



National Employment Law Project



The Severe Crisis of Job Loss and the Accompanying Surge in Long Term Unemployment

By Sylvia Allegretto and Andrew Stettner,¹ May 6, 2009

Introduction

The current recession, which started in December 2007, is well into its second year. The ongoing downturn is now about the length of the 1981-82 recession, which lasted 16 months. Given the current economic climate, the length of this downturn will likely surpass that mark by many months. The increased deterioration of the labor market has translated into higher unemployment—from 4.9% in December 2007 to 8.5% in March 2009—swelling the ranks of the unemployed to 13.2 million. The current rate of unemployment has not been seen in over 25 years. The situation has thus put enormous demands and strains on the unemployment insurance safety net as UI claims continue to set new records. There are now 8.6 million Americans collecting unemployment insurance, nearly triple the 3.0 million Americans collecting assistance a year ago.

The paper will first document the employment picture and analyze job loss by industrial sectors. Second, we turn our focus to a historical and contemporary look at unemployment, along with long-term unemployment. The long-term unemployed, a sub-group of the unemployed, are those who have been without work for at least six months.

Regular state unemployment benefits last only last 26 weeks. The long-term unemployed are dependent on federal extended jobless benefits if they do not find work by the time their state benefits end. In March 2009, 45.6 percent of all workers collecting state unemployment insurance reached the end of their maximum 26 weeks of benefits without finding work. That is the highest exhaustion rate on record, dating back to 1972 when the data were first reported.

Currently, nearly 2.4 million Americans are collecting federal emergency unemployment compensation (EUC) benefits, which last up to an additional 33 weeks in high unemployment states. However, a large number of these workers are on their final installment of EUC benefits, and we estimate that nearly 1.5 million workers will reach the end of their EUC between mid-March and August 2009. Section 2005 of the American Recovery and Reinvestment Act (ARRA) provided states with an option to provide an additional extension under the permanent

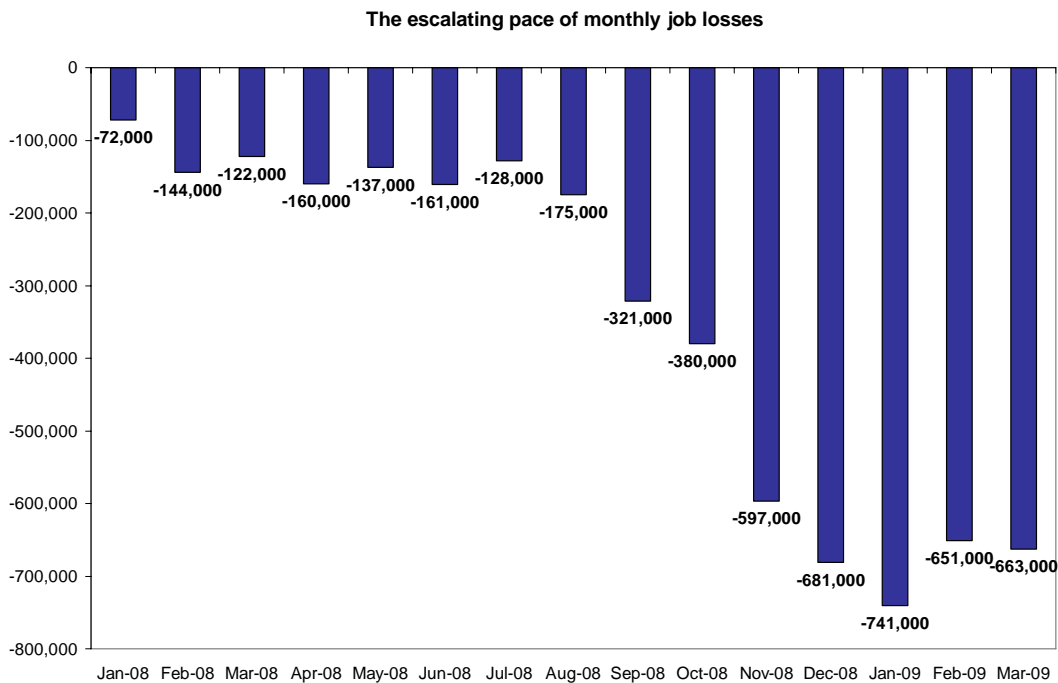
extended benefits program, but over the next 3 months alone nearly 361,000 of these workers live in states where benefits would be potentially available won't get the additional extension because their states have not taken advantage of the option under the ARRA.

