Immigration occurs until these expected incomes equal the opportunity cost of emigrating (expected income in the sending country,  $y_s$ ), plus migration costs:

$$\frac{E_j \tilde{w}_j}{L_j} = y_s + c \quad (3)$$

Agricultural technologies are characterized by a concave production function of the form:

$$Q_j = F_j(E_j, K_j)$$

where  $K_j$  denotes capital.

Profit maximization implies

$$pF_{E_j} = \tilde{w}_j \quad pF_{K_j} = r_j$$

where  $F_{E_j}$  and  $F_{K_j}$  are marginal products of labor and capital, respectively. This yields labor demand functions of the form

$$E_j = E_j(p, \tilde{w}_j, r_j) \quad L_{\tilde{w}_j} < 0 \quad (4)$$

Equations (1)-(4) imply a simultaneity between farm employment (4) and immigration (3), with ramifications for poverty in rural towns (1-2).

In a sticky (i.e., legislatively-determined minimum)-wage world, there is no assurance that labor markets clear. Instead, unemployment and underemployment become the key labor-market equilibrating mechanism. A low (and, in the case of Mexico in the 1980s, declining) opportunity cost of emigration tends to make the immigration response to employment elastic, that is, immigration in excess of one immigrant per marginal farm job. In this labor demand-driven model, a vicious circle of labor demand-immigration-poverty-labor demand may emerge: Expansion of labor-intensive agriculture, on the expectation that immigrant workers will be available, creates now labor demands that trigger a greater than one-to-one immigration response, increasing unemployment and poverty and pushing down effective wages (e.g., benefits), which in turn stimulates a new round of increased farm employment. To the extent public service demands are a monotonically increasing function of poverty, the expansion of farm employment, simultaneous with immigration, generates a negative welfare externality in rural towns.

### **Econometric Model**

We used 1990 Census data on immigration, poverty, and welfare use in 65 rural California towns containing a total population of 450,840 to test the hypothesis that labor-intensive agriculture, by attracting large numbers of unskilled foreign workers and offering many of them only poverty-level earnings, creates a negative welfare externality for the rural communities in which they settle. We test the farm employment-immigration-poverty-welfare link by estimating a simultaneous equation system—in which immigration, farm employment, and income are jointly determined, and changing poverty and welfare use in rural towns are endogenous outcomes.

Other things being equal, we expect higher average incomes to be associated with fewer poor residents. For example, if average income is just above the poverty line, any inequality in the income distribution implies some poverty. Controlling for average income, higher immigration and farm employment imply more poverty if immigrants and farm workers are concentrated at the bottom of the income pyramid.

Income, immigration, and farm employment are specified as simultaneously determined. Most immigration models assume that immigrants are attracted to relatively high income areas (e.g., Borjas, 1987; Todaro, 1980). Immigration positively affects incomes at immigrant destinations if it reduces labor constraints on growth, or if immigrant expenditures have multiplier effects in local economies. It stimulates farm employment, *ceteris paribus*, by exerting downward pressure on farm wages and other labor costs.

The 5-equation system is:

- $$\begin{aligned}
 (1) \text{ NPOV} &= a_0 + a_1 * \text{POP} + a_2 * \text{MIG} + a_3 * \text{FARMEMP} + a_4 * \text{NFEMP} + a_5 * \text{INCOME} + e_1 \\
 (2) \text{ MIG} &= b_0 + b_1 * \text{FARMEMP} + b_2 * \text{NFEMP} + b_3 * \text{POP80} + b_4 * \text{INCOME} + b_5 * \text{NFOR80} + e_2 \\
 (3) \text{ INCOME} &= g_0 + g_1 * \text{POP} + g_2 * \text{MIG} + g_3 * \text{FARMEMP} + g_4 * \text{NFEMP} + g_5 * \text{INCOME80} + e_3 \\
 (4) \text{ WELFARE} &= d_0 + d_1 * \text{NPOV} + d_2 * \text{POP} + d_3 * \text{MIG} + d_4 * \text{NKIDS} + d_5 * \text{NOLD} + e_4 \\
 (5) \text{ FARMEMP} &= q_0 + q_1 * \text{MIG} + q_2 * \text{FARMEMP80} + q_3 * \text{POP} + e_5
 \end{aligned}$$

Where:

NPOV	=	Number of persons in poverty
POP	=	Total town population
POP80	=	Total town population in 1980
MIG	=	Change in total town foreign-born population between 1980 and 1990
NFOR80	=	Foreign-born population in 1980
INCOME	=	Average Family Income
INCOME80	=	Average Family Income in 1980
FARMEMP	=	Total Farm Employment
FARMEMP80	=	Total Farm Employment in 1980
NFEMP	=	Total Nonfarm Employment
WELFARE	=	Population receiving income assistance
NKIDS	=	Population Younger than 15 Years of Age
NOLD	=	Population 65 Years or Older

The parameters  $a_2$  and  $a_3$  represent changes in the number of residents in poverty associated with a one-person increase in migration and in farm employment, respectively. Immigration (Equation (2)) and total income (Equation (3)), in addition to being functions of each other, are affected by the structure of local labor markets and by farm employment.

