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THE GREAT RECESSION'S LONG TAIL

Third Anniversary Underscores Severity of Labor Market Woes

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The economic expansion that took place during much of the last decade officially ended in December 2007. One of the weakest on record, it saw feeble gross domestic product and jobs growth, and was the first business cycle on record during which the median family income failed to rise. The real value of the minimum wage declined for more than half the decade, and the gap between the rich and the poor—or rather the top 1% and the bottom 99%—continued to grow. This historically weak expansion, however, was nothing compared with what was to come. (In fact, the 2000s' historically lackluster expansion failed to generate the potential cushion a robust expansion would have afforded many families, making the current economic downturn even tougher to weather). The Great Recession, which began in December 2007, officially lasted through June 2009.

Three years after the recession's beginning we can piece together a comprehensive vision of where we have been, and begin to think about where we are going.

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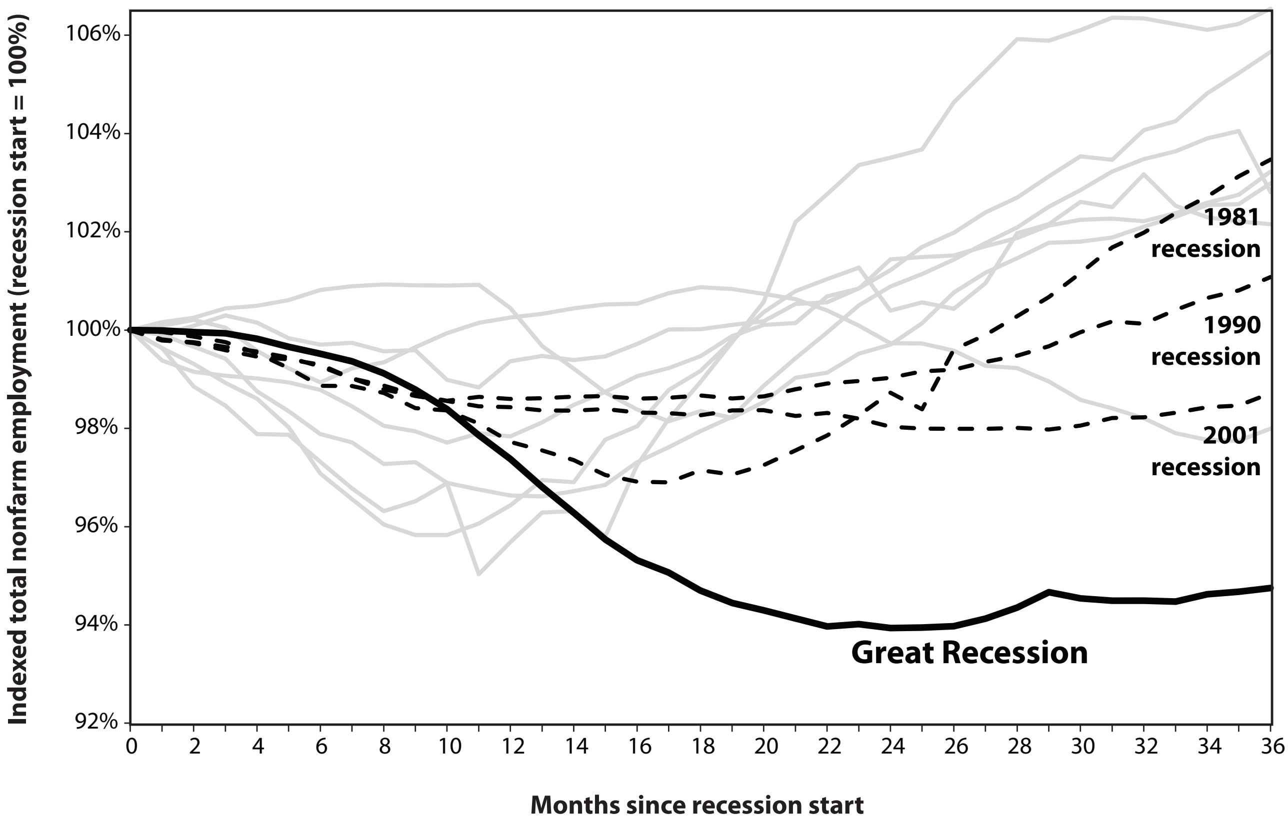
FIGURE A

Indexed job loss in all post-war recessions



NOTE: Grey lines are not labeled but represent recessions starting in 1948, 1953, 1957, 1960, 1969, 1973, and 1980.