The figures in this report point to the need for states and the federal government to maximize support for the long-term unemployed throughout 2009 and into 2010, which will require additional congressional action by the fall of 2009.

Jobs falling off a cliff

One disturbing facet of the labor market is the pattern of job loss and its recent intense deterioration. Since January 2008, the economy has shed 5.1 million jobs, but most of those losses have come of late, as shown in **Figure A**. Average job loss for the first six months of job declines was just short of 133,000 per month—that figure for the last six months was an astounding 619,000. That translates into almost 2 millions jobs lost in just the last three months.

Figure A



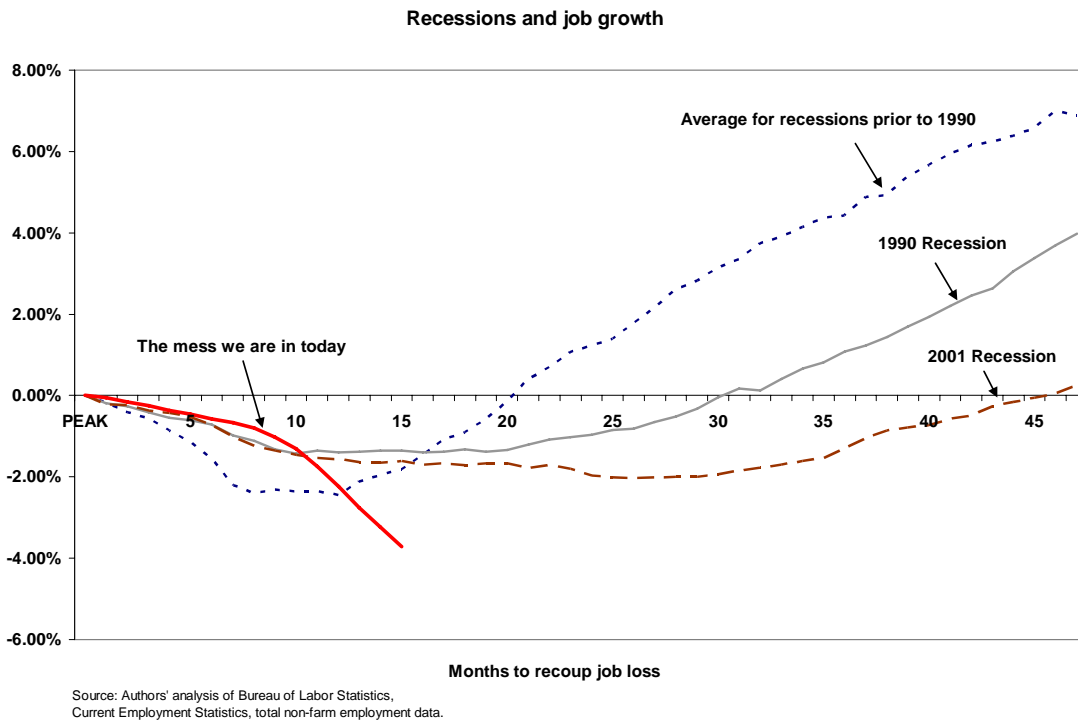
Source: Authors' analysis of Bureau of Labor Statistics, Current Employment Statistics, total non-farm employment data.

Job loss of 5.1 million represents a decline of 3.7% in total employment from the peak level (for the just-ended business cycle) of 138 million jobs in December 2007. **Figure B** puts this job loss into historical perspective. This figure illustrates job loss for the current recession and the last two recessions (2001 and 1990-91), as well as an average of recessions prior to 1990. The numbered or X axis represents months out from peak employment for each downturn. The left or Y axis represents the percentage of job loss from peak employment.

