

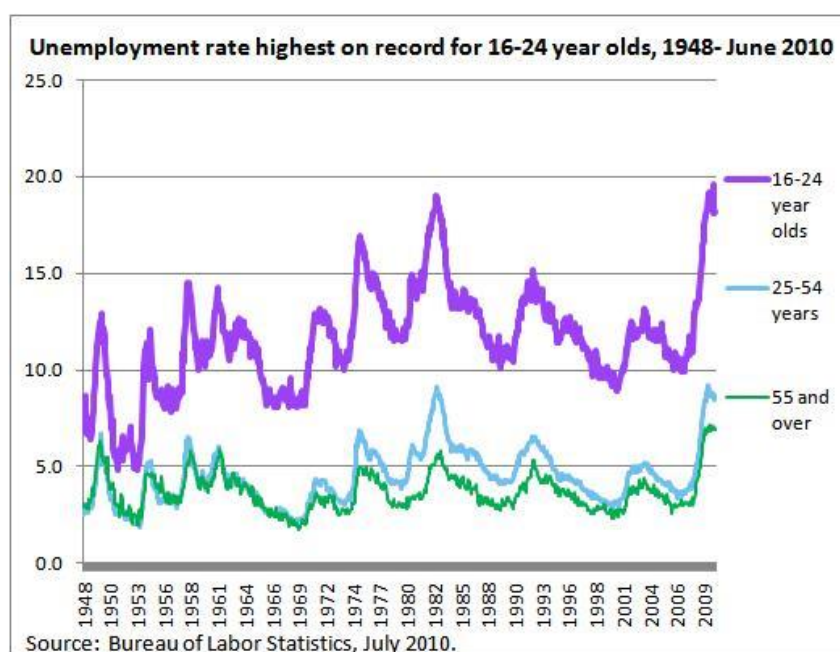
THE DANGER OF LONG-TERM STRUCTURAL UNEMPLOYMENT

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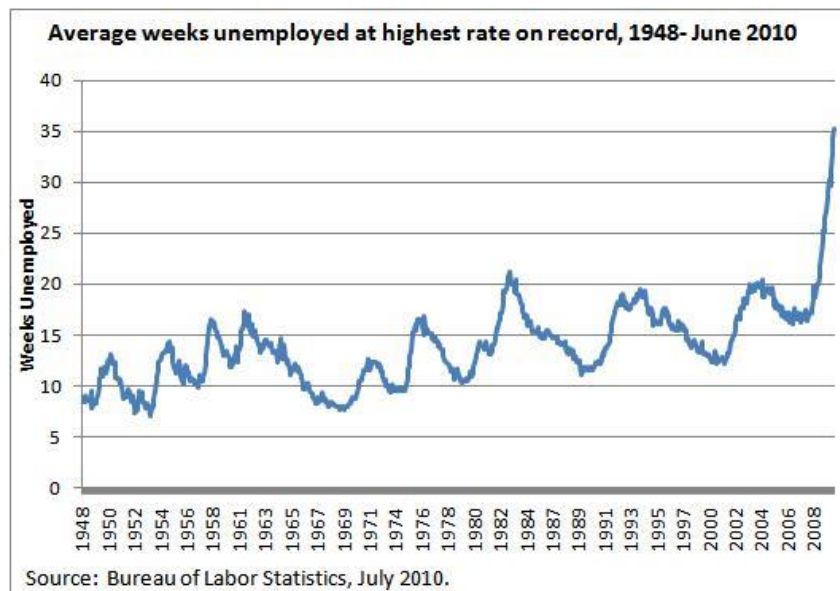
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The current debate over job creation versus fiscal restraint may prove to be the most decisive debate about America's future in the post-bubble era. Which side prevails will determine the shape of our economy and society for years to come. Deficit hawks often cite the fear that at some point in the future the market will lose faith in the federal government's creditworthiness with supposedly severe consequences, but against this distant (and in our view improbable) danger, they tend to ignore the damage caused by the lost output, incomes, and tax revenue that results from weak economic growth and high unemployment. They also ignore the less tangible social and economic harm associated with long-term unemployment. Indeed, one of the principal dangers of neglecting the challenge of job creation is the risk that high unemployment will morph into long-term structural unemployment, with great cost to American society.