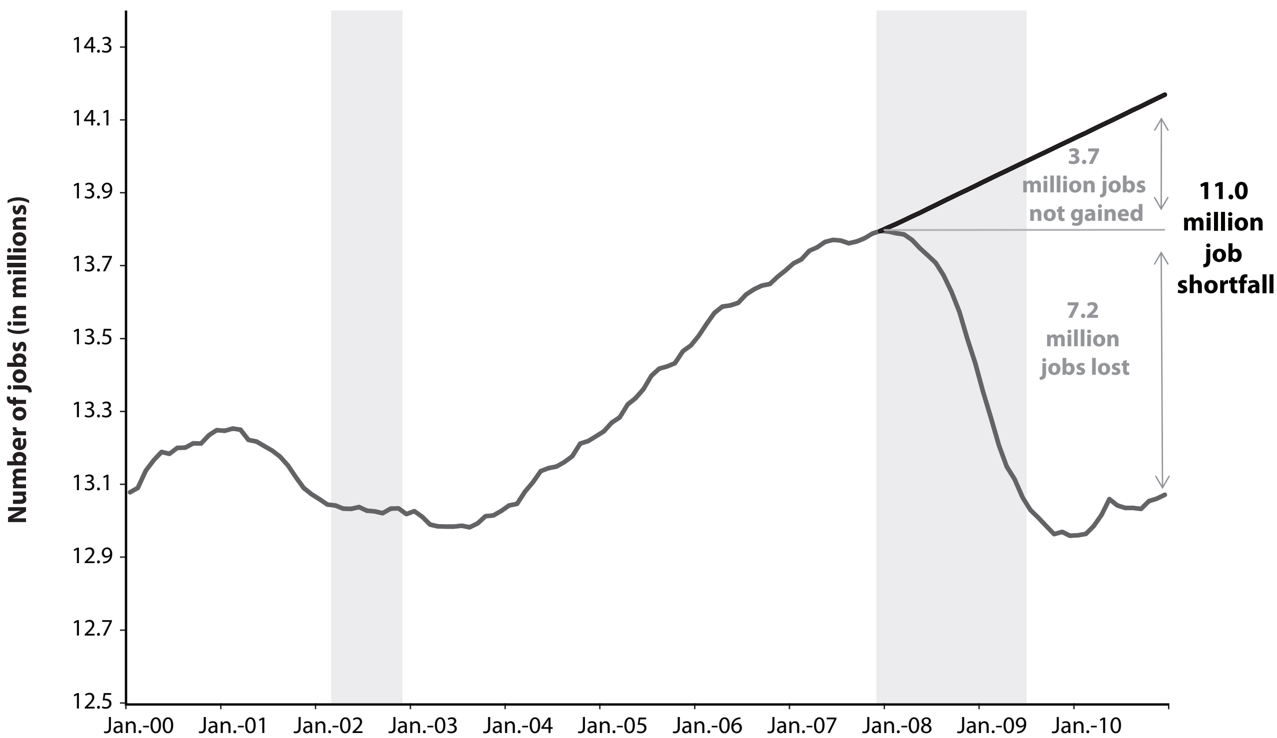
SOURCE: EPI analysis of Bureau of Labor Statistics data.

Job loss

In terms of job loss, the picture is bleak. A record number of people are unemployed, with the unemployment rate hovering well above 9%, the highest it has been since the early 1980s. As **Figure A** shows, job loss during this recession is far greater than during any other post-war downturn. Three years past the start of the recession, the labor market is down a larger percentage of jobs (5.2%) than at any point in any other post-war recession. Figure A compares job loss in this recession with all post-war recessions, showing that the economy continued to shed jobs for two years after the recession started.