Expectedly, as the economy goes into recession, jobs are lost as indicated by negative growth. The contraction in employment—measured from each pre-recessionary peak—eventually bottoms out and job growth picks up until jobs are finally recouped and growth exceeds that of the previous peak. The red line (dark solid line if viewed in black and white) represents job losses for the current downturn; as of this writing jobs are down 3.7%. The figure shows the acceleration in monthly job loss that started around the tenth month of this recession. In comparison, off-peak job declines reached 2.0% and 1.4%, following the 2001 and early 1990s recessions, respectively. At this point, current job loss even surpasses the 3.1% losses that occurred in the 1981-82 downturn.

Compared to the last two recessions, this one looked similar at its onset. Importantly, the 2001 and 1990s recessions were officially just eight months in length. But, as the figure illustrates, job losses continued after the initial eight months of recession, a phenomenon known as a ‘jobless recovery’. A jobless recovery is defined as an economy that continues to shed jobs while in economic expansion. Prior to the 1990s, it took about 21 months, on average, to recoup recessionary jobs losses. For the two recessions accompanied by jobless recoveries, the length of time to recoup job losses was much longer—31 and 46 months following the 1990s and 2001 recessions, respectively.

Figure B



The ‘shape’ of the current downturn and recovery are yet to be seen. Will losses be deep but short-lived, as in recessions prior to the 1990s? Or, will the shape of job loss be a combination of what is illustrated in Figure B—a significant percentage of job loss *and* a lengthy jobless recovery? An employment picture such as just described would be devastating on many fronts, underscoring the importance of job creation envisioned by the recently passed American Recovery and Reinvestment Act.

The impetus for the current recession was the housing debacle—hence, the construction industry has been hard hit—but the crisis spread into the financial markets and a credit crunch ensued. Thus, job loss has permeated most industrial sectors as seen in **Table 1**.

To date, private sector job loss amounts to almost 5.3 million jobs—a loss of 4.5%. The government has added 203,000 jobs (an increase of 0.9%). A closer look into these data show that for four of the last six months, state and local governments have had negative job growth, reflecting the difficulties this slump has imposed on those budgets—especially for states that are required to have balanced budgets.

Industries that shed the greatest number of jobs since the recession began are manufacturing (-1.467 million), professional and business services (-1.215 million) and construction (-1.05 million). Percentage-wise, industry job losses were heaviest in construction (down 14.0%) and manufacturing (down 10.6%). But, as the table shows, job loss is widespread across industries, and the only major industrial sector to buck the trend has been education and health services.

TABLE 1

Change in employment since recession began in December 2007
(employment numbers in thousands)

	December 2007	March 2009	Difference	Percentage change
Total employment (000s)	138,152	133,019	-5,133	-3.7%
Total private	115,783	110,481	-5,302	-4.6%
Government	22,369	22,538	169	0.8%
Goods producing	22,043	19,537	-2,506	-11.4%
Service producing	116,109	113,482	-2,627	-2.3%
Selected industries				
Construction	7,523	6,473	-1,050	-14.0%
Education and health services	18,570	19,149	579	3.1%
Financial activities	8,243	7,867	-376	-4.6%
Information	3,025	2,907	-118	-3.9%
Leisure and hospitality	13,551	13,200	-351	-2.6%
Manufacturing	13,777	12,310	-1,467	-10.6%
Professional and business services	18,109	16,894	-1,215	-6.7%
Transportation and utilities	5,112	4,861	-251	-4.9%
Wholesale and retail trade	21,613	20,641	-972	-4.5%