The parameters  $d_1$  and  $d_3$  in Equation (4) are the effects of population in poverty and the foreign-born population, respectively, on the number of people receiving welfare income. The first of these parameters can be viewed as representing welfare

coverage in rural towns, and the second can test for an independent effect of immigration on rural welfare usage, controlling for the influence of immigration on poverty and income.

In Equation (5), the parameter  $q_1$  represents the influence of migration in the 1980s on farm employment, controlling for the initial (1980) employment level. All five equations control for total population. The stochastic error terms  $e_k$ ,  $k=1,...,5$ , are assumed to be distributed as approximately normal with 0 mean and a variance of  $\sigma_k^2$ , uncorrelated across observations, but not necessarily across the five equations.

We test four null hypotheses related to the magnitude and significance of parameters  $a_2$  and  $a_3$  in Equation (1),  $b_1$  in Equation (2),  $g_2$  in Equation (3),  $d_1$  and  $d_3$  in Equation (4), and  $q_1$  in Equation (5):

- i) That farm employment and immigration are not associated with poverty
- ii) That farm jobs do not stimulate immigration
- iii) That immigration directly does not directly affect public service (welfare) usage in rural towns
- iv) That immigration does not influence farm employment.

The system of equations (1) - (5) was estimated using three-stage least squares, exploiting the information contained in possible cross-equation error correlations in order to improve efficiency.

## Data

The data used to estimate these equations are from the California Rural Community (CARUCOM) database for 1980 and 1990.<sup>4</sup> There were some changes in census tracts between 1980 and 1990, but the UDB utilizes a "comparability file" produced by the

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<sup>4</sup> This data base was created as a part of the Changing Face of Rural American project. The data can be found on the home page of the monthly newsletter Rural Migration News, at <http://migration.ucdavis.edu>

The data base, from the Urban Institute's Under Class Data Base (UDB), provides city planners and researchers access to census data on rural California communities. Census tracts, typically 2500 to 8000 residents, approximate large neighborhoods— they tend to contain groups of residents with similar social characteristics, economic status, and housing conditions. The rural town in this study typically were comprised of 1-3 census tracts in 1990.

Census Bureau to reconfigure data from 1990 into the tract boundaries used in the 1980 Census. This makes it possible to track changes in demographic and economic characteristics of the communities we have "constructed" from these census tracts over time.

We first extracted data on all census tracts in California's 12 major agricultural regions (see map). Then, using census maps, we identified all tracts containing rural towns with populations between 1,000 and 20,000, and with 8 percent or more of their employment principally in agriculture. This yielded a sample of 65 communities containing a total population of 450,840 in the counties of Fresno, Imperial, Kern, Kings, Madera, Merced, Monterey, Napa, San Joaquin, Stanislaus, Tulare, and Ventura.

Two caveats are in order. First, the census is conducted in April, and farm worker employment peaks in September. The peak to trough employment ratio is smaller in California, particularly in southern California, than in other parts of the United States, but the April census is likely to miss some foreign-born seasonal workers who return to their country of origin during the off season, but who reside in California rural communities the rest of the year. On the other hand, it is more likely to enumerate migrant workers who are in Oregon or Washington in September, but who live in California during the off season. Second, census undercounts of unauthorized immigrants are well documented (Passel, 1985; Passel and Woodrow, 1984).

This suggests that census data are likely to provide a more reliable statistical portrait of settled native and foreign-born populations in rural areas than of transient farm workers who swell rural town populations during peak labor seasons. Findings from other studies (e.g., Borjas, 1994), suggest that the incidence of poverty is greater, but public assistance demands are lower, for recent immigrants than for more settled and established immigrants. If true, our results understate correlations between farm employment and immigration, on the one hand, and poverty, on the other, while exaggerating the welfare implications of immigration and farm employment.

The census data provide a reliable representation of the population enumerated by the census. To the extent that recent immigrants missed by the 1990 census, once they settle in rural towns, resemble persons enumerated by the census in immigration patterns, employment, poverty, and welfare use, our findings should offer some insights into their future implications and impacts on rural towns.



