Long-term unemployment in recent recessions

During the 1990–91 recession, the long-term jobless rate was much lower than that associated with the 1981–82 contraction; however, unemployment of more than 6 months has been very slow to recover from the recent downturn

Randy E. Ilg

The number of unemployed persons and the unemployment rate are among the most visible and politically sensitive economic statistics. But while these aggregate measures certainly are important, policies undertaken to lessen the extent of unemployment, or its impact after the fact, must be based on a detailed knowledge of the makeup of the jobseeking population. For example, joblessness among teenagers can be quite different, in both cause and effect, from joblessness among adult men and women with families. Similarly, policy implications of short-term unemployment, such as that which occurs for seasonal reasons or because of temporary fluctuations in product demand, are much different from those associated with long-term unemployment stemming from chronic deficiencies in demand or from structural problems.

In recent years, the amount of time that persons go jobless has been a critical aspect of the discussion regarding whether, and for how long, extended unemployment insurance benefits might be provided for those whose normal coverage has expired. This brief analysis focuses on the extent of long-term unemployment associated with the 1990–91 recession and its aftermath, and compares it with conditions related to other major recessions of the past two decades. (The minor recession that occurred in 1980 is not addressed separately here.)

Data on the long-term unemployed—those jobless 27 weeks and longer (or more than 6 months)—suggest similarities among the last three major recessions, but also indicate some differences.[1] In each case, the incidence of long-term unemployment continued to increase following the official end of the recession.[2] Levels peaked and began to improve slightly more than a half year after the official end of the 1973–75 and 1981–82 recessions, but were much slower to peak following the 1990–91 recession, as were other major labor market indicators.[3]

As business picks up around the end of a recession, changes in personnel needs initially lead to increases in work hours and then to reductions in unemployment, particularly among persons who had most recently become unemployed. On average, unemployment does not begin to decline until 2 months after the official end of a recession—essentially, a concurrent change. However, there is little immediate effect on the long-term unemployed. Data comparing workers' labor force status in one month to that of the prior month have shown that the longer a worker has been jobless, the less likely he or she is to get a job in a particular month.[4] This is referred to as a "sorting effect," whereby the unemployed persons with the most recent employment and most marketable skills (or perhaps, those with the most flexible job demands or "reservation

Randy E. Ilg is an economist in the Division of Labor Force Statistics, Bureau of Labor Statistics.

wages") are more likely to find jobs. Those who have been jobless for long periods, may, as a group, have relatively high reservation wages or be a poor match for available job openings. A sustained period of job growth typically is required for the number of long-term jobless to decline—that is, for the number of persons leaving long-term unemployment to exceed the number of persons entering the category.