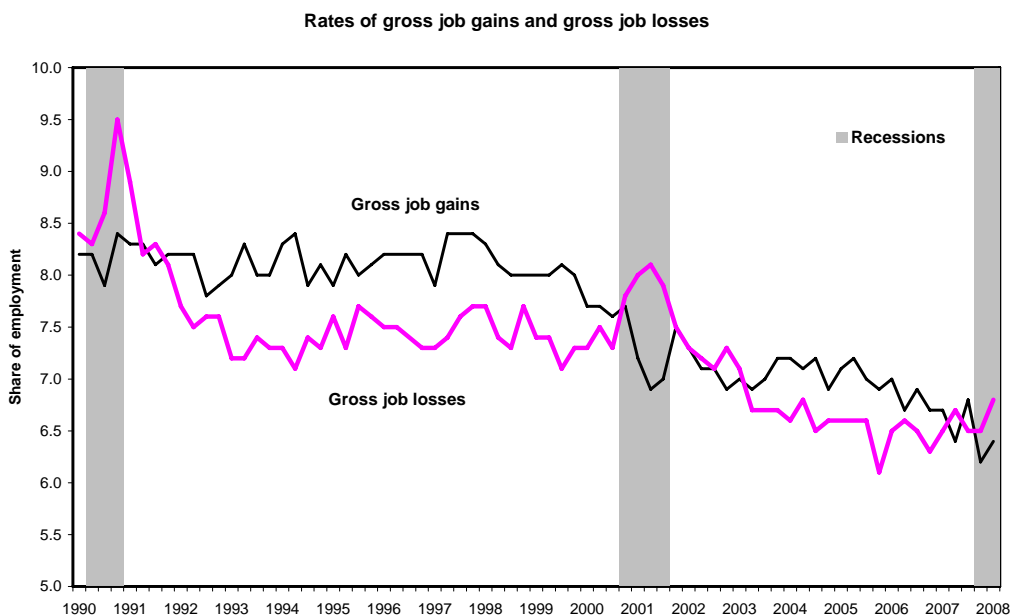
Source: Authors' analysis of BLS data.

Put into context, the 5.1 million jobs lost is only part of the story. First, new and re-entrants into the labor market are also vying for jobs. Each month, the labor pool grows by about 130,000 persons. Therefore, as the labor market contracts, many workers who had jobs become unemployed, and those workers newly entering or re-entering the labor force find it difficult to secure employment as well. In January 2009, the Economic Policy Institute reported that jobs were 5.2 million below what was needed to account for population growth and the number of unemployed.²

Second, the rate of job growth during the last economic expansion was dismal by any account.³ The lack of employment growth is illustrated in Figures B and C. In Figure B, the bottoming-out of the rate of job loss—between 1.5% and 2.0%—lasted about 25 months. Trough to peak job growth following the 2001 recession (November 2001 to December 2007) was just 5.5% compared to 22% and 24% growth that followed the 1990s and 1980s recessions, respectively.⁴

Further data provided by the Bureau of Labor Statistics also bears out the unusually anemic recovery from the 2001 recession, as shown in **Figure C**. These data are only available back to 1990; however they do provide information on the last two cycles. Gross job gains and losses are shown in the figure and the net outcome is the difference between the two. As expected, during recessions losses outpace gains, resulting in net job loss; the opposite is true for expansions. What is telling about Figure C is that the rate of both job losses and job gains continued to decline following the 2001 recession, and net gains were far less than the expansion in jobs that followed the 1990s recession. Also different is that a clear steady equilibrium in net gains didn't occur in the 2000s as did in the 1990s, as the rate of job gains never stabilized and actually remained low and trended lower throughout the expansion. Additionally, the period of net gains was short-lived, with the jobless recovery lasting well into 2003, as documented by both figures.