## Results

Summary statistics for the variables included in our analysis are in Table 1, and parameter estimates for the equation system represented by (1)-(5) are reported in Table 2. The data columns in Table 2 correspond to the four equations; the rows, to the explanatory variables. T-statistics appear in parentheses beneath each estimated parameter.

The poverty and immigration regressions (Equations (1) and (2)) reveal a significant positive relationship between farm employment and both immigration and poverty. The direct poverty impact of farm employment is both statistically significant and quantitatively large: A 100-person increase in farm employment is associated with a 132-person increase in the number of individuals in poverty. The incidence of poverty in California farm towns is also significantly and positively related to total population; however, *ceteris paribus*, the effect of population size on poverty is small compared to the farm employment effect (100 more residents are associated with 36 more poor people). Controlling for farm employment and total population, immigration does not have a significant direct effect on poverty. Nevertheless, immigration is indirectly related to poverty, because it both stimulates, and is stimulated by, farm employment (Equation (5)). A 100-person increase in immigration, is associated with a 36-person increase in farm employment, statistically significant at the .01 level.

The immigration equation leads us to easily reject the null hypothesis that immigration is not related to farm employment. An additional 100 farm jobs are associated with a 143-person increase in immigration, also significant at the .01 level. The positive effect of farm employment on immigration (Equation (2)) combined with the positive effect of immigration on farm employment (Equation (5)) provides statistical evidence of a circular relationship between farm employment and immigration, with significant adverse effects on rural poverty (Equation (1)). Immigration is also positively and significantly related to nonfarm employment. However, nonfarm employment decreases poverty (Equation (1)). There is no evidence that 1980-1990 immigrants clustered in large rural towns or in towns that had large foreign-born populations in 1980. Employment—especially farm employment—drove immigration into rural California towns in the 1980s.

Income growth *in itself* is not an effective way of alleviating poverty in rural towns. The estimated association between average family income and poverty is *positive* and statistically significant, though quantitatively small: A \$1,000 increase in average family income, other things being equal, is associated with a 46-person increase in poverty. This finding supports the argument that income growth in

rural California towns bypasses the poor, and it is consistent with the argument that the economic welfare of many established residents is structurally linked to poverty, such as providing services to poor farm workers. Controlling for employment, average income does not significantly explain immigration (Equation (2)) nor vice-versa (Equation (3)). The direct effect of farm employment on average income in rural towns is not significantly different from zero.

Many poor rural residents do not obtain public assistance. Other things being equal, a 100-person increase in poor residents is associated with a 53-person increase in the number of welfare income recipients (significant at well below the 0.01 level). Controlling for poverty incidence, immigration is not significantly related to welfare use. This latter finding casts doubt on the public perception (e.g., underlying California's Proposition 187) that welfare is a primary motive for immigration. The farm employment-immigration-welfare link operates entirely through the poverty variable. Controlling for poverty incidence, population size is negatively related to welfare coverage. However, the presence of children and elderly residents significantly increases public assistance demands.

In the Census, persons were asked to report the amount of cash assistance they received. This makes it possible to estimate the marginal dollar impact of farm employment on public income assistance. The average amount of cash assistance reported by welfare-receiving households in these 65 towns in 1989 was \$6,126. There are no data on the size of welfare-receiving households in the CARUCOM data base, but if the average size of welfare-receiving households is the same as the average size of all households,<sup>5</sup> then each person in households receiving cash assistance obtained \$1,424. Multiplying this per capita cash assistance by the marginal effect of farm jobs on welfare incidence, we obtain a marginal welfare cost of each farm job of \$987. Average annual farm earnings for farm workers in California in 1990 were \$7320, which means that each farm job was associated with a cash assistance payment equivalent to more than 13 percent of average farm earnings (U.S. Department of Labor, 1993, 36-7).

This implicit welfare subsidy for farm employment understates the full marginal impact of farm employment on public expenditures to alleviate poverty. Nationwide, about 7 percent of households headed by native-born persons and 9 percent of households headed by foreign-born persons reported receiving cash assistance in the 1990 Census. An analysis of Survey of Income and Program Participation (SIPP) data by Borjas (1994) indicates that, in 1990 in California, about 14 percent of households headed by a U.S.-born person, and 40 percent of

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<sup>5</sup> Average household size for the 66-town sample was 4.4 persons.

households headed by foreign-born persons, received federal in-kind benefits such as Medicaid and food stamps (*Migration News*, November, 1995).

