Out of the Workplace . . .

and Struggling to Find a Way Back In

Long unemployment lines put a human face on the high jobless numbers that the recent recession has left us with. For the long-term unemployed, finding new jobs is an increasingly challenging prospect.

The reverberations of the unemployment spike triggered by the 2007–09 recession have directly or indirectly touched just about everyone in America, both the jobless and the jobholder. Many statistics related to this downturn are startling, but the potential trends affecting employment have received much of the attention. The recession may have shined a spotlight on the long-term unemployed (those out of work for 27 weeks or longer), but this cohort is not the only group affected by the current labor situation.

The numbers tell a somber story

The national unemployment rate was 4.5 percent before the housing and credit bubble burst in 2007, according to data from the U.S. Bureau of Labor Statistics (BLS). After reaching more than 10 percent in 2009, the national unemployment rate receded to 9.7 percent in the first quarter of 2010 before edging back up to 9.9 percent in April 2010. Total employment fell by roughly 8 million workers, from 138 million in September 2007 to 130 million at the end of 2010's first quarter. At its peak in the first quarter of last year, job losses reached 2.3 million.

The Southeast has endured its share of suffering in these job losses (see table 1 on page 26). Florida closed the first quarter of 2010 with the Southeast's highest unemployment rate (12.3 percent) after averaging 10.5 percent for 2009. These double-digit numbers are a far cry from April 2006, when Florida had an unemployment rate of 3.3 percent, its lowest since the BLS began tracking these figures. Alabama, which ended the first quarter of 2010 with 11 percent unemployment, averaged 10.1 percent in 2009 after recording its historical low in April 2007, also 3.3 percent. Only Louisiana, with an unemployment rate of 6.9 percent, has dodged double-digit unemployment during this recession—in part because of Hurricane Katrina–related rebuilding efforts. Despite the slightly improving national unemployment numbers in early 2010, Southeastern states nevertheless showed higher unemployment rates at the end of 2010's first quarter than their average overall unemployment rate for 2009.

Effects of long-term unemployment

Certain economic impacts associated with the long-term unemployed on the population as a whole are difficult to quantify. An increase in foreclosures may result in depressed home values for entire neighborhoods. Scarcity of jobs can also depress wages. Tax revenues may fall because fewer wages are earned, leading to reduced services or increased tax rates for those who are employed. Tax breaks provided to those receiving unemployment benefits or income from government stimulus packages can also affect the tax burden of job holders. However, the actual cost of these outlays and effects to those with jobs is hard to capture in dollar terms.

What can be measured, conversely, is the increased government spending on benefits for the unemployed. According to a Pew Economic Policy Group's study of three Congressional Budget Office reports, federal spending on unemployment benefits could reach $168 billion in fiscal 2010, a five-fold increase over prerecession levels. Not quite half of this figure ($81 billion) represents spending on regular benefits. The remainder ($87 billion) is for additional aid from Congress that is already approved or in the works for those who have been unemployed for six months or longer. Between 2005 and 2007, the spending on unemployment insurance ranged between $31 billion and $33 billion. Five key programs are in place to assist the long-term unemployed. Three of them have been a response to the recent downturn and have contributed to the sharp increase in government spending.

- **Unemployment insurance** (begun in 1935): This joint federal and state program provides benefits for up to 26 weeks. The amount varies by state and replaces from 50 percent to 70 percent of wages.
- **Extended benefits** (1970): This joint federal and state program provides an extra 13 weeks of benefits during times of high unemployment.
- **Emergency unemployment compensation** (2008): This joint federal and state program extends benefits to 79 weeks

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in states with unemployment above 6 percent and to 66 weeks in states below that mark.

- **American Recovery and Reinvestment Act of 2009**: This federal initiative guarantees that the federal government will cover 100 percent of benefit extensions. The act also sent money to the states to allow them to liberalize unemployment insurance eligibility rules, increased monthly benefits paid by $25, provided a tax exemption for the first $2,400 of benefits from federal income tax, and instituted premium reductions for health benefits under the Consolidated Omnibus Budget Reconciliation Act (COBRA) of 1985.
- **Worker, Homeownership, and Business Assistance Act of 2009**: This federal program added 19 weeks of benefits to the 26 weeks already provided in those states with unemployment at 8.5 percent and above. An additional 13 weeks were added in states with between 6 percent and 8.4 percent unemployment. This act also provided tax cuts for struggling businesses and extended and expanded tax credits for homebuyers.