Figure C

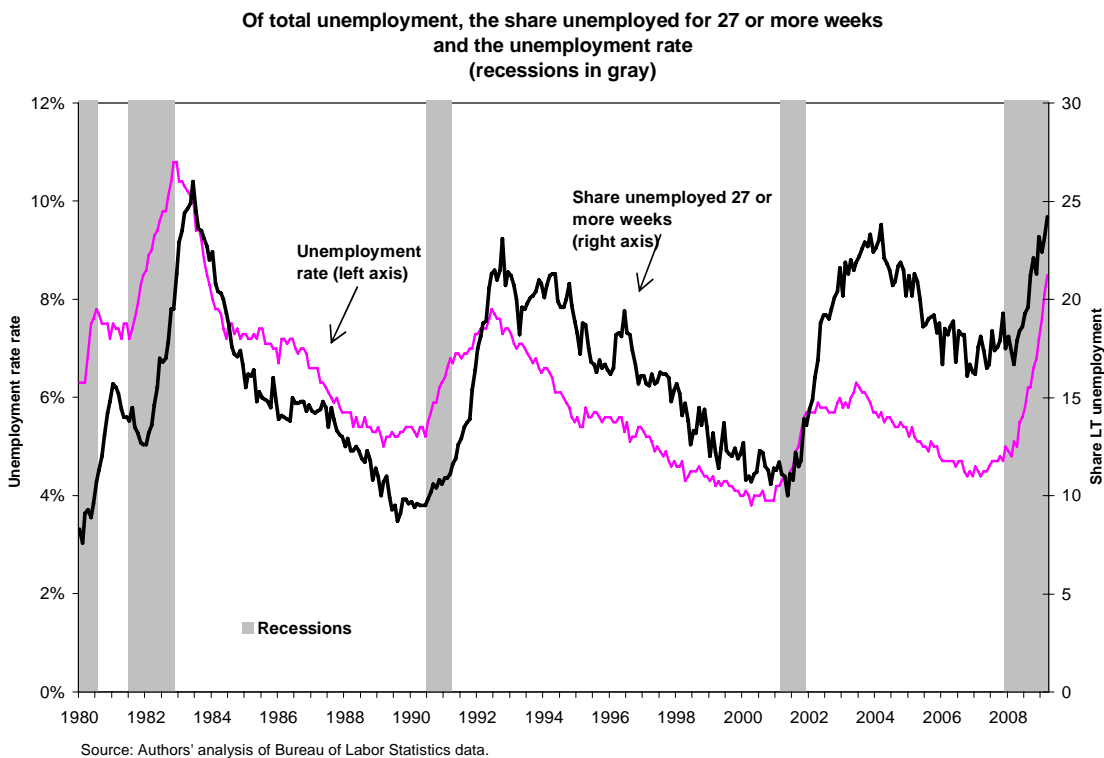


Source: Author's analysis of Business Employment Dynamics data and Faberman (2004).

Unemployment and Long-term unemployment

As mentioned, the unemployment rate is the highest it has been in over 25 years. **Figure D** shows the unemployment rate, the share of those unemployed for at least half a year, and recessionary periods in gray. The share of long-term unemployed (LTU) is an important gauge of how difficult it is for unemployed workers to find new employment. Recall that, as measured by the Bureau of Labor Statistics, only those who are actively searching for work are counted in the official unemployment figures.⁵ Thus, there are times when the unemployment rate alone is not indicative of labor market slack. This was certainly the case following the 2001 recession, as high and sustained shares of LTU were coupled with relatively low rates of unemployment.

Figure D



There are several important features regarding Figure D. There is a steep increase in the unemployment rate thus far into this recession. At the same time, the long-term unemployment share is higher while the economy is still in recession than it has been during any recent recession. In March 2009, 24.2% of the jobless have been out of work for more than six months—surpassing the previous peak of 19.8% in November 1982

The timing of past peaks in unemployment is noteworthy. As shown, the unemployment rate peaked just at the end of the two early 1980s recessions, and the share of LTU peaked shortly thereafter. This was not the case following the last two downturns, as the time it took for unemployment and LTU shares to peak was longer following the early-1990s recession and even longer following the 2001 contraction. If this trend holds for the present downturn, it may be a

long time before unemployment and LTU shares peak, and they are likely to surpass the peaks that followed the 1981-82 recession. It is highly likely we will see long-term unemployment shares approaching or exceeding 30% by 2010.

Now that we've documented some trends in unemployment and LTU shares, it is useful to delve further into the nuances of the data. The latest available annual data is for 2008. Keep in mind that even though the entirety of that year was officially in recession, job loss throughout much of 2008 was relatively tempered compared to recent monthly losses that average well into the 600,000s. Thus, the complete picture regarding unemployment and especially long-term unemployment had not fully developed in 2008. The figures in **Table 2**—that give the shares of unemployment and LTU broken down by demographic groups for 2008—thus represent a snapshot within a worsening economy.

The breakdowns in Table 2 offer insight into which groups are over- or under-represented in the ranks of the long-term unemployed compared to their shares of overall unemployment.

