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What to Do about the New Unemployment

The unemployment rate has hovered stubbornly around 9 percent since 2009, and the share of the unemployed that had been out of work for more than six months hit an all-time high of 45.5 percent in March 2011. While the gross domestic product has returned to pre-recession levels, jobs have not—and with federal stimulus benefits expiring, many more Americans may fall into poverty.

"Job losses far exceeded that of downturns in recent memory," said Margery Austin Turner, vice president for research at the Urban Institute. "Most experts expect the economic recovery to be very slow and job growth to be anemic for years to come." (See figure 1 on page 2.)

But the strategies used to combat past downturns aren't up to the current challenge. Instead, the country needs public policies that fit our labor force and economy, while reflecting budget deficit realities.

Who Are the Unemployed?

The 15.6 million unemployed in the Great Recession represent a huge cross-section of Americans. Some groups—especially men, young workers, minorities, and those with little education—have been especially vulnerable to job loss. Other groups—such as older workers, immigrants, and workers with disabilities—face distinct challenges when they become unemployed.

Young workers, particularly young minorities, typically fare worse in recessions, and this one was no exception. In December 2010, the unemployment rate for workers age 20 to 24 was 15.3 percent. The rate was even higher for teenagers (25 percent), Hispanic teenagers (32 percent), and black teenagers (44 percent).

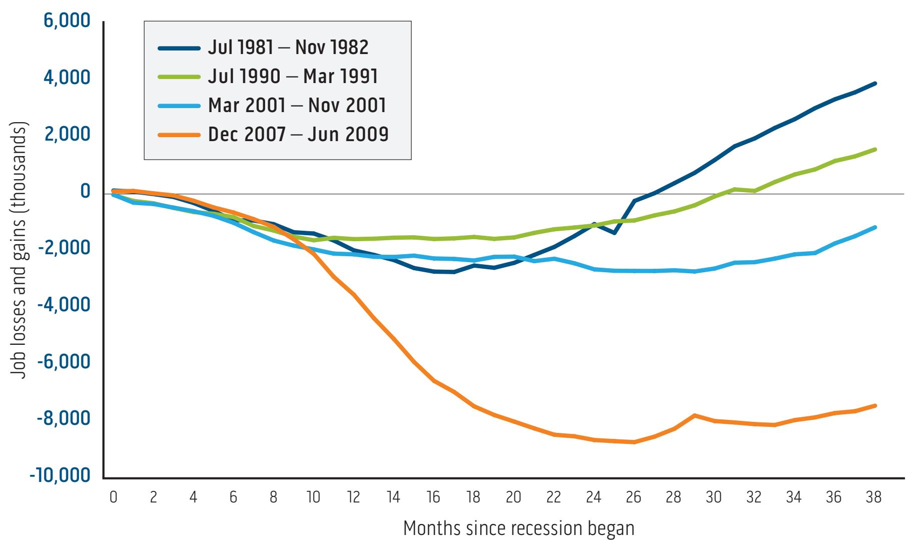
Kerry Owings, a program manager with the Westside Youth Opportunity Community Center in Baltimore, said the young people he works with can't get a foot in the door because they're competing for jobs with older, more experienced workers. And, funding for internships and job training programs at his center has shrunk.

A mismatch between workers' skills and available jobs is partly to blame for joblessness, even in a healthy economy. "You see rising job vacancy rates even with the high unemployment rate," said Urban Institute Fellow Harry Holzer.

Holzer stressed the need to better link education and work so training is more in sync with labor market demands.

This brief draws on three Urban Institute forums: "Jumpstarting the Job Market," December 10, 2010; "Young and Older Workers: (Not) Entering and Exiting the Labor Market," January 25, 2011; and "How Should the Safety Net Be Retooled to Work in Times of High Unemployment?" February 23, 2011.

Figure 1. Job Losses More Abrupt and Severe than in Past Recessions



Source: BLS total nonfarm employment, seasonally adjusted.

"For so many young people … there is still not enough knowledge about the labor force—where's the growth, what will the jobs of the future be, what kinds of credentials do you need?" said Roberta Gassman, former secretary of the Wisconsin Department of Workforce Development.

In Wisconsin, 40 percent of workers age 26 and older have no credentials beyond a high school degree, Gassman said. The American Recovery and Reinvestment Act (ARRA) helped the state invest in workforce development and youth apprenticeships at a critical time, while partnerships with the federal government, foundations, and schools helped Wisconsin stretch its capacity, she said.

Older workers, age 50 and up, are less likely than younger workers to get pink-slipped but have a much harder time finding new jobs once laid off. In 2010, more than half of unemployed workers age 50 to 61 had been out of work for six months.

Older workers "face the real prospect of never working again, certainly not at their former wage levels," said Richard Johnson, director of the Program on Retirement Policy at the Urban Institute.

Sustained unemployment "erodes retirement security," Johnson said. "Workers forced to collect Social Security early will receive lower retirement benefits for the rest of their lives."