FIGURE B

Jobs gap

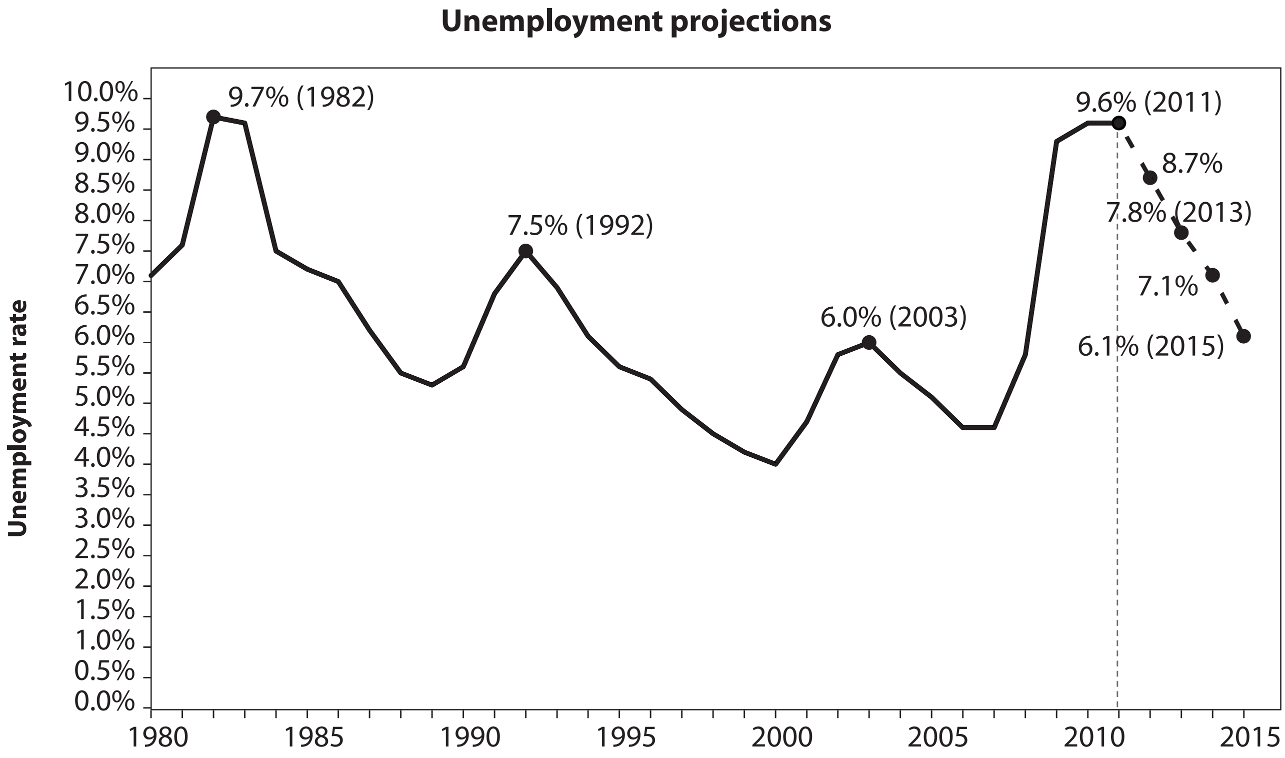


NOTE: Shaded areas denote recession.

SOURCE: EPI analysis of Bureau of Labor Statistics data.

Job loss, however, is only half the labor market story. As the economy was shedding jobs, the working-age population continued to grow. **Figure B** shows that the recession has left us with a shortfall of 11 million jobs, which includes the number of jobs it would have taken to maintain a stable employment rate while keeping pace with growth in the working-age population since the beginning of the recession. The labor market has 7.2 million fewer jobs than when the recession started; it is also down the 3.7 million jobs needed over the last three years in order to match population growth.

FIGURE C



NOTE: Data points represent annual averages.

