



Finding work is taking longer than ever

Timothy Dunne, Vice President and Economist

The recession and weak recovery have greatly increased the share of long-term unemployed workers in the U.S. labor force—with more than 30 percent remaining jobless for upward of a year. How the long-term unemployed reintegrate into the labor market is one of big question marks in the wake of the Great Recession.

One of the deepest scars the Great Recession has left on the American economy takes shape in the unemployment rate: It has remained above 8 percent for almost three years.

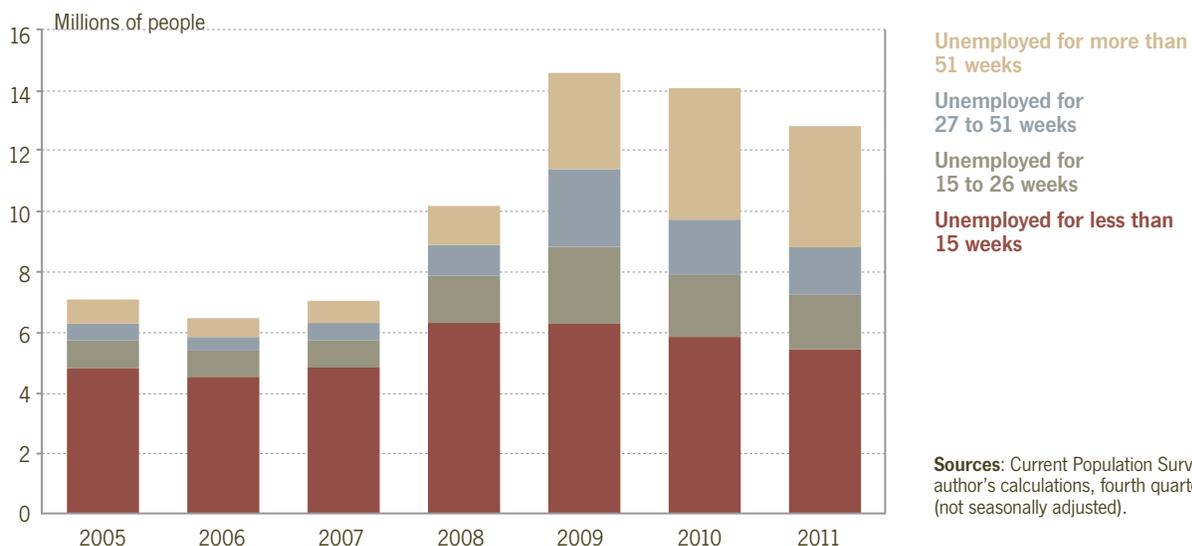
Part of the reason for this stubbornly high rate is that over the past two years, more than 30 percent of the unemployed have been jobless for more than a year. This represents more than 4 million long-term unemployed—three times the number of long-term unemployed seen in 2006 and 2007—and a much higher level or proportion than seen in previous post-World War II recessions.

The growth in the number of people experiencing long-term unemployment raises several questions. Here are some of the big ones:

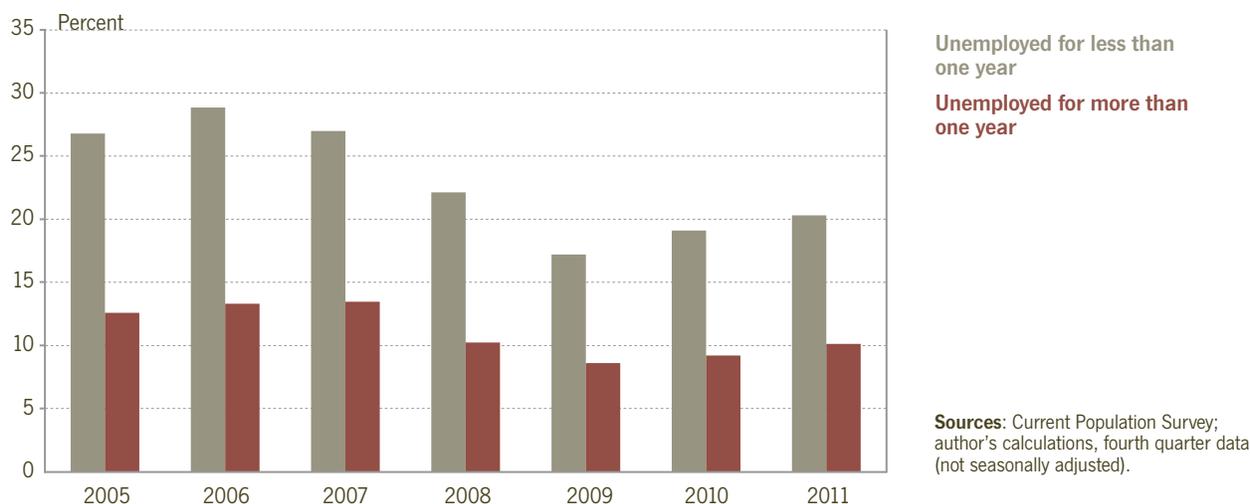
Why has long-term unemployment risen?

One potential reason is demographics. In particular, older workers have longer durations of unemployment, and the share of older workers in the labor force has grown. But changes in demographics explain only a small rise in the incidence of long-term unemployment in the last business cycle.

Unemployed by Unemployment Duration



Re-employment Rates by Unemployment Duration



Another potential reason is the availability of unemployment benefits. In 1983, unemployment benefits were capped at 42 weeks. In 2009, they were raised to 99 weeks. Several studies have reported that increases in unemployment compensation likely raised the unemployment rate over the past few years because of the incentive for people to remain jobless. But these studies also find that the increases have not been large enough to explain much of today's lengthy unemployment durations.

The most important reason for lengthy unemployment spells, and perhaps the most obvious, is that the economy has grown too slowly to create many new jobs. Economic growth since the end of the recession has averaged only 2.5 percent—the weakest post-World War II recovery on record—and has lent little support to job creation. Re-employment rates (the proportion of the unemployed who find a job in a given month) have stayed relatively low compared to pre-recession figures, greatly lengthening unemployment spells.

Who are the long-term unemployed?

In a word, everybody. Men and women experience more or less the same unemployment durations. Roughly 30 percent of unemployed men and women in the last quarter of 2011 were unemployed for a year or more. Somewhat surprisingly, this pattern also holds true across education groups.

However, it is important to remember that education still matters a lot in determining whether a person is unemployed. For example, people without a high school degree had an unemployment rate of nearly 14 percent at the end of 2011, while those with a bachelor's degree or higher had an unemployment rate of 4 percent.

Finally, long-term unemployment generally rises with age. As mentioned previously, this reflects the fact that re-employment rates are generally lower for older workers, extending unemployment spells.

What are the broader implications of long-term unemployment?

Long-term unemployment exacerbates the problems inherent in unemployment itself—declines in income, increasing probabilities of home foreclosure, loss of health insurance, and so on. And extended spells of unemployment can have even longer-term consequences; the long-term unemployed generally suffer large and persistent losses in wages when they do return to work.

Economists are concerned that the labor market skills of the long-term unemployed either degrade as a person spends more time in unemployment or are no longer well-suited to the current job market. Down the road, economists will look at whether re-employment rates of the long-term unemployed stay low compared to those of the more recently unemployed. If such a divergence occurs, this might be viewed as evidence of “structural mismatch” in the labor market.

Moreover, spells of long-term unemployment can influence more than labor market outcomes. Recent research shows that the long-term unemployed have more health problems, in large part because their economic prospects are diminished. Clearly, the U.S. economy and the labor market in particular will continue to live with the scarring effects of the Great Recession well into the future.