In addition to cash assistance and in-kind benefits, migrant and seasonal farmworkers (MSFW) and their dependents are eligible for benefits under 13 targeted programs that provide education, training, and health services. In the early 1990s, the federal government was spending about \$600 million annually on these MSFW assistance programs, equivalent to about 10 percent of what MSFWs in the U.S. earn each year (Martin and Martin, 1994). These MSFW assistance programs provide many of the "good jobs" in rural towns.

It might be argued that because the marginal farm job is filled by a recently arrived immigrant and recent immigrants are below-average users of cash and in-kind assistance, the welfare effect of farm employment may be lower than \$987, at least in the short run. However, the increase in public assistance is not due primarily to newly-arrived farmworkers obtaining cash assistance, but rather to poor settled and eligible immigrants receiving public assistance. This is the employment-immigration-welfare link illuminated by our regression analysis. The estimated effects of farm employment on welfare leave little doubt that the farm employment-immigration-welfare link is significant, both statistically and quantitatively. And if recent immigrants integrate and take on the characteristics of the settled population, these estimates may foreshadow the medium-to-long-run social costs of new immigration to support the expansion of labor-intensive agriculture.

It might also be argued that these estimates overstate the welfare costs of immigrant labor because the immigrant farm workers pay taxes. Immigrant farm workers have low earnings and, while many do not file tax returns, if they did, they would be more likely to obtain Earned Income Tax Credits than to owe taxes.<sup>6</sup> Farm employers are supposed to deduct and match each workers social security tax, as well as make appropriate contributions for unemployment insurance and workers compensation, but violations are widespread.

## Conclusions

Labor-intensive agriculture, by attracting immigrant workers and offering many of them only poverty-level earnings and employment, creates a negative externality in rural towns: the cost of meeting the public service needs of farm workers whose paychecks cannot support them. Across "farmworker communities" in 1990, there

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<sup>6</sup> The EITC paid \$21 billion to low earners in 1995. Poor people with earnings report their earnings on their tax forms, and the government mails them a check for up to 40 percent of their earnings—e.g., a family with two or more children and earnings of up to \$8,890 can receive up to \$3,556 in EITC payments.

is a positive farm employment-immigration-poverty-welfare link that is both statistically and quantitatively significant. Income growth in itself is not an effective way to alleviate poverty in rural California towns, since the benefits of income growth bypass the rural poor.

The relationship between farm employment, immigration, and poverty is complex. Flat or declining real wages resulting from a highly elastic supply of immigrant labor create an incentive for farmers to expand production of labor-intensive specialty crops, including for export to the workers' country of origin. Increased production, in turn, stimulates immigration, creating a vicious circle of poverty and public assistance and leading to a patchwork of prosperous farms and impoverished farmworker towns in rural areas.

An unusual aspect of the poverty externality associated with labor-intensive agriculture in California is that, from the immigrant workers' point of view, it is almost certainly Pareto optimal—reflecting the Q and A in rural Mexico—"What is worse than being exploited in California agriculture? Not being exploited in California agriculture." The California farm work force—and, increasingly, the U.S. farm workforce—are comprised almost entirely of immigrants for whom seasonal U.S. farm earnings are preferred to not migrating to the U.S.

### **Policy Implications**

There are three broad policy options to break the farm employment-immigration-poverty-welfare cycle. First would be to reduce the supply of immigrant labor, by stepping up border and interior enforcement. This is the strategy of the Clinton Administration and the Congress, reflected in more border patrol agents, new fencing and lighting, and a doubling of the number of work place inspectors.

Can increased enforcement reduce the supply of immigrant workers? Apprehensions in 1995 were 40 percent higher than in 1994, and higher in 1996 than they were in 1995. However, neither the presumably greater risk of being apprehended, nor higher smuggling fees, have so far deterred enough immigrants to produce credible complaints of farm labor shortages or evidence of rising wages. Indeed, the major complaint of most unauthorized farm workers in the raisin harvest in Fall 1995 was that the opportunity cost of crossing the border had risen—a week of work might be lost in making two or three crossing attempts.<sup>7</sup>

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<sup>7</sup>Some 50,000 individuals are employed to harvest acres of raisin grapes for 4 to 6 six weeks around Fresno, California each August-September, the single most labor-intensive activity in North America.

A second policy response would be to promote economic development in migrant-supplying areas, particularly in Mexico, in an effort to reduce the supply elasticity of immigrant labor. U.S. assistance could be justified on the grounds that failure to address the problems of unemployment and poverty in rural Mexico may mean having to address these problems in rural California.