- **Education:** As is typically the case, those with the least amount of education bear the brunt of economic downturns. Workers with educational attainment less than a high school degree represent approximately 10% of the workforce but, in 2008, they represented almost 25% of the unemployed. However, they represented 22.2% of the long-term unemployed. Therefore, they are somewhat under-represented in the ranks of the LTU compared to their representational share of the unemployed. This phenomenon is relatively new, and we documented the shift in LTU shares from the least educated to those with a Bachelor's degree or more in two earlier papers.⁶
- **Age, Gender and Race:** Younger workers are 31.7% of the unemployed and just 22.2% of the long-term unemployed. Conversely, workers older than 45 represent a smaller share of the unemployed, just 28.5%, but a much larger share of LTU—37.7%. This speaks to the major barriers experienced workers face as they seek work in a barren jobs landscape, especially as most older workers are not able to retire early due to diminished retirement accounts. There is not a big disparity by gender, as the LTU share of women is one percentage-point less than their share of unemployed, and just the opposite holds for men. However, large differences do exist by race. Blacks represent 19.3% of the unemployed but are one in four of those out of work for at least 26 weeks.
- **Occupation and Industry:** Occupational discrepancies are largest in production and in management, business, and finance—pointing to the widespread reach of this downturn. As expected, given the recent and long-term loss of jobs in the manufacturing industry, the LTU share is 2.3 percentage points above this industry's share of unemployed. It likely that the share of unemployed workers in the occupation or industrial sector of construction will grow, given the trouble in residential and non-residential construction. The LTU shares associated with construction will most likely grow and be a disproportionately large share for those sectors—not a smaller share compared to unemployment as in 2008.

TABLE 2
Composition of unemployed and long-term unemployment in 2008

	Share of total unemployed	Share of long-term unemployed	Percentage point difference
ALL GROUPS	100.0%	100.0%	-
EDUCATION			
Less than high school	24.7%	22.2%	-2.5
High school graduate	35.1	36.5	1.4
Some college	25.7	25.3	-0.4
Bachelor's degree or more	14.5	16.0	1.5
AGE			
16-24	31.7%	22.2%	-9.5
25-45	39.8	40.0	0.2
46 and over	28.5	37.7	9.3
OCCUPATION^a			
Construction and extraction	12.0%	10.0%	-2.0
Management, business, and financial	6.9	8.3	1.4
Office and administrative support	11.5	12.6	1.1
Production	8.4	9.9	1.5
Professional and related	9.5	9.9	0.4
Sales and related	11.0	10.7	-0.2
Service	19.8	18.7	-1.1
Transportation and material moving	8.4	8.8	0.3
Other ^b	4.0	3.7	-0.3
INDUSTRY^a			
Construction	13.1%	11.0%	-2.1
Educational and health activities	10.9	11.1	0.2
Financial activities	4.6	6.0	1.4
Information	2.0	2.2	0.2
Leisure and hospitality	13.0	11.5	-1.5
Manufacturing	10.8	13.2	2.3
Professional and business services	11.4	11.5	0.1
Transportation and utilities	4.0	4.5	0.5
Wholesale and retail trade	13.9	13.8	-0.2
Other ^c	7.7	7.8	0.1
GENDER			
Women	43.6%	42.6%	-1.0
Men	56.4	57.4	1.0
RACE			
Black	19.3%	25.4%	6.1
Hispanic	18.8%	16.5%	-2.3
White	5.9%	6.1%	0.1
Other	56.0%	52.0%	-4.0

^aCategories do not sum to 100% because a small share of unemployed workers do not report an industry and/or occupation.

^bOther occupations include: farming, fishing, and forestry; installation, maintenance, and repair.

^cOther industries include: agriculture, forestry, fishing, and hunting; mining; other industries and services: and public administration.

Source: Authors' analysis of BLS Current Population Survey data.

Changes in Long-term Unemployment over the Last Two Decades

Table 3 shows important changes over time in the incidence of LTU. This table takes three different snapshots during the recent worst periods of long term joblessness – 1992, 2003 and 2008. This provides an apt comparison of the changing face of long-term unemployment when it is hitting the nation the hardest. There are several striking changes in the face of long-term unemployment over the last two decades.

- **Gender:** Between 1992 and 2008, women have become increasingly impacted by long-term joblessness. Women now represent 42.6% of the long-term jobless, up from 35.5% in 1992. This trend is partially a function of the increasing presence of women in the labor force. But, it is also evidence that recessions are taking a more equal opportunity approach to impacting both men and women as female-heavy service sector industries become more vulnerable to economic dislocation along with goods sectors.