Confounding the rebound

Historically, job recovery is one of the last indicators to rebound after a recession, and most economists cite the summer of 2009 as the end of the recent recession. How quickly employment rebounds after this recession is up for debate.

"It's not unreasonable to expect that the speed of the recovery in the labor market will be faster than that of the two previous recessions," said Pedro Silos, research economist and assistant policy adviser at the Federal Reserve Bank of Atlanta. "In fact, after less than a year into the recovery, we have already seen growth rates in employment that took three years to achieve after the 2001 recession. It is also true that the number of jobs lost in this last recession has been enormous. Even with high growth rates of employment, it will take a while to restore all those jobs lost."

Lakshman Achuthan, managing director of the research firm Economic Cycle Research Institute (ECRI), is not quite as optimistic. Noting that employment growth has been increasingly weak following the recessions in the last three decades, he believes there is no reason to think that pattern will change. Achuthan bases this view on two trends associated with the recent cycles of expansion and recession—weak postrecession job growth and a quickened pace of recession and recovery. To illustrate the pattern of weakening postrecession job growth, Achuthan points to BLS data that reveal an annual 3.5 percent

Table 1
Unemployment Rates in the Southeast

State	Historic low		2008 average	2009 average	May 2010
	Date	Rate			
Alabama	April 2007	3.3	5.2	10.1	10.8
Florida	May 2006	3.3	6.3	10.5	11.7
Georgia	Dec. 2000	3.3	6.2	9.6	10.2
Louisiana	July 2006	3.6	4.5	6.8	6.9
Mississippi	April 2001	4.9	6.8	9.6	11.4
Tennessee	May 2000	3.9	6.7	10.5	10.4

Note: Figures represent percent of labor force unemployed.
Source: U.S. Bureau of Labor Statistics

growth of American private sector jobs the economic expansions of the 1950s, '60s, and '70s but fell to 2.4 percent annually in the 1980s and '90s, and finally to 0.9 percent annually in the last decade. The low numbers for the current expansion are less a product of job losses and more attributable to job creation not occurring fast enough.

This reduced rate of job growth during expansions has dramatically lengthened the recovery of jobs following recessions (see table 2). According to an analysis of U.S. Department of Labor data by the National Employment Law Project and the Economic Policy Institute, 46 months passed after the 2001 recession before employment returned to its prerecession peak. After the previous recession in 1991, 31 months went by before the lost jobs were recovered. Prior to 1990, the average time needed to restore jobs lost in recessions was 21 months.

Shorter expansion-and-recession cycles, which ECRI's forecasts call for, also pose a threat to the long-term unemployed, Achuthan said. When slower and smaller job recovery rates are combined with shorter recovery cycles, long-term unemployed workers may find re-entering the job market even more daunting.

Table 2
Rebounding From Recessions

Recession	Months until labor force returned to prerecession level
Before 1990	21
1990	31
2001	46

Note: "Before 1990" includes all post–World War II recessions preceding 1990.
Source: National Employment Law Project and the Economic Policy Institute

An emerging class

The U.S. Department of Labor examines the nation's workforce from multiple angles: age, gender, educational level, and geography, to name a few. Among these demographic categories, the growth of long-term unemployment is apparent. In April 2009, 27.5 percent of the nation's unemployed had been out of work 27 weeks or longer, according to BLS data. By December, that number had jumped to 39.8 percent of the unemployed. By April of 2010, the number was drawing close to half of unemployed workers at 45.9 percent, practically double the rate from the previous recession, which peaked at 23 percent.

The BLS won't release the 2009 data concerning the duration of unemployment numbers segmented by state until July 2010. However, the most recent numbers (for 2008) indicate that southeastern states are faring roughly the same as the rest of the country. Nationally, 19.7 percent of the 8.9 million workers unemployed at some point in 2008 were jobless for 27 weeks or longer, with 10.7 of them jobless for 52 weeks or more. For the same year, the Southeast's numbers were slightly higher, with 21.6 percent jobless for 27 weeks or more and 11.3 percent jobless for 52 weeks or more.

The bad news goes beyond the discrete unemployment numbers provided by the BLS. A group known as the marginally attached includes people not looking for work but who indicate they want a job and have looked sometime in the last year; discouraged workers (a subset of the marginally attached, they have given a job market–related reason for not currently seeking work); and people working part time for economic reasons (for example, those who want and are available for full-time work but have had to settle for a part-time schedule). The U.S. Census Bureau places the combined percentages of the unemployed and marginally attached at around 17 percent of the potential labor force, which comprises the employed, unemployed, and marginally attached.