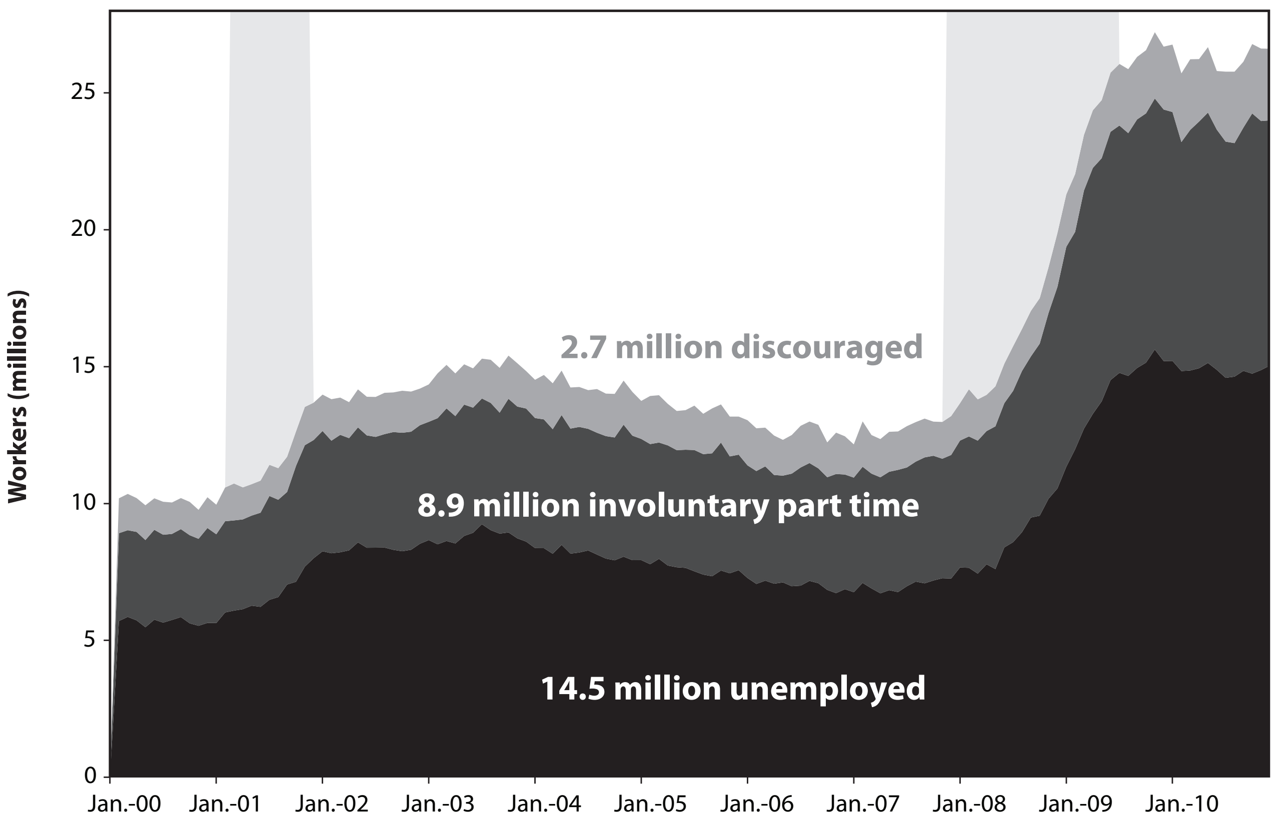
SOURCE: Congressional Budget Office, Budget and Economic Outlook, Fiscal Years 2012-21.

Unemployment

Although the Great Recession officially ended in mid-2009, as **Figure C** shows, unemployment has been well above 9% since then. Few believe it will dip below 6% before 2014; the latest projections from the Congressional Budget Office predict the unemployment rate might dip to just above 7% in that year. Although it has not passed the peak rate of 10.8% it hit during some months in 1982, the current downturn has seen a larger and more sustained increase in the unemployment rate. In 1982, the unemployment rate jumped from 9% in March to 10.8% in November, a 1.8 percentage-point increase. Yet by October 1983, the rate dropped below 9%. In total, there were 19 months with unemployment above 9% in 1982 and 1983. From December 2007 through October 2009, however, the unemployment rate increased 5.4 percentage points, hitting 10.4%. Though increases have abated, we have seen unemployment above 9% for 21 months now, and recovery is projected to continue very slowly. Indeed, in 2013, six years after the beginning of the recession, the unemployment rate is projected to be 7.8%, just above the *peak* unemployment rate during the recession of the early 1990s.