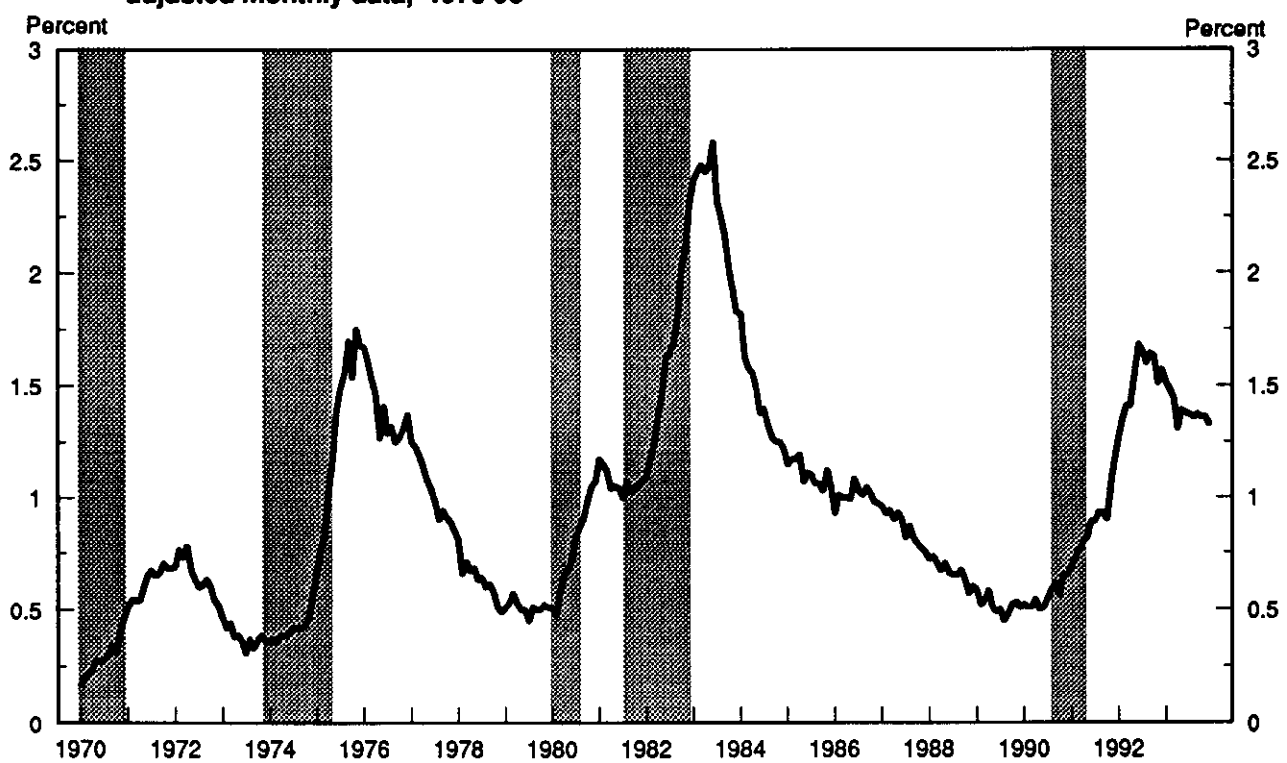
How did long-term unemployment in the most recent recession compare to that in the prior two major recessions (and their aftermath)? To answer this question, the key additional questions to ask are—how severe was each recession; for how long did labor market conditions deteriorate; and how quickly did they improve?

How bad?

Because the labor force normally is growing, the best way to compare long-term joblessness across recessions is to view it as a "proportion" of the labor force—that is, to calculate a long-term unemployment rate representing those jobless 27 weeks and over as a percentage of the labor force. As shown in chart 1, the number of persons jobless for more than a half year peaked at 1.7 percent of the labor force in November 1975, 8 months after the 1973–75 recession's end. In June of 1983, 7 months after the official end of the 1981–82 recession, the long-term jobless rate peaked at 2.6 percent, the highest rate recorded for the post-World War II period. In terms of the magnitude of the long-term unemployment rate, the most recent downturn more closely resembled that of the mid-1970's; the rate peaked at 1.7 percent in June of 1992, 15 months after the official end of the recession. This rate is fairly high by historical standards, but not nearly so high as that achieved a decade earlier.

Another measure of the severity across recessions is the percentage increase in long-term joblessness from the series lowpoint to the series highpoint. The number of long-term unemployed increased 483 percent from its lowpoint in July 1973 until it peaked in November 1975. During the period associated with the recession of 1981–82, however, long-term joblessness increased only 166 percent. The smaller increase reflected the fact that the economy had never fully recovered from the brief downturn of 1980, and that long-term unemployment levels were already abnormally high when the 1981–82 recession began. The increase of 514 percent from July 1979 to June 1983 is probably more relevant. The rise associated with the 1990–91 recession—

Chart 1. **Persons unemployed 27 weeks and over as a percent of the civilian labor force, seasonally adjusted monthly data, 1970-93**



NOTE: Shaded areas denote recessionary periods, as designated by the National Bureau of Economic Research.

from the series trough in August 1989 until the series peak in June 1992—was 283 percent.

