Immigration, Monopsony and the Distribution of Firm Pay

Abstract

We argue that immigration can fuel the rise of a low-pay sector that negatively impacts native labor. Firms can exploit migrants' low reservation wages by reducing pay, but only at the cost of forgoing native hires, in a classic monopsonistic tradeoff. Wider adoption of this low-pay strategy leads to greater workplace segregation, increased dispersion in firm pay, and large negative effects on native employment which can exceed those in competitive models. We validate these predictions using evidence from a large immigration wave in Germany. These adverse effects are not inevitable and may be mitigated through policies that constrain firms' monopsony power over migrants. Keywords: immigration, monopsony, firms.

This paper is joint work with Michael Amior

Jan Stuhler
Professor of Economics at Universidad Carlos III de Madrid