Table 3

Long-term unemployment, as a share of total unemployment, in tough job markets by demographic characteristics

	Share of long term unemployment			Percentage-point change		
	1992 ^a	2003 ^a	2008 ^b	1992-2003	2003-2008	1992-2008
All	20.2%	22.1%	19.7%	1.9	-2.3	-0.4
Gender						
Female	35.5%	41.4%	42.6%	5.9	1.2	7.1
Male	64.5	58.6	57.4	-5.9	-1.2	-7.1
Race						
Black	21.4%	24.5%	25.4%	3.1	0.8	4.0
Hispanic	11.9	12.2	16.5	0.3	4.4	4.6
Other	3.8	8.4	6.1	4.5	-2.3	2.2
White	62.9	54.9	52.0	-7.9	-2.9	-10.8
Age						
16-24	14.9%	19.3%	22.2%	4.5	2.9	7.4
25-45	54.1	45.3	40.0	-8.8	-5.2	-14.1
46 and over	31.0	35.4	37.7	4.4	2.3	6.7
Education						
Less than high school	24.9%	20.9%	22.2%	-3.9	1.2	-2.7
High school graduate	40.0	34.6	36.5	-5.4	1.9	-3.5
Some college	21.4	25.4	25.3	4.0	-0.1	3.9
Bachelor's degree or more	13.7	19.1	16.0	5.4	-3.1	2.3
Occupation^c						
Blue Collar	40.1%	31.8%	32.0%	-8.3	0.2	-8.1
Service Occupation	12.8	15.2	18.7	2.5	3.4	5.9
White collar	41.3	46.0	41.5	4.7	-4.5	0.2

^a1992 and 2003 represent peaks of long-term unemployment that followed the 1990-91 and 2001 recessions, respectively.

^bThe share of long-term unemployed continues to rise as the current recession continues; as of this writing, February 2009, the share was 23.1%

^cOccupational categories do not sum to 100% because a small share of unemployed workers did not report an occupation.

Source: Authors' analysis of BLS Current Population Survey data.

- **Education:** A less dramatic, but notable change, is the increasing representation of workers with more education among the long-term unemployed. Long-term unemployment shares of workers with some college and college degrees have both grown by 3.9% and 2.3% respectively. College educated workers are still less likely to be laid off than other groups of

workers, but when they do lose their job they are vulnerable to long spells of joblessness as they compete for a limited pool of good jobs.

- **Occupation:** The other major changes reflect the evolution of the U.S. economy. Long-term joblessness has reached beyond blue collar jobs to service occupations. The LTU share in service occupations jumped by 5.9% from 1992 and 2008, as employment and unemployment in this sector has expanded.
- **Age:** Table 3 confirms the trend highlighted in Table 2. Long term unemployment in 1992 recession was primarily a phenomenon among prime-age workers, age 25-44. Since then long-term joblessness has spread along the age spectrum, with older workers and younger workers significantly more affected. For example 37.7% of LTU in 2008 was among workers over age 46 compared to 31.0% in 1992 and 35.4% in 2003.

Immediate Policy Implications

Regular state unemployment benefits only provide 26 weeks of assistance—and this package of assistance is proving insufficient given the high incidence of long-term joblessness. In March 2009, 45.6 percent of all workers collecting state unemployment insurance reached the end of their maximum 26 weeks of benefits without finding work. That is the highest exhaustion rate on record, dating back to 1972 when the data were first reported.

The high exhaustion rate has created a need for federal extended benefits beyond the basic 26 weeks of assistance. Emergency Unemployment Compensation (EUC) is a temporary program that was initiated in mid-2008. The program pays for an additional 20 weeks of benefits for workers in all states, and for workers in "high unemployment states," pays an additional 13 weeks on top of this initial 20 weeks (bringing the total to 33 weeks for workers in these states). The 20 weeks of benefits that are available to all workers are known as "Tier I" benefits, while the additional 13 weeks available to workers in high unemployment states are known as "Tier II" benefits. A state moves ("triggers") from Tier I EUC to Tier II EUC when the average unemployment rate over the past three months is 6.0 percent or higher.

