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Hearing on "New Jobs in Recession and Recovery:
Who Are Getting Them and Who Are Not"

U.S. House of Representatives
Committee on the Judiciary
Subcommittee on Immigration Policy and Enforcement

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Room 2141 of the Rayburn House Office Building

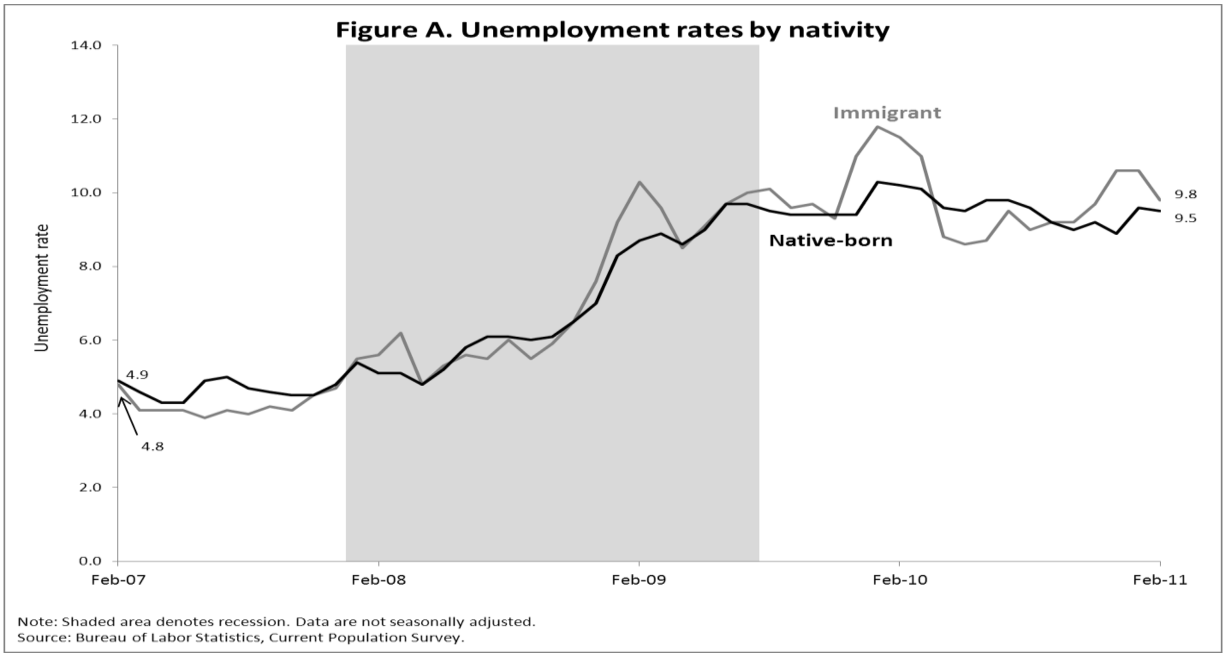
Good Morning Chairman Gallegly, Vice-Chairman King, Ranking Member Lofgren, and distinguished members of the Subcommittee on Immigration Policy and Enforcement. My name is Heidi Shierholz and I am a labor market economist at the Economic Policy Institute. I appreciate the opportunity to appear before you today to share my views.

The context

The Great Recession—which officially lasted from December 2007 to June 2009—began with the bursting of an 8 trillion dollar housing bubble. The resulting loss of wealth led to sharp cutbacks in consumer spending. This loss of consumption, combined with the financial market chaos triggered by the bursting of the bubble, also led to a collapse in business investment. As consumer spending and business investment dried up, massive job loss followed. From December 2007 to February 2010, the U.S. labor market lost 8.7 million jobs, or 6.3% of all payroll employment. This was the most dramatic employment contraction (by far) of any recession since the Great Depression. By comparison, in the deep recession that began in 1981, job loss was 3.1%, or less than half as severe.

Even since the economy stopped contracting in the summer of 2009, its growth has not been nearly strong enough to create the jobs needed simply to keep pace with normal population growth, let alone put back to work the backlog of workers who lost their jobs during the collapse. In February 2011, 20 months after the official end of the recession, the economy still had 5.4% fewer jobs than it did before the recession started. Thus, the Great Recession has brought the worst of both worlds: extraordinarily severe job loss, combined with an extremely sluggish jobs recovery.

