The impact of business cycles on immigrant labor market outcomes

Employment prospects for both immigrants to the United States and native-born Americans have improved during recent economic expansions and have worsened during recent recessions. In their article titled "Immigrants' Employment Outcomes over the Business Cycle" (*Staff Papers,* Federal Reserve Bank of Dallas, September 2011, **http://www.dallasfed.org/assets/documents/research/staff/staff1104.pdf**), Pia Orrenius and Madeline Zavodny conduct an analysis of 1994–2009 employment and unemployment rates and suggest that the labor market outcomes of U.S. immigrants are more sensitive to the business cycle than are those of native-born Americans.

To support their premise, the authors cite employment and unemployment rates experienced by foreign-born and native-born workers from the end of 2006 to the first half of 2009, a period that encompasses the most recent recession. During that time, the unemployment rate among immigrants increased from a low of 3.4 percent to a high of 9.2 percent, while their employment rate fell by 4.6 percentage points. Among the native born, the unemployment rate rose from a low of 4.1 percent to a high of 8.3 percent, and their employment rate declined by 3.3 percentage points.

Immigrants appear to be more vulnerable than native-born workers during recessions because immigrants tend to have fewer skills, and low-skilled workers are often the first to be laid off. Their low-skilled jobs are likely a function of educational attainment; foreign-born workers are concentrated at the low and high ends of educational attainment while native-born workers are concentrated in the middle to high ends of the spectrum. Current Population Survey data for 2009 show that 30 percent of immigrants do not have a high school diploma, compared with 10 percent of native-born Americans. However, among people who had not completed high school, the employment rate for immigrants ranged from 50 to 60 percent from 1994 to 2009, more than 20 percentage points above that for native-born Americans. During the 2000s, native-born workers with low educational attainment had higher unemployment rates than did similarly educated immigrants.

The authors' regression analysis shows that employment and unemployment are more sensitive to the business cycle for the foreign born than for the native born. Unemployment among immigrants, however, is not as sensitive to the business cycle as employment.

Although immigrants with low skill levels may be at a greater disadvantage than native-born workers during recessions, immigrants may have certain advantages regarding employment. When looking for work, immigrants tend to be more mobile, pursuing work in other parts of the country or in different industries and occupations. Immigrants are also more likely to lower their job expectations—pay, location of work, type of work, benefits, etc.—in pursuit of employment. Also contributing to shorter unemployment spells for immigrants is that immigrants are often ineligible for unemployment benefits, reducing their incentive to remain unemployed members of the labor force; instead, they may opt to either leave the labor force, possibly even leaving the country, or be more flexible about the kind of job they accept. However, these factors only partially offset immigrants' sensitivity to cyclical changes.

The authors suggest that U.S. immigration policy can be reformed to lessen immigrants' vulnerability to the business cycle and reduce the need for expanded government assistance programs during economic downturns. By synchronizing immigration inflows with business cycles, the United States would reduce the burden of increased competition on existing workers during recessions and increase opportunities for immigrants during economic expansions.

Did the Federal Reserve's lending during the recession violate the law?

Critics of the Federal Reserve have questioned both the legality and the propriety of the agency's lending to banks during the financial crisis. In "Federal Reserve Lending to Troubled Banks During the Financial Crisis, 2007–2010" (*Review*, May/June 2012, Federal Reserve Bank of St. Louis, pp. 221–242, **www.research.stlouisfed.org/publications/review/12/05/221-242Gilbert.pdf**), Federal Reserve authors R. Alton Gilbert, Kevin L. Kliesen, Andrew P. Meyer, and David C. Wheelock respond to the critics by addressing two relevant questions: (1) Did the Federal Reserve violate the 1991 Federal Deposit Insurance Corporation Improvement Act (FDICIA)—which sets out strict terms under which lending to undercapitalized banks can take place—by lending inappropriately to undercapitalized banks? (2) Was Federal Reserve lending to banks that later failed an unjustifiably large fraction of those banks' deposit liabilities during their last year of operation?

The Federal Reserve lends money to banks in many ways. One important one is the discount window, which has been offering three kinds of credit since the Federal Reserve system was established in 1913. Another way, whose use overshadowed that of the discount window from 2008 through mid-2010, is the Term Auction Facility (TAF), which was established during the financial crisis in response to concerns that some banks might be reluctant to borrow via the discount window.

Lending through either of these channels is governed by the FDICIA, which imposes limits on the number of days that the Federal Reserve is permitted to provide funds to undercapitalized banks.

The act states that the Federal Reserve may lend money to undercapitalized banks (a bank is judged to be undercapitalized by a complicated formula giving the ratios of different classifications of the bank's capital as a percentage of its assets) under two conditions: (1) The loan may not be outstanding for more than 60 days in any 120-day period and (2) loans may not extend more than 5 days from the time a bank becomes critically undercapitalized (its ratio of tangible equity to total assets should be no more than 2 percent). So the first question becomes, more specifically, "Did the Federal Reserve violate either of these conditions in lending to undercapitalized banks?"

After considerable analysis in which various criteria for identifying when a bank becomes critically undercapitalized are examined, the authors find that, under any of the criteria they propose, the Federal Reserve never knowingly violated the 60-out-of-120-day condition, and most loans were for considerably fewer days than the maximum permitted. A total of 53 banks, during the time they were undercapitalized, borrowed from the Federal Reserve from August 2007 through March 2010, most for 5 days or less, and all except one borrowed for less than 60 days. One undercapitalized bank did borrow for 72 days, but its classification as an undercapitalized bank was pending for a time, during which the Federal Reserve stopped lending to it; by the time the classification became final, the bank was no longer borrowing from the Federal Reserve. Similarly, the Federal Reserve lent to only one critically undercapitalized bank during the entire financial crisis, and that bank was not undercapitalized (much less, critically undercapitalized) at the time credit was extended to it. Thus, the Federal Reserve violated neither the letter nor the spirit of the FDICIA in its lending practices during the 2007–2010 financial crises.

Regarding the second question, which deals with loans to critically undercapitalized banks, the authors find that a solid majority (67 percent) of banks which failed during 2008–2010 did not borrow from the Federal Reserve in their last year of operation. Hence, although 33 percent of banks which failed during that period did borrow from the Federal Reserve, the fact that so many did not means that Federal Reserve credit did not make up a large percentage of the deposit liabilities of banks that failed from 2008 to 2010 during their last year of operation. Consequently, with regard to loans to critically undercapitalized banks, the Federal Reserve did not violate the terms of the FDICIA. Even if we cannot attribute the Federal Reserve lending practices during the 2007–2010 financial crisis to the FDICIA, we can acknowledge that the practices were consistent with the congressional intent of the act. □