Immigrants—who tend to be younger, lower-skilled, and new to the workforce—were more likely to lose jobs during the recession than U.S.-born workers. And many didn't or couldn't rely on the safety net programs that other groups fell back on, said Karina Fortuny of the Urban Institute.

Of the 38 million immigrants in the United States, roughly 14 million are naturalized citizens, about 13 million are legal immigrants who can't access public benefits yet because they haven't lived in this country for a full five years, and about 11 million are unauthorized immigrants who are ineligible for most public programs.

States are free to offer benefits on their own dime to legal immigrants waiting out their five-year qualifying period. So far, 21 states offer cash assistance, 8 offer food assistance, and 22 offer medical help to legal immigrants' children.

Workers with disabilities saw their share of the total labor force fall by nearly 10 percent from October 2008 to June 2010. That drop in employment partly accounts for rising federal spending on disability programs. In February 2011, the unemployment rate was 15.4 percent for workers with disabilities, compared with 9.3 percent for those without disabilities.

Workers with disabilities want to work if they can, said David Stapleton, who directs the Center for Studying Disability Policy at Mathematica Policy Research. But strong evidence shows that, during recessions, some turn to Social Security Disability Insurance (SSDI) instead of unemployment insurance when they lose their jobs. Unlike unemployment insurance, SSDI is permanent, and few who join ever leave. It's difficult to qualify for SSDI, so people who do are reluctant to exit the program, especially if they might be vulnerable to job loss. And SSDI rules make it very difficult to work while receiving payments. An early intervention program, Stapleton said, could provide timely support without requiring recipients to quit working for good.

Ideas to Jump-Start the Job Market

According to the National Bureau of Economic Research, the recession ended in June 2009. But that's cold comfort to millions of still-unemployed Americans. Public service employment is a tested strategy that could put people back to work right away, said Cliff Johnson, executive director of the National League of Cities' Institute for Youth, Education, and Families.

While the last federal program for publicly funded jobs was cut in 1981, states have recently shown that the strategy does work by creating diverse public job projects with the Temporary Assistance for Needy Families (TANF) program's emergency contingency funds, provided under ARRA. Unfortunately, that money has run out.

Cliff Johnson advised continuing and enhancing that funding, perhaps modeled on the community development block grant formula, to create more public jobs. Worthy targets range from repairing schools and cleaning up abandoned and distressed properties to expanding emergency food programs.

Johnson also urged policymakers to create a permanent, public job-creation infrastructure to support workers when the next downturn hits. "This will not be our last recession," he said. "We need … a longer-term strategy for recessions and widespread unemployment, something that mirrors what we have in place for natural disasters."

Robert Lerman, an Urban Institute fellow, pointed out that the construction sector was slammed during the recession, accounting for 30 percent of all jobs lost, even though construction makes up only about 5 percent of the economy. Encouraging homeownership could boost demand, housing prices, and construction.

Lerman proposed creating 1 million homeownership vouchers that people could use to buy homes priced in the lowest quarter of the market, while paying no more than 30 percent of their income toward the mortgage. The vouchers, which Lerman pegs at costing roughly $2 billion a year, could be paid for entirely by reducing the low-income housing tax credit—a worthy shift, he said, because with homes sitting idle and low housing demand, the country needs more homeowners now, not more housing stock.

Lerman also proposed expanding the Office of Apprenticeship and offering a $5,000 tax credit to businesses that add apprenticeships. "It's a way of integrating education and training that's linked directly to careers," he said. "And the evidence shows that gains from apprenticeship far exceed even the gains for technical training in community colleges."

Timothy Bartik, a senior economist at the W.E. Upjohn Institute for Employment Research, recommended a tax credit for new jobs created over the next two years. Unlike the HIRE Act of 2010, employers wouldn't have to target a specific group. The HIRE Act gives employers credit for hiring the long-term unemployed only—making it more complicated, less likely to be used, and less effective, Bartik said.

Under Bartik's proposal, the refundable credit would be paid quarterly at 15 percent for new jobs in 2011 and 10 percent in 2012 (compared with a base year of 2010). Employers can't get the credit for filling vacancies.

"No one's arguing that a modest 15 percent credit would suddenly get employers to expand," Bartik said. "Rather, the credit causes employers who are thinking of expanding in the next three or four years to speed up their plans."

Bartik estimated the credit will create 2.8 million jobs in 2011 and 2.3 million in 2012—at a cost of $14 billion a year. Of the employers he surveyed, roughly a quarter said they would take the credit—creating enough jobs to make the proposal cost effective, Bartik said.

Robert Graboyes, senior health care advisor for the National Federation of Independent Business, doubted that such a small showing would dent the real barriers to job creation. For small businesses, Graboyes said, the biggest obstacles are low house prices, tax uncertainty, and rising health care costs.