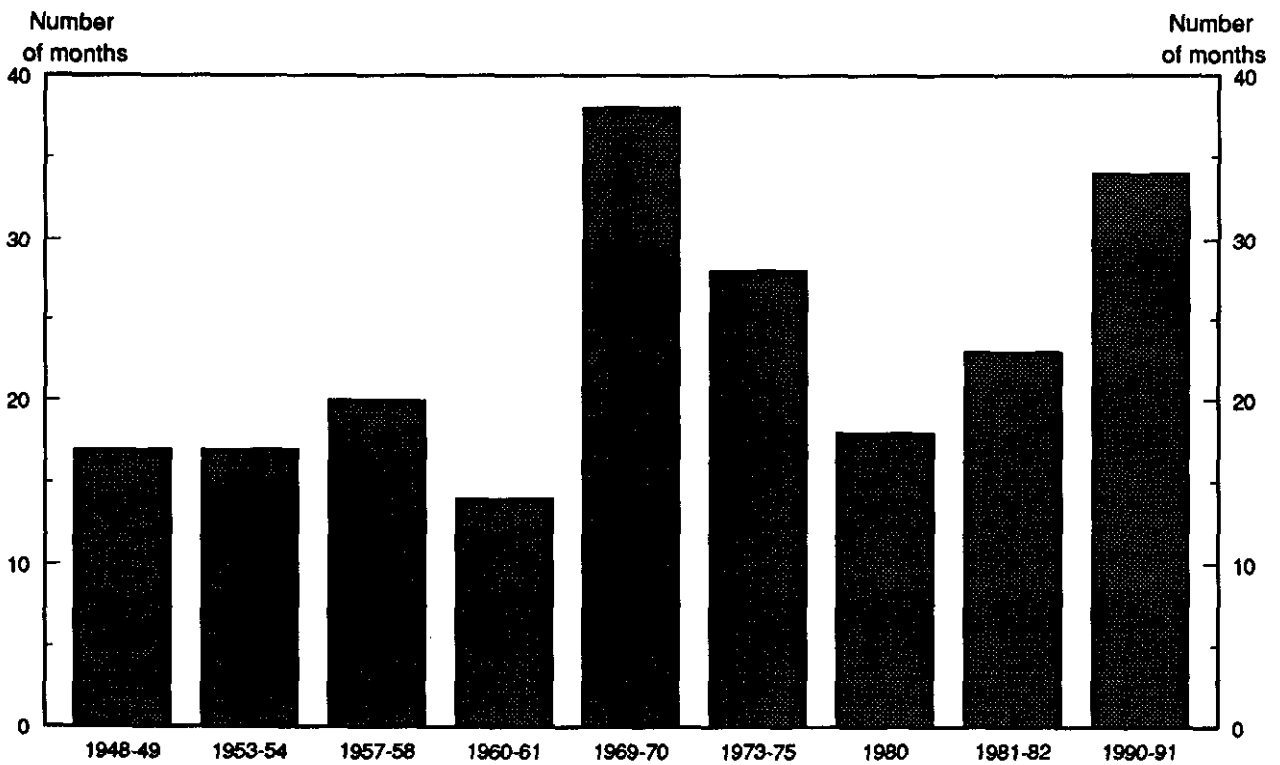
The proportion of the total unemployed who were jobless 27 weeks or more was as high as 1 in 5 in each of the last three major recessionary periods. (It was as high as 1 in 4 following the 1981–82 recession.) However, in the last two downturns, that very high proportion was sustained for about 2 years; in the mid-1970's, the proportion was only that high for about a year.

Duration and recovery

As chart 1 shows, long-term joblessness as a percent of the labor force did not expand quite as rapidly from 1989 to 1992 as it had in the two earlier major recessionary periods. Indeed, as indicated in chart 2, that measure rose for 34 months, with nearly half of the increase occurring after the economy had officially turned upward. In contrast, the period of increase associated with the 1981–82 recession was 23 months (although it was 47 months if the increase associated with the 1980 recession is included), while that for 1973–75 was 28 months. And even when long-term unemployment did finally begin to improve in mid-1992, it declined far more slowly than in the past. At yearend 1993, 18 months after the series peaked (and nearly 3 years after the recession's end), the level of long-term unemployment had declined only 20 percent; this compares with declines of 52 percent within 18 months of the series peak in June 1983, and 35 percent following the peak in November 1975.

The most obvious reason for the slow improvement in long-term unemployment (and unemployment in general) during the recovery of the early 1990's was the anemic pace of job growth. During the 18 months following the peak of the long-term jobless rate (from June 1992 to December 1993), total employment expanded by only 2.7 percent. This was less than half the rate associated with the prior two expansions under study. In response to this sluggish recovery, and the persistent nature of unemployment associated with it,[5] several extensions to unemployment insurance benefits (beyond the basic 26 weeks) were enacted. Economists have long studied whether (and the extent to which) an extension in benefit duration might influence the period of workers' job search, either by reducing the pressure for them to "settle" for marginally acceptable jobs or by eliminating (for the period of added benefits) the option of leaving the labor force.[6] (One of the requirements to receive these benefits is active job search.) Much of the

Chart 2. Period of increase in long-term unemployment associated with recession, 1948-93



NOTE: Entries indicate the number of months from the series lowpoint to its highpoint.

research suggests that the extension of benefits would tend to expand the rolls of the long-term unemployed.