FIGURE D

Underemployment



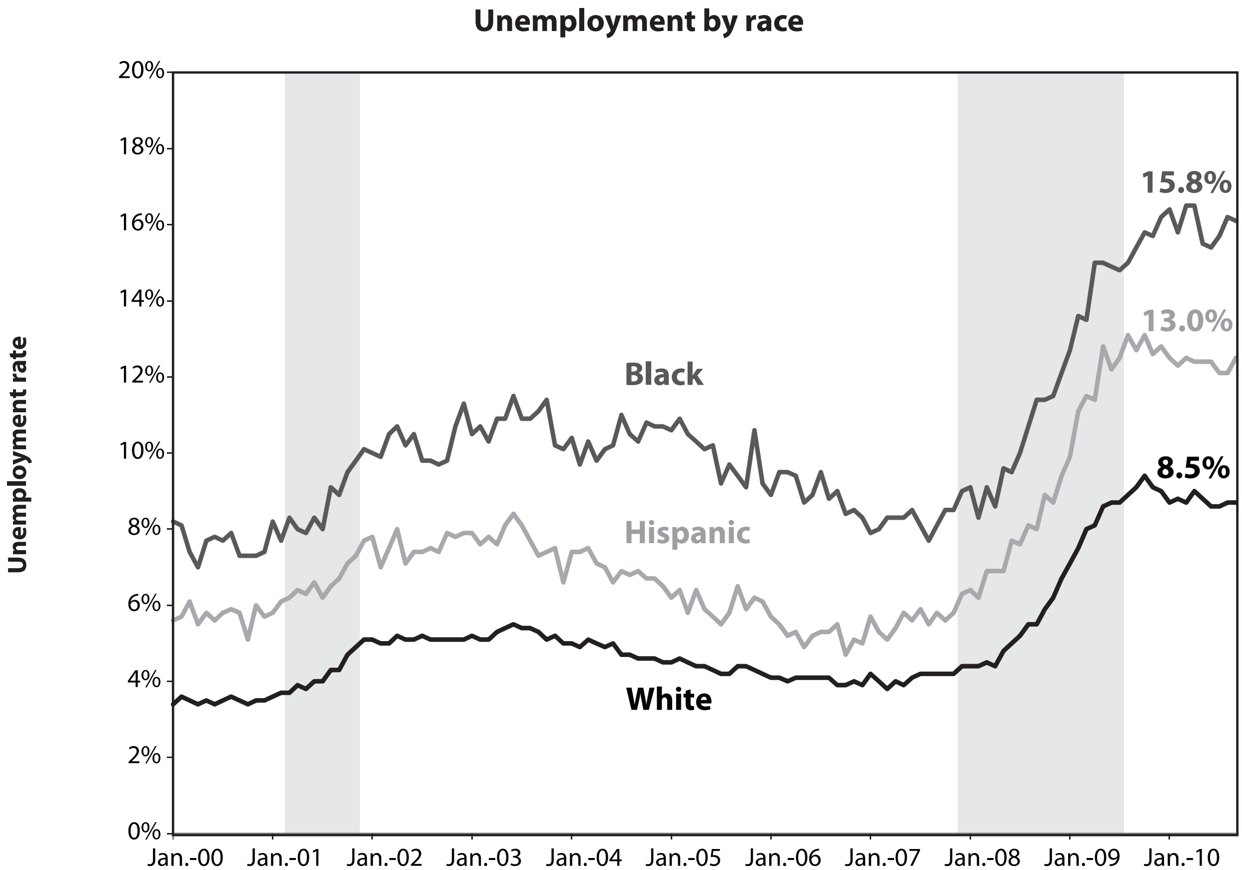
NOTE: Shaded areas denote recession.

SOURCE: Bureau of Labor Statistics, Current Population Survey.

While the unemployment rate tells some of the story, the labor market is in even worse shape than that rate reveals. Because the unemployment rate only measures those looking for work, if workers drop out of the labor force (that is, stop searching for a job), then they are no longer counted as unemployed. The *under*employment rate is a useful indicator that provides a more comprehensive measure of slack or distress in the labor market. Underemployed workers include not only the unemployed, but also those who can find only part-time work as well as those who want a job but are not classified as unemployed because they have given up seeking work.

The number of underemployed has grown in lock-step with the unemployment rate. The total number of underemployed has grown to over 25 million, as **Figure D** shows, with the underemployment rate officially standing at 16.7%.

FIGURE E



NOTE: Shaded areas denote recession.

SOURCE: Bureau of Labor Statistics, Current Population Survey.

