New Jobs in Recession and Recovery: Who Are Getting Them and Who Are Not?

Testimony of Harry J. Holzer before the Subcommittee on Immigration, Border Security and Claims, U.S. House of Representatives

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Two recent papers, by Steven Camarota (2004) and by Andrew Sum et al. (2004), present data showing that the employment of new immigrants in the United States rose during the period 2000-2004, while that of native-born Americans (and even earlier immigrants) declined.

A superficial reading of the data in these papers might suggest that rising immigration in the past four years has been a key factor in accounting for the poor labor market performance of native-born Americans during this period. But such a reading would be highly inaccurate. The employment outcomes of native-born Americans mostly reflect the underlying weakness of the U.S. labor market, rather than large displacements by new immigrants.

- *Net immigration has remained fairly constant between the 1990s and the post-2000 period; instead, what has changed is the rate of job growth in the U.S. economy.*

During the 1990s, 13 million immigrants arrived in the United States—an average of about 1.3 million per year (Capps et al. 2004). Since 2000, that rate of immigration has remained largely unchanged (Sum et al. 2004, table 1). The total share of immigrants in the population has risen only from 11 to 12 percent during the past four years.

In contrast, the rate of net job growth in the United States has collapsed between the late 1990s and the period since 2001. Between March 1995 and March 2000, our economy generated nearly 15 million new nonfarm payroll jobs and increased employment by about 13 million.[1] But, after a period of modest job growth between March 2000 and 2001 (with payroll and employment increases of about 1 million each), the economy went through a short recession followed by a relatively "jobless" recovery for three years. Between March 2001 and 2004, total employment grew by just over one-half million, while the number of nonfarm payroll jobs declined by about 1.7 million. At the same time, the U.S. population grew by about 8 million. In the past year, job growth has picked up somewhat, though the labor market remains quite weak.[2]

- *Contrary to the interpretations suggested by Camarota (2004) and Sum et al. (2004), immigration cannot possibly account for many of the labor market developments that have occurred since 2000.*

In the 1990s, strong immigration coexisted with very low unemployment rates, and record-high percentages of the population were employed. Indeed, immigration helped to relieve the pressure of very tight labor markets on employers, who had difficulty finding enough native-born workers able and willing to fill the jobs they were offering. Yet the same rate of immigration today coexists with a sluggish labor market, in which an additional 5 million jobs would be needed to re-create the employment rates of the late 1990s and 2000.[3]

The papers by Camarota and Sum et al. clearly show that, in the aggregate, employment among new immigrants has increased while that of native-born Americans has declined since 2000. But a look at some more disaggregated data suggests a far more complex story. While new immigrant employment has been relatively concentrated in a small number of sectors (such as building and grounds maintenance, food preparation, and construction), the shifts in jobs across other sectors of the U.S. economy have been much greater.

For example, the number of payroll jobs in manufacturing declined by about 3 million between March 2000 and March 2004; new immigrant employment rose, but only by 335,000 in this sector (Sum et al. 2004). The number of payroll jobs in the public sector rose in this period by 850,000; almost none of these jobs went to new immigrants. Strong job growth has occurred in diverse services such as health care and professional services, while employment growth has slowed or declined elsewhere (such as in retail trade), in patterns almost completely unrelated to immigration.[4]

Indeed, the U.S. labor market is one in which *many millions of jobs are newly created and newly destroyed every year*. Millions of workers are constantly reallocated across firms and sectors of the economy (Davis, Haltiwanger, and Schuh 1996). When the overall rates of new job creation in the economy exceed those of job destruction, net job growth is positive; when overall job creation lags behind (or is comparable to) job destruction, then net job growth is weak. Either way, the new employment of a few million immigrants over a three- or four-year period has a major effect only on the few sectors, especially in specific geographic regions, where immigrants are heavily concentrated; otherwise immigrants play a fairly minor role in the overall churning of the labor market.

Does the labor force participation behavior of native-born workers and immigrants respond differently to a strong or weak economy? In a strong job market, American workers respond by entering the labor force in great numbers—as they did in the 1990s. But, in a weaker job market, some Americans withdraw from the labor force in favor of other pursuits, such as enrolling in higher education. Since immigration rates to the United States and immigrant participation in the labor force are much less sensitive to these changes in our economy, their net share of labor force activity and employment will temporarily increase when this occurs—as they have since 2000. But none of this implies that immigrants are directly displacing U.S. workers in large numbers.

One other area in which a weak overall labor market affects American workers is in their *real earnings*—that is, their rates of pay adjusted for inflation. In the past four years, increases in earnings have been fairly modest, despite the dramatic growth of productivity in the U.S. workforce. In fact, *the average real earnings of over 100 million nonsupervisory workers have failed to rise at all in the past two years*.[5] This development is another sign of a weak overall labor market, and cannot possibly be attributed to the 2 million or so new immigrants who have gained employment in the U.S. since 2000.