In this crisis, all demographic groups have seen substantial increases in their unemployment rates. **Figure A** shows unemployment rates by nativity. One thing to note is that these data display large swings over short periods, particularly among the foreign born. This is due largely to the fact that the data are not seasonally adjusted, and also because the sample sizes are relatively small, particularly among the foreign born, which leads to a great deal of month-to-month variability. Because the data are not seasonally adjusted, in order to make appropriate comparisons over time, it is important to compare the same *month* in different years, for example comparing the most recent data available, February 2011, to February 2007, which is the February before the Great Recession started. As the figure shows, both immigrants and native-born workers saw their unemployment rates more than double between the start of 2007 and the end of 2009, and both have seen only modest improvement since then. In February 2007, foreign born workers, at a 4.8% unemployment rate, had a slightly lower unemployment rate than native born workers, who had an unemployment rate of 4.9%. Four years later, the unemployment rate of foreign born workers, at 9.8%, is 5 percentage points higher than it was. Native born workers have fared only slightly better, with a 4.6 percentage point increase in their unemployment rate over the last four years, to 9.5%.



An update to the findings in the October 2010 Pew Hispanic Center study "After the Great Recession: Foreign Born Gain Jobs; Native Born Lose Jobs"

The Pew Hispanic Center study from October 2010 titled "After the Great Recession: Foreign Born Gain Jobs; Native Born Lose Jobs," addresses the relationship between nativity and employment changes brought about by the Great Recession. In the study, the latest data the authors were able to use were from the second quarter of 2010, but we are now able to update a portion of their analysis to the most recent data, February 2011. Furthermore, as shown in Figure A above and Figure B below, it is very important to look at employment trends over the broad span of the downturn when examining this issue. This is important for two reasons – one, even year-over-year changes appear to be displaying strange swings in these data, possibly due to sample size issues. For example, as seen in Table 1 below and in Table 9 of the Pew study, native-born working-age (age 16+) population growth dropped by around one million from 2009 to 2010, something that cannot be easily explained. Furthermore, because the timing of employment changes over the downturn varies by nativity, looking at sub-periods may inadvertently distort the picture of the relative impact of the Great Recession and its aftermath on these two groups. For these reasons, while I present the interim periods, I focus on changes from February 2007 to February 2011.

Figure B looks at employment growth by nativity. Again, the data are not seasonally adjusted, so they display large swings over short periods and therefore, to make comparisons over time, it is important to compare the same month in different years. Since the latest data available are from February 2011, the data for both series are indexed to 100 in February 2007 to provide the best sense of how these two groups compare today relative to before the Great Recession began. (This is a standard way of comparing employment trends of different groups; to read the figure, note that each point on a line tells you how many jobs that group had at that time as a percentage of how many jobs that group had in February 2007.) We find that while immigrants and native-born workers have experienced somewhat different *timing* of employment changes, their broad experience of breathtaking job deficits has been remarkably similar. Immigrants saw larger losses than native-born workers in 2007 and 2008, while they fared better than native-born workers in 2009 and 2010. This is typical, as groups that see the biggest losses in downturns also tend to see the biggest bouncebacks, as they have greater losses to make up. In the latest data available, February 2011, immigrants and natives are in roughly the same place, with immigrant employment 4.3% below where it was in February 2007, and native-born employment 4.4% below where it was in February 2007.

Figure B. Indexed employment change by nativity

Note: Shaded area denotes recession. Data are not seasonally adjusted.
Source: Bureau of Labor Statistics, Current Population Survey.

Table 1 elaborates further on employment changes over time, and includes breakdowns by gender. It should be noted that among both immigrants and native-born workers, men have been hit particularly hard. Male immigrant employment is 6.3% below where it was in February 2007, which translates into 848,000 fewer immigrant men being employed today than before the recession started. Immigrant women have fared better, with female immigrant employment down by 1.3%. Among native-born workers, male employment is down by 5.2%, and female employment is down by 3.7%.

The final three rows in Table 1 show that over the last four years, the working age population (age 16+) has grown at roughly the same rate on average for both immigrants and natives, with the native-born population growing 3.5% over the last four years, while the immigrant population grew by 3.3% over the same period. In other words, the share of the working-age population that is foreign born is roughly the same now as it was four years ago, 15.1%.

Table 1. Employment and population levels by nativity

	Feb-07	Feb-08	Feb-09	Feb-10	Feb-11	Change from February 2007 - February 2011: Level	Percent
Employment (thousands)							
Native	121,900	122,047	119,129	116,102	116,478	-5,422	-4.4%
Male	63,402	63,469	61,104	59,201	60,123	-3,279	-5.2%
Female	58,498	58,579	58,025	56,901	56,355	-2,143	-3.7%
Immigrant	22,579	22,502	20,976	21,102	21,614	-965	-4.3%
Male	13,521	13,385	12,337	12,365	12,673	-848	-6.3%
Female	9,058	9,117	8,639	8,737	8,942	-116	-1.3%
Working-age population (thousands)							
Native	195,967	197,711	200,199	201,683	202,825	6,858	3.5%
Immigrant	34,868	35,098	34,714	35,315	36,026	1,158	3.3%
Immigrant share	15.1%	15.1%	14.8%	14.9%	15.1%	0	

Note: Data are not seasonally adjusted.
Source: Bureau of Labor Statistics, Current Population Survey.

