“Immigrants’ Social Network and Unemployment Duration: around the Great Recession”

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Abstract

The Great Recession of 2007 was the most severe economic crisis of the recent times and the aftermath of which will be held by the U.S. households for years to come. During the recent Great Recession households suffer from a decline in their family wealth (Lerman & Zhang, 2012), foregone consumption (Lansing, 2011), increasing delayed retirement (Helppie McFall, 2011), and decline in home ownership rates (Ellen and Dastrup 2012; Owens and Sampson 2013).

In terms of the labor market, U.S. lost over 7.5 million jobs and the unemployment rate surpassed the 10% mark, with rapidly increasing duration of unemployment spells (Farber & Valletta, 2013; Grusky, Western, & Wimer, 2011). These increases in unemployment duration, in combination with the extended unemployment benefits, have generated a burden to the economy; with an increasing almost 5 times the federal budget spend on unemployment
insurance increase from 33 billion in 2004 to 155 Billion in 2011. For the households, increasing unemployment spells reduces the chances of workers to reintegrate into the job market and provide households with a minimum standard of income. Even for those who remain employed were affected by the recession, experiencing a decline in earnings due to lower real wages (Rios-Avila & Hotchkiss, 2013) and fewer hours of work (Aguiar, Hurst, & Karabarbounis, 2013).

Unemployment duration, in particular long term unemployment, has been rising in the U.S. over the last three decades, due to different factors. Abraham and Shimmer (2001) suggest that the demographic change in the labor force (baby boomers) and an increase in the overall labor force attachment are the main factors explaining the increases in long term unemployment. Mukoyama and Şahin (2009) indicate that the increasing wage inequality and higher unemployment explain most of the longer unemployment duration spells. Valletta and Kuang (2012) describes that changes in demographic characteristics, the increase in unemployment insurance benefits, the severity of employment losses, weak job recovery are also important determinants of larger unemployment duration spells observed during the recession. Valletta and Kuang (2012) and Estevão and Evridiki (2011) also suggest skill mismatch and the increasing labor supply as additional factors that may explain the rapid and long lasting labor market deterioration.

While there is reason to believe immigrants have a different experience in terms of the labor market outcomes through the Great Recession, there has been little research that has attempted to analyze the presence and nature of this heterogeneity. Immigrants are known to have a more volatile labor market outcome (Orrenius and Zavodny 2010). They are often employed more as independent contractors, temporary help workers and are more mobile (von Hippel et al. 2006) and so they ride the boom better and are worse off during the bust. This
implies that they have more volatile and vulnerable job relations, and overall very sensitive to the labor market conditions.

There is big literature showing that social networks improve migrants’ labor market outcomes particularly through job referrals (Munshi 2003; Granovetter 1995; Lin 1999; Mouw 2003; Amuedo-Doarntes and Mundra 2005, Vella and Patel 2013; to name a few). In contrast, little is known regarding how networks affect unemployment duration, with only a few studies making assessments on this effect in a general framework. Cingano & Rosolia, 2012) talks about how higher quality network reduces unemployment duration and Cadena and Kovak 2013 shows Mexican have comparatively lower unemployment duration.

As described by Calvo-Armengol and Jackson (2004), social networks have an important role in the labor market, as they help to reduce the costs of job search, mostly by providing access to information that help in the job search process (Ioannides & Datcher Loury, 2004; Jackson, 2011). The problem, however, is that networks are usually difficult to identify. There are no datasets that directly attempt to provide a direct measure of social networks, identifying the size of the communities, friend circles or relatives that people have connections with, and the few that exist do not have enough data to implement econometric analysis.

Immigrants are a unique group for which to study the relationship between unemployment duration and networks is very relevant and particularly around the Great Recession. With a few exceptions (Falcon, 1995; Liu & Edwards, 2014), there have been no attempts to examine the role of immigrants networks and its impact on unemployment rates and spells duration. Is it that during an economic crisis networks helped lower the duration.
In the case of immigrants their immigration background information can be used to identify potential networks they might use in their advantage. Similar to Mundra and Oyelere (2013) we use birth country network (share of people born in the same country and living in the state) as our main network variable. Using the same principle, we also identify networks based on the region of origin and the native language spoke at the country of origin.

In this paper, we contribute to the literature in many ways. We evaluate to what extent social networks can be used to improve immigrant job opportunities and reducing their unemployment duration. The literature has shown that networks have an effect on migrants employment outcomes, having a positive effect on their wages if they choose the occupation of their compatriots (Vella and Patel 2014) but not much is known whether larger network affects their unemployment duration spells. Second, given the impact that the Great Recession has had through the economy, we evaluate if there has been a change on how immigrant leverage their networks during and after the economic crisis. Finally, we also analyze if there is any heterogeneity on the effect of immigrant networks regarding selected demographic characteristics and between Mexican and other immigrants groups.

Using monthly microdata on unemployed immigrants from the Current Population Survey (CPS) for the years 2001 to 2013 we analyze the role of immigrant’s network on the unemployment duration. using the econometric approach of Guell and Hu (2006). Guell and Hu’s approach unlike other methods enables the analysis of unemployment duration in repeated cross section data using uncompleted spells and enables direct estimation of the networks conditional on detailed individual characteristics and local economic conditions. While the focus of Guel and Hu’s paper is on GMM method estimation they do outline the Maximum Likelihood alternative, which works when the duration measure is measured in intervals such as the CPS.
We implement Guel and Hu estimator on the lines of Valletta’s (2011) study examining structural unemployment for the U.S.

Using this approach and identifying immigrants’ networks as the share of the population from the same country/region or who speak language within the state and controlling for detail. Individual characteristics, location factors, immigrant assimilation characteristics. Due to the variation in our data over cross section and time we are able to control for local macro conditions by the employment share in the state on the top industry of the migrants and whether the state implement E-Verify policy or not as well as the crucial mobility control for the immigrant workers—whether they are homeowners or not.