About one-fourth of Mexico's 30 million workers are dependent on agriculture, and many of these 6 to 7 million farmer and farm workers have little hope of achieving even the \$3,000 annual average per-capita Mexican income. Migration within Mexico and to the United States is an integral part of the income-earning strategies of many rural Mexican residents (Taylor, 1987). There is general agreement that events in Mexico in the 1990s, especially since the December 1994 peso devaluation, are encouraging especially young Mexicans to "go north" in search of opportunity, either in the expanding factories in Mexican border areas or in the United States. Opportunity in rural America at a time when Mexico appears poised to undergo a "Great Migration" promises to accelerate the "Latinization of rural America."

A third response would be to develop policies to internalize the social costs of labor-intensive agriculture; that is, make U.S. farmers and/or consumers responsible for more of the costs associated with seasonal farm work. In theory, a head tax on farm labor, similar to a Pigouvian tax, could be used to compensate for the negative externality created by poorly paid, seasonal farm jobs, encouraging farm employers to offer more stable employment to a smaller "core" farm work force.

Since the supply of U.S. workers to seasonal farm jobs is probably inelastic, most of the adjustments to such a tax would be on the demand side. Indeed, most of the increases in labor productivity in American agriculture have come from labor-saving technologies and management practices.

A Pigouvian tax on seasonal farm employment could take many different forms. Most farmers no longer house seasonal farm workers, so that many workers pay \$30 to \$40 per week for housing in the back yards of rural farm worker towns, or *colonias*, and then pay \$4 to \$6 daily for rides to the fields. In addition, many workers pay to have checks cashed, and they face above-average prices for meals and food from the local businesses that cater to them.

The "divorce" of farm operators and packer-shippers from the seasonal farm labor force means that the farm workers not lucky enough to get into public facilities typically spend 25 to 35 percent of their wages on services that were in the past provided by the grower at little or no cost. Ways to re-establish the link between workers and the beneficiaries of their labor include requiring farm employers to

provide or pay for housing, levying fees on commodities as they are sold to cover the costs of housing and other services, or raising minimum wages enough, or reducing seasonality enough, so that farm workers can afford to obtain adequate housing without subsidies.

In a labor-surplus environment, such as the one characterizing western agriculture in the 1980s and 1990s (Martin *et al.*, 1994), policies to internalize the social costs of low-wage agriculture would be difficult to implement. For example, introducing a tax, without making any other changes in the farm labor market would probably accelerate the shift away from direct hiring, and towards the use of difficult-to-regulate labor market intermediaries (Martin and Taylor, 1991; Taylor and Thilmany, 1993).

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TABLE 1  
Variable Definitions and Summary Statistics

	DEFINITION	MEAN	STANDARD DEVIATION
NPOV	Number of People in Poverty	1,960	1,768
MIG	Change in Number of Foreign Born, 1980-1990	766	928
INCOME	Average Family Income	35,917	13,585
POP8	Total Population in 1980	5,849	2,687
POP	Total Population	6,936	3,175
INCOME8	Average Family Income in 1980	21,123	7,894
NFOR8	Number of Foreign Born in 1980	1,403	1,196
FARMEMP	Farm Employment	787	567
FARMEMP8	Farm Employment, 1980	673	474
NFEMP	Nonfarm Employment	1,714	847
NKIDS	Total Population 15 Years or Younger	975	874
NOLD	Total Population Older than 65 Years	773	797
NWELF	Population in Families Receiving Welfare Income	1,488	1,568

Sample Size: 65

TABLE 2  
Results of 3SLS Regression for Farm Employment, Poverty, Immigration, and  
Welfare in Rural Towns

	NPOV	MIG	INCOME	WELFARE	FARMEMP
NPOV				0.53 (9.77)	
MIG	0.03 (0.16)		-0.75 (-0.49)	-0.02 (-0.28)	0.36 (6.33)
INCOME (Thousands of dollars)	45.88 (7.52)	7.21 (1.47)			
INCOME8			1.64 (15.50)		
POP	0.35 (3.87)	-0.07 (-1.69)	-0.50 (-0.57)	-0.04 (-2.17)	0.01 (0.34)
NFOR8		-0.18 (-1.87)			
FARMEMP	1.32 (5.32)	1.43 (9.55)	0.13 (0.06)		
FARMEMP8					0.61 (8.20)
NFEMP	-0.71 (-3.13)	0.39 (4.22)	1.21 (0.57)		
NKIDS				0.70 (5.39)	
NOLD				0.20 (2.30)	
R <sup>2</sup>	0.87	0.67	0.82	0.98	0.79

Sample Size: 65

Log Likelihood: -2497.05

Chi-Square (df): 382.66(23)

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