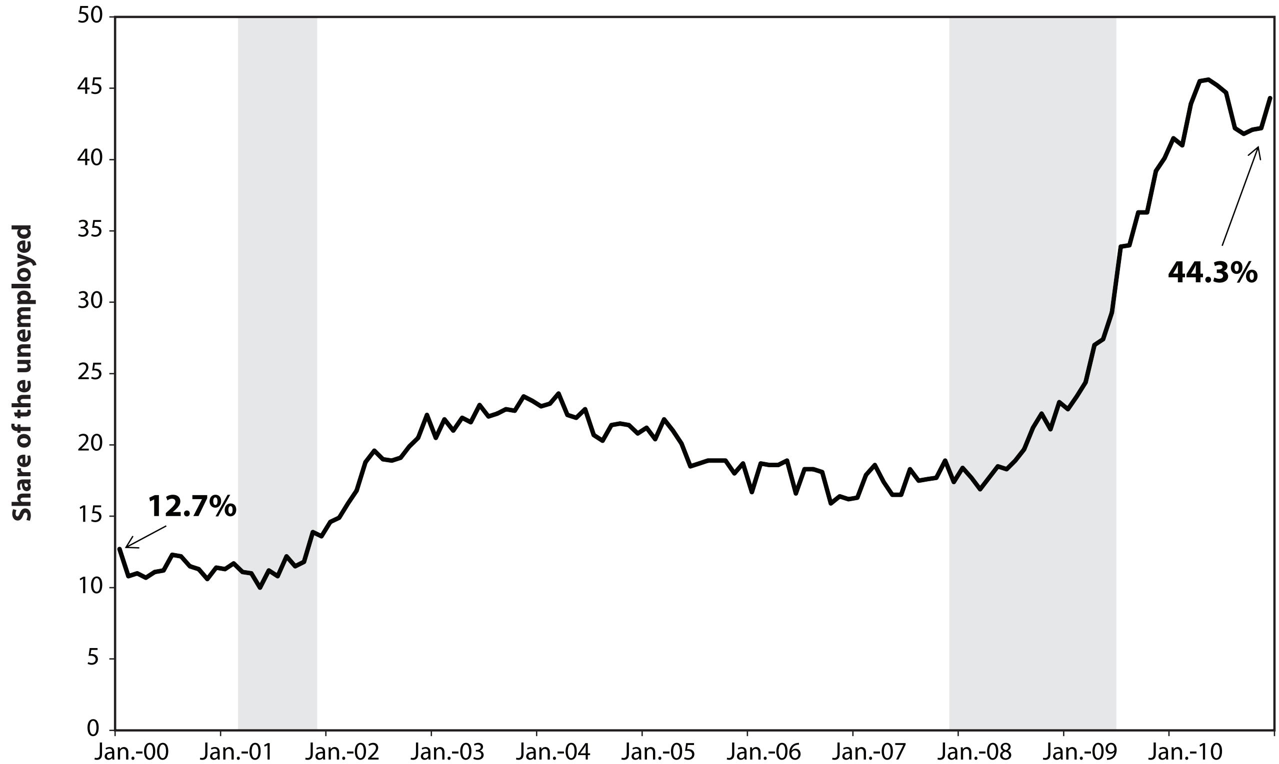
Demographic groups

Overall unemployment numbers also mask enormous variation in joblessness among different racial and ethnic groups. Though the overall unemployment rate was 9.6% in 2010, it proved to be much higher for some groups than for others, as seen in **Figure E**. The unemployment rate among blacks, for instance, was nearly 16%, and among Hispanics it was around 13%. With overall unemployment projected to be 8.7% in 2012, we can expect unemployment among blacks to remain over 15% and among Hispanics to be around 11%.

Unsurprisingly, income losses during the recession have differed by race as well. Income losses for the median black family have been more than twice as large in percentage terms as they have been for white families. Between 2008 and 2009, for instance, white families experienced a 1.6% decline in real median income, while black households experienced a 4.4% loss.