Silos cites age as a factor for those who have fallen into the long-term unemployed group.

"An aspect of the last recession that could contribute to longer duration of unemployment is the larger fraction of older workers that have lost jobs compared to previous downturns," Silos said. "Most likely the amount of firm-specific or occupation-specific human capital is large for workers between 50 and 60 years of age, compared to younger workers. For these workers, retraining is usually an investment with a very low rate of return. Consequently, they are at a higher risk of suffering a substantial loss of earnings when they become re-employed."

A trio in trying times: Construction, manufacturing, credit

Achuthan points to a structural shift in three areas as having a significant impact on the ranks of the long-term unemployed: construction, manufacturing, and credit. "In recent recoveries, what we see is that the economy stops losing factory jobs. We never get them back," Achuthan said of manufacturing. As for employment levels in the construction and credit sectors, he believes the collapsed bubbles that helped trigger the recession are unlikely to recur, so the jobs lost can't be completely replaced during the next expansion.

Combined, those three sectors left a big imprint on the recession's job losses. According to the BLS, the construction and manufacturing job sectors accounted for more than half the jobs lost nationally between September 2007 and the end of the first quarter of 2010. Construction lost 2.6 million jobs, representing 28 percent of the jobs lost nationally, while manufacturing was not far behind, losing 2.4 million jobs and accounting for 26.3 percent of jobs lost. While losses in the financial sector were not as large, they were still significant, with 700,000 jobs lost, representing 8 percent of the total.

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The Southeast was well represented in these numbers. BLS data show the region lost almost 450,000 construction jobs between September 2007 and March 2010. Florida led the way with 250,000 construction job losses. The losses in Florida represented 41 percent of construction jobs in the state and accounted for 34 percent of the 730,000 nonfarm losses in that state. With the exception of Louisiana (which lost only 8.2 percent of its construction jobs), the other states in the Atlanta Fed's district (Alabama, Georgia, Mississippi, and Tennessee) lost 20 percent or more of their construction jobs.

Manufacturing was also a big loser in the Southeast between September 2007 and March 2010, according to BLS data. Georgia lost 93,000 manufacturing jobs, representing 26 percent of the jobs lost in the state. While the total number of manufacturing jobs lost was smaller in Alabama, Mississippi, and Tennessee, their share of manufacturing jobs lost was higher. In Mississippi, the 31,000 manufacturing jobs lost represented 42 percent of state's job losses between September 2007 and March 2010. Job losses in the manufacturing sector also accounted for 37 percent (or 58,000 jobs) of Alabama's total and 32 percent (or 75,000 jobs) of Tennessee's total.

Switching sectors: Panacea or pipe dream?

It might behoove workers in areas with shrinking job prospects to move into another line of employment, but such career changes are easier said than done. "You can take a construction worker and retrain [that worker] in a relatively short time to become a landscaper," Achuthan said. "But some things aren't as easy. Can you retrain a factory worker to become a physical therapist? That might take a long time."

Barry Hirsch, the W.J. Usery chair of the American Workplace in the Andrew Young School of Policy Studies at Georgia State University, agrees that shifting workers between job sectors does not lend itself to simplistic policy decisions. "It's really not easy. That's the problem," Hirsch said. "When you have structural unemployment, it's either a mismatch in skills and/or a mismatch in location. And skills do not get changed quickly."

Part of the challenge in shifting workers between sectors—often referred to as job retraining—is that the workers require significant resources dedicated to an uncertain outcome. "They take planning in advance and by the time you implement them, you may well be training individuals for where there are not really many jobs," Hirsch said. "I'm not saying we shouldn't do job training, but it's no magic bullet. When jobs are out there, people will train and move into them fairly quickly. The problem is, we don't see large sectors where there are real shortages of workers."

Hirsch sees problems with other policy efforts as well, citing difficulties in stimulating employment through means such as wage subsidies. "You may create a few new jobs from those [stimuli], but you're also typically heavily subsidizing," he said. "Most of your expenditures are for jobs that would have been created or filled anyway. It's very costly to create jobs that way. It's frustrating both for observers and economists to be saying we don't have any easy policies up our sleeves, but I really think that's the case." ∎

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