What is known about the effect of immigration on the labor market outcomes of native workers

Immigration and wages In the ongoing debate on immigration, there is broad agreement among academic economists that in the long run, immigration has a small but positive impact on the wages of native-born workers overall. The real debate among these researchers is whether a large influx of a particular type of worker has the potential to have a negative impact on the wages of existing workers who are also of that type, since workers who are highly substitutable for new immigrants stand to lose when there is a large influx of new immigrants. There have been two main methodological strategies for studying the effect of immigration on the wages of native workers. The "Area approach," dominated by the work of David Card, exploits the fact that there are large differences across regions of the U.S. in the relative size of the immigrant population. Essentially, this approach compares the wages of native workers in U.S. metropolitan areas with small immigrant inflows to the wages of native workers in U.S. metropolitan areas with large immigrant inflows. Research using this approach generally finds very modest – and sometimes modestly positive -- effects of immigration on the wages of native workers, including workers with low levels of education.

The second main approach in this literature is the "national approach." Scholars using this approach often contend that it is impossible to suitably account for the fact that there may be movement of capital and native-born labor between metropolitan areas in response to immigration, and therefore an analysis of the effect of immigration on native wages must use national level data. This approach is dominated by the work of George Borjas, and tends to use a production function framework which combines workers of different skills, estimates the degree of substitutability between workers of different skills using national data, and simulates the impact on wages of relative labor supply shifts due to immigration. Historically, research using this approach found small positive effects on the wages of native-born workers overall, but relatively large negative effects of immigration on the wages of native workers with low levels of education.

Until recently, that is where the main divide in the literature stood – with researchers using the "area approach" finding no or little effect of immigration on the wages of native workers, including workers with low levels of education, and researchers using the "national approach" finding a relatively large negative effect on workers with low levels of education. However, in the last couple of years there have been two important advancements in the literature on immigration and wages that help shed light on the differences in results between these two approaches. First, researchers have identified a small but detectable level of imperfect substitution between immigrant and native workers who have the same levels of education and experience. In other words, immigrant and native workers with the same levels of education and experience are not perfectly substitutable. This may arise, for example, among workers with low levels of education if native workers are more likely to be concentrated in jobs that require strong English skills and immigrant workers are more likely to be more concentrated in jobs that don't (for example, waitstaff versus line cooks). Previous "national approach" estimates of the effect of immigration on wages have assumed that immigrants and natives of similar education and experience levels are perfectly substitutable. Correctly characterizing the degree of substitutability between immigrants and natives is of enormous importance, because if natives and immigrants are perfectly substitutable, an increase in immigration in a particular education/experience class will tend to reduce the wages in the entire education/experience class, including native workers in that class. However if, as has been shown to be the case, immigrants and natives within the same education/experience class are imperfect substitutes, then an increase in immigration in a particular class will have a strong adverse effect on the wages of *earlier immigrants* in that class – since they are direct substitutes, or competitors -- but will have a smaller effect on the native workers in that class.

The second recent advancement has been the application to the immigration and wages literature of something that was already accepted as fact in the rest of the labor economics literature – that the degree of substitutability between workers in two different education categories is not constant *across* education categories. Previous "national approach" estimates of the effect of immigration on wages have incorrectly assumed that they are. It turns out that incorporating different degrees of substitutability between different pairs of education categories is enormously important to estimates of the effect of immigration on native wages. The main problem with ignoring this point arises with what it implies -- that workers without a high school degree and workers with a high school degree have very low levels of substitutability. This is strongly refuted by the literature, and ignoring this fact distorts the estimated effects of immigration on workers without a high school degree, since it suggests that an increase in immigration among workers without a high school degree affects only workers without a high school degree, which is a very small portion of the labor force (less than 10%), so that essentially the entire impact of "less than high school" immigration is assumed to be felt by the relatively small number of "less than high school" workers. If, on the other hand, we recognize that workers without a high school degree are relatively substitutable for workers with a high school degree, then the impact of "less than high school" immigration is more diffused across the much larger share of the workforce that has a high school degree or less (over 35%), greatly reducing the impact on the least educated American workers.