FIGURE F

Long-term unemployment as a share of the unemployed



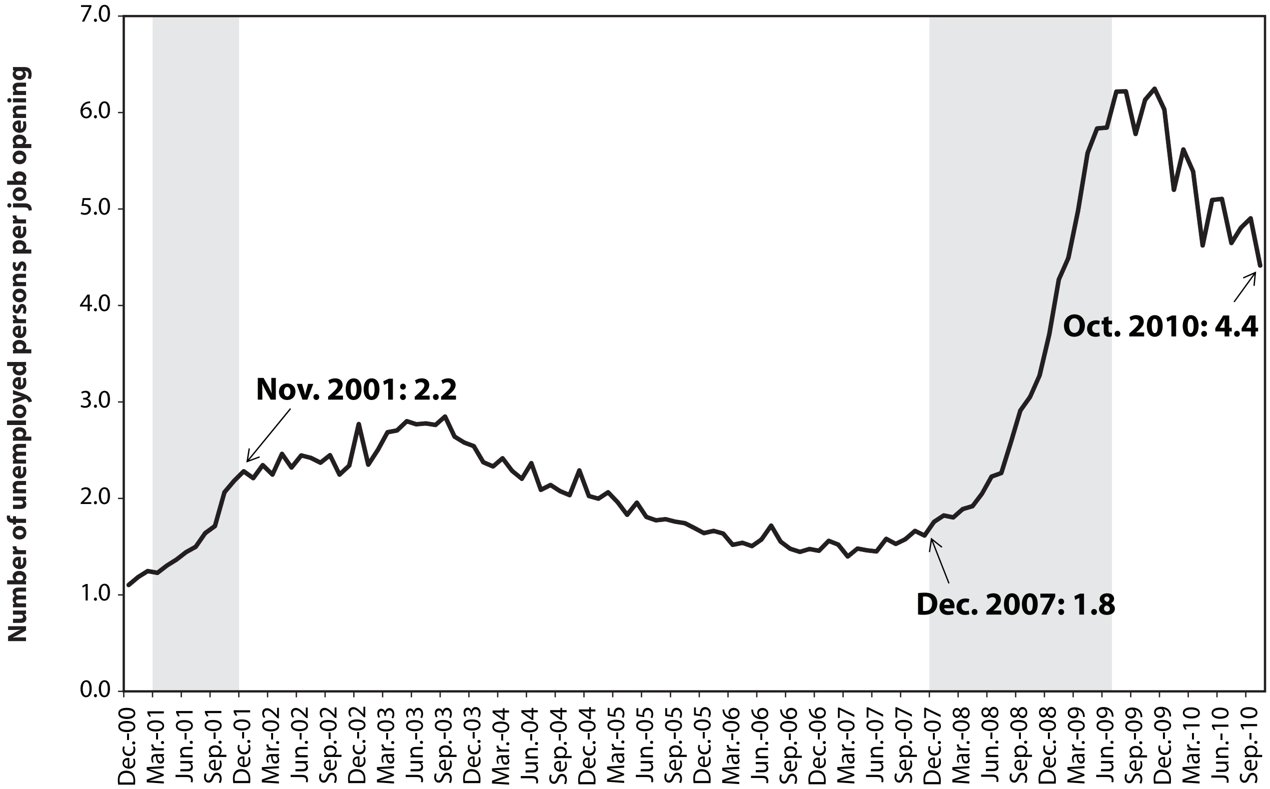
NOTE: Shaded areas denote recession.

SOURCE: Bureau of Labor Statistics, Current Population Survey.

The length and severity of this recession has shattered records for long-term unemployment. In fact, this recession has seen an unprecedented rise in the number of workers who have been unemployed for six months or longer (the traditional definition of long-term unemployment), and in those who have been unemployed for a year or more or even 99 weeks or more (defined here as the very long-term unemployed). As **Figure F** shows, at the beginning of the recession (December 2007), 17.4% of the unemployed were out of work for six months or longer. Two-and-a-half years into the recession the share of long-term unemployed jumped to 45.2%, and by December 2010 the share of people unemployed for six months or longer had only dipped slightly to 44.3%, or 6.4 million workers. Like the unemployment numbers, long-term unemployment has disproportionately affected black workers, who have been more likely than white workers to have experienced extended unemployment spells. Unemployment can leave permanent scarring effects on the earnings of workers as well as the future earnings of their children, and these effects can be particularly severe for people who experience long spells of unemployment.

FIGURE G

Jobs-seekers-to-jobs-openings ratio



NOTE: Shaded areas denote recession.

SOURCE: EPI analysis of Bureau of Labor Statistics data.