Many businesses expand by borrowing on real estate equity, but with so many mortgages under water, businesses lack the collateral needed to grow, he said. The 2010 tax deal wasn't complete until late December, making budgets uncertain and businesses wary of hiring until they knew their real tax obligations. Skyrocketing health care costs are also crippling businesses, but health care reform, rather than cutting those costs, created paperwork burdens and uncertainty over penalties, taking employers' attention away from job growth, Graboyes added.

While a job-creation tax credit can't knock down these obstacles, it can spur hiring at the margins. Two million new jobs may be a small share of what's needed, but they can still make a palpable difference in this economy, Lerman said.

The Safety Net for the Unemployed

Unemployment insurance and ARRA benefits "have largely kept at bay the worst poverty-inducing effects of the recession so far," said Arloc Sherman of the Center on Budget and Policy Priorities. "But those benefits are going away, and we have to be very worried."

In 2009, unemployment insurance (UI) kept 3.3 million Americans' income above the poverty level. And ARRA, Sherman has calculated, kept more than 4.5 million out of poverty that same year through unemployment benefit expansions, the Making Work Pay tax credit, increases in the child tax credit and earned income tax credit, and greater Supplemental Nutrition Assistance Program (formerly Food Stamps) benefits.

Poverty rates, in fact, didn't go up in 2009, if noncash benefits and tax credits are counted (which the official poverty measure doesn't do). But ARRA benefits that haven't already run out soon will, and unemployment benefit extensions will expire at the end of 2011, stranding many so far protected by the safety net.

Participation in the Supplemental Nutrition Assistance Program rose dramatically during the recession. To a lesser extent, so did cash assistance (TANF), Medicaid, and the Children's Health Insurance Program.

An often-overlooked part of the safety net, the child support program served more kids than TANF or food stamps did during the recession. And it cost the public less, said Elaine Sorensen, a senior fellow at the Urban Institute.

In 2008, about 17 million children—or roughly one in four kids in the United States—received child support. This program cost under $6 billion to run in 2009 but collected and distributed more than $26 billion that year. It relies on noncustodial parents, not taxpayers, to help low-income families. But in a recession, those noncustodial parents may be unable to support their children without help. Parents who owe child support and lose their jobs or get a pay cut don't always have their child support orders lowered accordingly.

Since noncustodial parents without jobs can't pay child support, Sorensen recommended offering job search and placement services for parents paying child support, much as TANF does for its recipients.

Employers added 244,000 jobs in April 2011, but the unemployment rate edged up slightly from the month before. The economy is growing slowly, but that doesn't end the need to create new jobs and a more durable safety net. Remedies like those suggested here could help the millions still unemployed while better protecting the U.S. workforce against the next recession—whenever it strikes. ▪

More on Job Creation:

Publicly Funded Jobs: An Essential Strategy for Reducing Poverty and Economic Distress Throughout the Business Cycle
Clifford M. Johnson, Amy Rynell, and Melissa Young, April 2, 2010

Publicly Funded Jobs—Summary
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The Job Creation Tax Credit
Timothy J. Bartik and John H. Bishop, October 20, 2009

A Proposal for Early Impact, Persistent, and Cost-Effective Job Creation Policies
Timothy J. Bartik, 2010

More on Apprenticeships:

Training Tomorrow's Workforce: Community College and Apprenticeship as Collaborative Routes to Rewarding Careers
Robert I. Lerman, December 15, 2009

Five Questions for Robert Lerman
on expanding apprenticeships to jump-start employment and train job-seekers

More on Older Workers in the Recession:

How Did 50+ Workers Fare in 2010?
Richard W. Johnson and Janice Park, February 1, 2011

Can Unemployed Older Workers Find Work?
Richard W. Johnson and Janice Park, January 12, 2011

Age Differences in Job Loss, Job Search, and Reemployment
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Avoiding a Lost Generation: How to Minimize the Impact of the Great Recession on Young Workers
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More on the Safety Net during the Recession:

Despite Deep Recession and High Unemployment, Government Efforts—Including the Recovery Act—Prevented Poverty from Rising in 2009, New Census Data Show
Arloc Sherman, January 5, 2011

Child Support Plays an Increasingly Important Role for Poor Custodial Families
Elaine Sorensen, December 1, 2010

Creating a Safety Net That Works When the Economy Doesn't: The Role of the Food Stamp and TANF Programs
Ladonna Pavetti and Dorothy Rosenbaum, April 2, 2010

Creating a Safety Net That Works When the Economy Doesn't: The Role of the Food Stamp and TANF Programs—Summary
Ladonna Pavetti and Dorothy Rosenbaum, July 15, 2010

Unemployment and Recovery Project

This brief is part of the Unemployment and Recovery project, an Urban Institute initiative to assess unemployment's effect on individuals, families, and communities; gauge government policies' effectiveness; and recommend policy changes to boost job creation, improve workers' job prospects, and support out-of-work Americans.

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