Importantly, these new innovations in the "national approach" literature essentially solve the earlier divide between the "national approach" and the "area approach". When substitutabilities between different groups are correctly accounted for in the "national approach" methodology, the results using that approach come in line with the results from the "area approach", namely that the effects of immigration on native workers is modest, including the effect on native workers with low levels of education. In other words, Americans are right to worry about the declining quality of jobs over the last few decades, but for native-born workers at all levels of education, immigration had very little to do with it.

<u>Immigration and employment</u> The literature on the effect of immigration on the employment of native born workers is somewhat less extensive than the literature on the effect of immigration on wages. Some have tried to pin down the effect of immigration on employment in specific instances. For example, in a May 2010 Center for Immigration Studies paper titled "A Drought of Summer Jobs: Immigration and the Long-Term Decline in Employment Among U.S.-Born Teenagers," the authors examine the relationship between immigration and the decline in teen summer labor force participation. Using a simple regression analysis, they attempt to determine whether there is a connection between the decline in teen summer labor force participation and the growth in immigration between 1994 and 2007. Importantly, they also note that summer school enrollment increased dramatically over the same period. In a straightforward shift-share analysis they find that "the increases in enrollment accounted for 28.7% … of the decline in labor force participation." However, in their regression analysis that concludes that increasing immigration caused very large declines in teen summer labor force participation, they also find that "the model does not find that the increase in school enrollment played a statistically significant role in the decline in teen labor force participation." The authors themselves appear to find this strange, concluding that "it seems likely to us that the increase in school enrollment did play some role in reducing labor force participation for U.S.-born teenagers, but factors other than increased school enrollment were much more important". Their lack of confidence in their regression findings related to enrollment deeply undermines their general empirical strategy and calls into question their broader results of a very large negative response to immigration of teen summer labor force participation.

As in the immigration and wages literature, the most rigorous studies show very modest effects of immigration on employment, which is unsurprising given that these two labor market outcomes (wages and employment) are highly interconnected. A 2010 paper by Giovanni Peri titled "The Impact of Immigrants in Recession and Economic Expansion", however, addresses an issue that is particularly important to keep in mind in the current labor market environment. Peri finds that *in the long run*, immigrants do not reduce native employment rates, but they do increase productivity and therefore average income. This is consistent with the broad existing literature. He finds that in the short run, however, immigration may slightly reduce native employment and average income, because the economy takes time to adjust to new immigration. Importantly, this effect varies according to the broader economic environment. In particular, when the economy is growing and the labor market is adding jobs, new immigration creates enough jobs even in the short run (and even for less-educated native-born workers) to cause no harm to the employment of native-born workers. But during downturns, things do not adjust as quickly. When the economy is weak, new immigration has a small negative impact on the employment of native-born workers *in the short run*. In other words, while the labor market outcomes of native-born workers are unambiguously improved by immigration in the long run, the adjustments can be difficult and have small negative impacts in the short run *if the economy is weak*.

Making immigration more responsive to the US labor market

The finding that if the economy is weak, immigration may have negative effects on the labor market outcomes of native-born workers in the short run underscores the fact that the US could benefit enormously from an immigration system that is more responsive to economic conditions. It should be noted that immigration already responds to some extent to economic conditions. This is especially true of unauthorized immigration. In a report from the Pew Hispanic Center titled "Unauthorized Immigrant Population: National and State Trends, 2010," the authors find that the unauthorized immigrant population was around 800,000 smaller in 2010 than it was in 2007. A Department of Homeland Security study shows a decline of 1 million over the same period. But in our current immigration system, *legal* permanent and temporary immigrant flows are essentially unresponsive to the economic cycle. In particular, Congress has set a yearly limit on the number of new immigrants who may enter the country legally in order to work, and these limits do not fluctuate based on the state of the labor market. For example, in 2010, the unemployment rate in construction was over 20%, but the Department of Labor nevertheless certified thousands of H-2B visas for construction workers. This defies logic.

To remedy this, an independent federal agency with a professional staff of economists, demographers, statisticians, and immigration experts could be established to evaluate the U.S. labor market and economic conditions, and annually recommend to Congress the levels of permanent and temporary immigrant labor. The recommended levels would fluctuate with the strength of the labor market, allowing the U.S. economy to respond to the needs of employers during expansions while avoiding the potential crowding-out of native-born workers in the short run when the unemployment rate is high. A commission that makes employment-based immigration responsive to the economic cycle would be a sensible nonpartisan reform to help ensure that the national interest governs our immigration policy.