The stimulus bill extended the duration of the EUC program to cover any workers who run out of their basic state benefits before December 31, 2009, but it did not add additional weeks of EUC benefits for any jobless workers. However, section 2005 of the ARRA modified the permanent Extended Benefits (EB) program to enable states to provide an extra 13-20 weeks of extended benefits for workers who exhaust their EUC benefits. EB can serve as an additional extension for the long-term unemployed.

EB, started in the 1970s, pays extended benefits to jobless workers in high unemployment states and allows states different options for tapping into the program. Every state that has an insured unemployment rate at or above 5.0 percent becomes eligible for EB. The insured unemployment rate (IUR) is the number of workers receiving state unemployment benefits in the past 13 weeks divided by the total number of employed workers. If a state's IUR exceeds 5.0%, EB benefits trigger on. Alternatively, states may elect to provide EB benefits once their standard unemployment level exceeds 6.5% over a three month period.

While the cost for paying extended benefits would normally be split 50-50 between states and the federal government, under the ARRA, the extended benefit is fully federal-funded through 2009. To take advantage of this opportunity, however, numerous states must affirmatively adopt the 6.5% trigger provision, because their insured unemployment rate has not reached the 5.0% level. However, many key states have not made this temporary change to their law. As a result, several states with high unemployment rates like New York, Texas, Tennessee, Alabama and Mississippi are not yet eligible for this additional extension.

The timing of action on this policy option is now crucial. Workers who have been continuously unemployed over the last year received up to 20 additional weeks of EUC benefits starting at the end of November 2008. Thus, large numbers of these workers began running out of these benefits in April 2009. NELP estimates that nearly 526,000 workers exhausted their EUC benefits in April, and the total will grow to more than 1.5 million workers by August 2009. Owing to recent action in states like Georgia, California and Ohio, a growing share of these workers will be able to continue receiving help. However, there are nearly 390,000 workers who live in states that have high enough unemployment rates to qualify for EB between now and August, but have yet to pass needed laws to take advantage of the time-limited federal funding.

In some states like Illinois, South Carolina and Indiana, workers will collect some EB benefits but not the maximum available under the program. States have the option to provide 20 weeks of extended benefits when their total unemployment rate is over 8.0%. These states have “triggered on” to 13 weeks of extended benefits through the IUR trigger, but because they have not adopted the total unemployment rate trigger, they will not be eligible for the full complement of EB benefits.⁷

Long-term Policy Implications

Even in states that take the most generous approach to unemployment benefits, these severe rates of long-term joblessness will dry up available jobless benefits. NELP estimates that by September there will be as many as 920,000 Americans who have exhausted all of their extended benefits and have yet to find work. It is likely that many of these workers will live in states and metropolitan areas with extremely high rates of unemployment. Especially in these states, there will be a strong justification for additional weeks of benefits in the fall of 2009, until the economy produces enough jobs to absorb the idled workforce.

Beyond the immediate policy imperative, there will clearly be need for extended benefits beyond 2009. Long-term unemployment tends to peak well after the official end of recessions, and federal extensions of benefits lasted two to three years after the economic trough in the 2001 and 1990-1 recession respectively. Thus, it seems readily apparent that extended benefits will need to continue to be available in 2010, and Congress will have to address this need by fall as the current extensions begin to phase out in January 2010. Given the current trends in long-term joblessness, there will be an important need to continue both the EUC program and continue the level of additional benefits provided by the EB program well into 2010.

Conclusion

Over the last year, Congress and the Administration have taken significant action to aid the long-term jobless. The evidence is strong that long-term unemployment will continue to rise to record levels throughout 2009 and into 2010, affecting a diverse swath of Americans struggling to get back to work and on their feet. Thus, this issue needs to remain a high priority for policy makers.

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² See: http://www.epi.org/publications/entry/jobspict_20090206/

³ See: http://epi.3cdn.net/ff1869e11dfc0ef295_xxm6b9cj9.pdf

⁴ If the double-dip recession in the early 1980s is treated as one. Job growth following the short 12 month expansion of the first dip was 2.0%.

⁵ Persons are classified as unemployed if they do not have a job, have actively looked for work in the prior four weeks, and are currently available for work at the time of the Current Population Survey.

⁶ The two papers: http://www.epi.org/publications/entry/issuebriefs_ib198/ and <http://www.epi.org/publications/entry/bp162/>.