- *Over the next few decades, tight labor markets are likely to return as baby boomers retire in large numbers*.

Will the current weakness of the U.S. labor market last indefinitely? Most economists expect the labor market to strengthen over the next several years, although the exact pace at which this will occur remains uncertain.

Over the longer term, the labor market will be hugely affected by baby boomer retirements. Roughly 60 million workers, now age 41 to 59, were born in the period 1946-64. They will soon begin retiring in large numbers and will likely generate a period of labor market tightness that will persist 20 to 30 years. Indeed, immigrants will generate all net growth in the labor force over the next two decades (Aspen Institute 2002).

There are many ways in which the labor market will adapt to these changes. Retirements will be delayed; new technologies and foreign outsourcing will replace labor; and wages in some sectors will need to rise. But immigration should also play a key role in this adjustment process (Ellwood 2001). Indeed, foreign-born students and workers will be a major source of new scientists and engineers in the United States over the next few decades and will be critical to continuing productivity growth (Freeman 2004). The role of immigrants in other sectors of the economy where extremely tight labor markets are expected—such as nursing and long-term care for the aging population—will be critical as well.

- *Most studies show that, over the longer term, immigrants have very modest negative effects on the employment of less-educated workers in the United States, but generate other benefits for the U.S. economy*.

Professors George Borjas and Lawrence Katz of Harvard University have recently calculated that immigration from 1980 to 2000 might have reduced the earnings of native-born U.S. workers by 3 to 4 percent, with larger negative impacts among high school dropouts and smaller impacts among all other education groups (Borjas and Katz 2005). Their estimates are at the high end of those generated by labor economists; others, including Professor David Card of the University of California at Berkeley, have found smaller negative effects (Card 2001).

Virtually all economists agree that immigrants also provide some important benefits to the U.S. economy. Beyond providing labor in sectors and areas where tight markets and even shortages might otherwise occur, immigrant labor helps reduce the prices of some products—such as housing and certain foods. These lower prices imply higher real incomes to most Americans, including the disadvantaged.

- *Native-born American workers, especially those who are less educated, would be best served by policies designed to stimulate more employment in the short term while improving their skills and supporting their incomes in the longer term*.

Since native-born workers have been hurt not by rising immigration but by declining job growth in the past four years, policies that encourage greater job growth might be considered in the short term. For instance, tax cuts and public spending could be much better targeted to those who generate more spending and therefore more employment—that is, lower-to-middle income Americans—rather than the wealthy. Temporary tax credits for new job creation and business investments might be considered as well.[6]

Over the longer term, Americans need to improve their skills to maintain and increase their earnings growth. For the disadvantaged, this can be encouraged by a wide range of efforts, such as expanding higher-quality preschool programs, reforms in K-12 education, more public support for occupational training and internships/apprenticeships, and greater funding for Pell grants and other supports for higher education. Expanding access to work supports like health care and child care, along with higher minimum wages and expansions of the Earned Income and Child Tax Credits, would help as well.

Immigration reforms that adjust the skill mix of those entering the United States over time might also be considered. But these should be based on a careful reading of our skill and labor market needs over the next several decades, rather than a misreading of our very recent experience.

Conclusion

Recent papers by Sum et al. (2004) and by Camarota (2004) show that employment of immigrants rose while that of native-born Americans declined between 2000 and 2004. But these findings do not prove that the former development caused the latter. Indeed, immigration has occurred at a fairly constant rate in the United States since the 1990s, while employment and earnings growth of American workers have fluctuated dramatically. Over the long term, immigration has modest negative effects on less-educated workers in the United States but other positive effects on the economy—and the latter will grow much stronger after baby boomers retire. American workers are thus best served by policies designed to stimulate job growth in the short term, and their own skills and incomes over the long term, rather than by policies to drastically curb immigration.

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Footnotes

1. The Bureau of Labor Statistics (BLS) calculates employment rates of individuals from its monthly Current Population Survey of households, while numbers of payroll jobs are drawn from its survey of establishments. The latter is based on much larger samples and is widely considered more accurate in the short term. But the former captures self-employment and casual employment that may not appear in official business payrolls.

2. Between March 2004 and 2005, both employment and payroll jobs rose by over 2 million. But the percentage of the population employed in March 2005 remained at 62.4 percent—well below the peak of 64.7 achieved in 2000.

3. With a population of over 225 million, it would require about 5.2 million more jobs to generate the peak employment rate of 64.7 achieved in the year 2000.

4. These numbers are calculated from various tables available at the BLS web site (http://www.bls.gov).

5. Between March 2003 and 2005, average weekly earnings of nonsupervisory workers rose by just 3.6 percent—well below increases in the Consumer Price Index (CPI) and other measures of inflation in the same period. Yet worker productivity grew by about 7 percent in the same period.

6. The New Jobs Tax Credit of the late 1970s and the Investment Tax Credit of various periods could serve as models for any new such credits now.

Other Publications by the Authors

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