Another feature of the recent behavior of long-term unemployment was the substantially different demographic structure of unemployment. As shown in table 1, the proportion of the long-term unemployed in 1992 who were 16 to 24 years of age was half that following the recession of 1973–75, while the proportion of those aged 35 to 44 had nearly doubled. Much, though not all, of this shift reflects changes in the age structure of the population itself. But regardless of the cause, long-term unemployment of men and women in their 30's and 40's would generally be viewed as a quite different problem than would joblessness among youth.

Table 1. **Distribution of long-term unemployment (27 weeks and over) by age, 1976, 1983, and 1992 annual averages**

[In percent]

Age	1976	1983	1992
Total, all ages	100.0	100.0	100.0
16 to 19 years	9.1	6.8	4.7
20 to 24 years	19.7	17.7	9.3
25 to 34 years	25.1	32.2	28.4
35 to 44 years	14.3	19.7	25.4
45 to 54 years	16.3	13.2	18.5
55 to 64 years	12.2	9.3	11.2
65 years and older	3.3	1.2	2.4

NOTE: The years 1976, 1983, and 1992 correspond to the highest levels of long-term unemployment on an annual average basis. Columns may not sum to 100.0 due to rounding.

IN SUMMARY, as with unemployment in general, the magnitude of long-term joblessness associated with the recent recession was much less than that associated with the 1981–82 downturn. However, the pace of economic recovery following the recession of the early 1990's was insufficient to make inroads into the number of persons who had been unemployed for more than a half year. In fact, it was not until 15 months after the recession officially ended that long-term unemployment began to edge down, which was about twice as long as it took following the end of the prior two major recessions. The unusually long lag following the 1990–91 recession is consistent with changes in employment; this series continued to trend downward for nearly a year after the official ending date and then increased at a slower pace than in prior recoveries. In addition, the long-term jobless were more likely to be of prime working age, and less likely to be young, than they were in past periods of high unemployment.

Footnotes

[1] The source of these data is the Current Population Survey, a monthly survey of nearly 60,000 households, conducted by the Bureau of the Census for the Bureau of Labor Statistics.

[2] The National Bureau of Economic Research, a private research organization, determines the official starting and ending dates of recessions by examining changes in many economic indicators, including—but not limited to—employment and unemployment.

[3] See Jennifer Gardner, "The 1990–91 recession: how bad was the labor market?" on pp. 3–11 of this issue, for additional information on the most recent downturn.

[4] Philip L. Rones, "Recent recessions swell ranks of the long-term unemployed," *Monthly Labor Review*, February 1984, pp. 25–29.

[5] As widely reported, a distinguishing feature of the recessionary period of the early 1990's was the quite limited use of temporary layoffs, which had been common (particularly in manufacturing) during prior downturns. Instead, the vast majority of the increase in unemployed job losers was among those who did not expect recall to their jobs. Thus, in the early 1990's, the unemployed who had lost their jobs were far less likely to return to the same jobs when the economy improved than in the past. For a discussion of this issue, see Steven E. Haugen, "Recent Job Losers Less Likely to Expect Recall," *Issues in Labor Statistics*, Summary 92–8 (Bureau of Labor Statistics, July 1992). See also Thomas Nardone, Diane Herz, Earl Mellor, and Steven Hipple, "1992: Job market in the doldrums," *Monthly Labor Review*, February 1993, pp. 3–14; and Gardner, "The 1990–91 recession."

[6] See, for example, Lawrence F. Katz and Bruce D. Meyer, "The impact of the potential duration of unemployment benefits on the duration of unemployment," *Journal of Public Economics*, February 1990, pp. 45–72; Theresa J. Devine and Nicholas M. Kiefer, "Unemployment Duration and Wage Data," *Empirical Labor Economics: The Search Approach* (Oxford University Press, 1991), pp. 78–143; and, "The Effect of the Duration of Unemployment Benefits on Work Incentives: An Analysis of Four Data Sets," Occasional Paper No. 85–4 (U.S. Department of Labor, Unemployment Insurance Service, 1985).