Worryingly, the signs that this is beginning to happen are all too real. First, the number of Americans who have been unemployed for more than 27 weeks has increased to 6.75 million or 46 percent of those unemployed, up from 18 percent two years ago. This is the highest rate of long-term unemployment since the Bureau of Labor Statistics began tracking this data in 1947. Another 2.21 million workers have been unemployed for 15-26 weeks, suggesting that long-term unemployment will increase in the months ahead. Even more troubling is that these numbers do not include an additional 2.6 million "marginally attached and discouraged" workers who are unemployed and would like work.¹

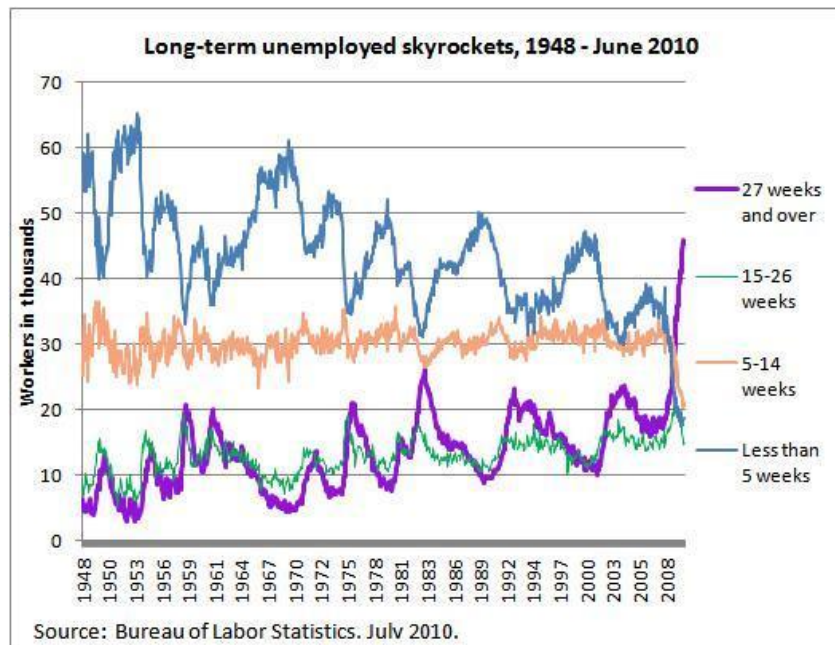


Second, the average duration of unemployment has also increased dramatically and as of June 2010 now stands at 35.2 weeks, again the highest on record. This is significant because the longer one is unemployed the more difficult it is to find a job. It is estimated that a long-term unemployed person has a one-in-ten chance of finding a job next month, three times worse than someone who has just recently become unemployed.² The longer one is unemployed, the more one's skills and confidence erode, and the more questions a prospective employer has about an individual's work habits and employability.



Third, the number of young people who are unemployed has exploded, with unemployment in the 16-24 age group increasing to 18.2 percent as of June 2010. This means an entire generation is now trying to begin their careers in an era of recession and unemployment, and the scars will show long after the recession has ended. A number of studies have shown that unemployment – especially long spells of unemployment at the beginning of one's career – significantly reduces earnings throughout the careers of affected workers and can trap workers into life-long patterns of irregular work.³

The United States has had a vibrant economy and healthy society over the past sixty years in large part because it has avoided long-term structural unemployment, with the disturbing exception of certain categories of workers, such as black males without a high-school education. But we are in danger of allowing long-term structural unemployment to take hold in our economy, condemning an even larger group of Americans to the indignity of not being able to find gainful employment. As we have noted in other materials, the challenge of putting America back to work must take priority over deficit reduction. And it must involve structural changes and sector-focused policies, such as the expansion of public infrastructure investment and public services, as well as macroeconomic policies to promote a cyclical recovery.



Also see:

Jobs and the New Growth Agenda, by Michael Lind. <https://www.newamerica.org/economic-growth/jobs-and-the-new-growth-agenda/>

The Jobs Deficit: the challenge of putting America back to work, by Sherle R. Schwenninger, Samuel Sherraden, & Benjamin Kolansky <https://www.newamerica.org/economic-growth/the-jobs-deficit/>

Arulampalam, W., Gregg, P. & M. Gregory. Unemployment Scarring. *The Economic Journal*. 111. November 2000. F577-F584.

¹ Bureau of Labor Statistics News Release. *The Employment Situation, June 2010*. 2 July 2010.

² Financial Times Lex. *U.S. Long-term Unemployment*. Macroeconomics and Markets. June 9, 2010.

³ Gangl, M. *Scar effects of unemployment: an assessment of institutional complementarities*. *American Sociological Review*. Vol. 71, No. 6. Dec. 2006. Pp. 986-1013.