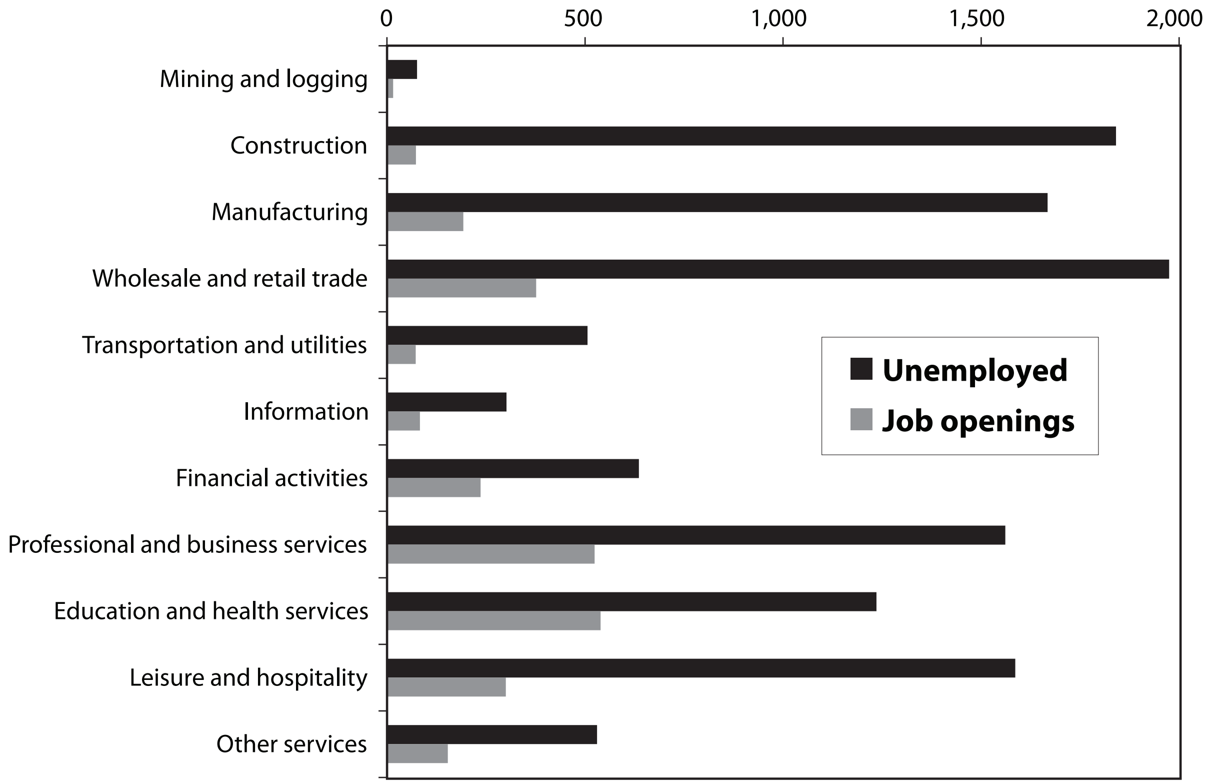
Job openings

It has been overwhelmingly difficult for people to find work, not only during the official months of the Great Recession, but in its aftermath as well. High, long-term unemployment is a function of the job market, and job creation has been overwhelmingly slow. In aggregate, unemployed workers have dramatically outnumbered job openings during the recession, as **Figure G** shows. In October 2010, there were 4.4 unemployed workers for every job opening, meaning there were no jobs available for more than three out of four unemployed workers. At the beginning of the recession, the ratio of unemployed workers to job openings was 1.8-to-1. At its peak, the ratio was 6.2 people per job opening in November 2009. So while there have been major improvements, the ratio of job seekers to job openings is still nowhere near where it was even during the rather weak economic expansion that took place between late 2001 and 2007.

While the job-seekers-to-jobs-openings ratio shows that overall there are nowhere near enough job openings, could it also be true that a large part of current unemployment is that workers don't have the right skills for the jobs that are available? Are these numbers masking profound structural changes in our economy? We should investigate how much of

FIGURE H

Jobs openings and number of unemployed workers by industry (in thousands)



SOURCE: EPI analysis of Bureau of Labor Statistics data, 12-month averages (Nov. 2009-Oct. 2010).

the labor market crisis is actually due to structural factors, in order to help inform the correct policy response. If the jobs crisis is driven by structural factors, then increased education and training to the unemployed could help ease the necessary job transitions. If the crisis, on the other hand, is driven by a lack of demand, then the appropriate response would be additional stimulus and monetary policy to bolster demand.

Figure H shows the number of unemployed and number of job openings by industry. If current unemployment was largely structural, we would see some sectors experiencing a high ratio of job seekers to job openings, and some sectors that would look more balanced, with employer demand for jobs being more equal to the number of employees looking for jobs (or even surpassing it). However, there are no major sectors where the latter phenomenon is taking place; unemployed workers dramatically outnumber job openings in *every* sector. These data certainly suggest that the economy is not lacking the right workers (which would be indicative of structural unemployment), but that it is, in fact, simply lacking jobs across the board.

Conclusion

Our labor market issues have been and still are largely demand-driven; until demand picks up, the labor market will continue to struggle. Though the prognosis for the upcoming year is not rosy, it is an improvement upon the last three years. The economy will add jobs this year, in large part thanks to the stimulus included in December's tax compromise; however, it will not add jobs at a rapid enough pace to adequately recover from the last three years. In fact, it could take many years—up to a decade or more—before pre-recession levels of unemployment are restored. It is clear that demand continues to need a boost. To ensure this, it is necessary to find adequate replacement for the consumer and business spending that contracted after the bursting of the housing bubble.

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