US unemployment: A long-term trap

By James Politi

The level of extended joblessness is dangerously high, with grave consequences for the economy

Laanya Tevyaw has been looking in vain for a job since last June, when she lost her $2,500-a-month position at a recycling scrapyard. Her dream is to operate excavators and other heavy machinery – “I’m not a sissy girl, I’m not an office person”, she jokes – and has just finished a six-week intensive training course to do just that.

But the 41-year-old is worried that if she is not employed soon she will lose her newly acquired skills. Without a job Ms Tevyaw, who lives with her sister and father, will have to keep relying on friends and family for support – especially since Congress failed to extend her unemployment cheques last December. “I haven’t had money in the bank for so long, it’s killing me,” she says.

A few miles away, John Robideau has halted renovations on the dilapidated interior of his bungalow in Providence, the state capital of Rhode Island. He lost his job at Bank of New York Mellon more than a year ago, and since then has sent out hundreds of job applications. He has had only one interview. “It’s about my age... When I look at the job descriptions, I could do the jobs with my eyes closed,” Mr Robideau says. “I was not prepared to retire at 53.”

Kenneth Bingham, 54, a machinist for 34 years until he was made redundant in 2012, is looking for a job in the “culinary arts” after participating in a training programme for would-be chefs at the local food bank. So far he has not had any luck but he did find a job as an evening security guard – nearly full-time, at a much lower wage than he was used to. “Sometimes it gets a little depressing, not doing anything,” he says.

The US economic recovery is almost five years old but there is little to celebrate among the long-term jobless of Rhode Island, a small, gritty state along the Atlantic coast. Rhode Island has a bleak claim to fame: it has the highest unemployment rate in the nation – at 8.7 per cent, compared with 6.7 per cent nationally – having entered the recession earlier, suffered a more severe downturn and taken longer to recover than the rest of the country. Much of Rhode Island’s unemployment problem has to do with its dependence on declining old-style manufacturing.

But the travails of Ms Tevyaw, Mr Robideau and Mr Bingham are not confined to their corner of New England. The stubborn persistence of long-term joblessness – more than six months without a job – has emerged as one of the defining features of the US economy in the aftermath of the financial crisis and recession.
While short-term unemployment has essentially returned to its pre-recession levels of about 4 per cent, it is elevated long-term unemployment that has kept the overall US jobless rate well above the 5.5 to 6 per cent level that many economists believe to be consistent with America’s traditional economic potential.

“[Long-term unemployment] is the number-one cyclical economic challenge that the US faces right now,” Jason Furman, chairman of the White House council of economic advisers, said at a conference in April hosted by the Financial Times and the Bertelsmann Foundation. Mr Furman said the problem was not yet “intractable” but warned that “we need to guard against it becoming structural”.

The concern within the Obama administration, the Federal Reserve and private US economists is that the high levels of long-term joblessness will not eventually be cured by the slow, steady economic expansion. It is that something fundamental has changed in the US labour market that has moved it in the dangerous direction of “hysteresis” or “sclerosis”. Those terms have typically been used by economists to describe atrophied job-market conditions in parts of Europe – or Japan in the 1990s – but not America.

The implications for the US are huge. If a greater share of Americans remains trapped in extended joblessness, it would likely limit the country’s future economic growth potential, strain its welfare resources – and create a dilemma for the Fed.

According to the March jobs report, there were 3.7m Americans who have been without work for 27 weeks or longer. This represents 35.8 per cent of the overall pool of the unemployed, still well above pre-recession levels of around 18 per cent but below the peak of about 45 per cent four years ago. America used to have a share of the long-term unemployment far below the average of other advanced economies but by 2012 it had almost closed the gap with the mean for OECD countries.

The alarm bells grew louder in Washington last month after Alan Krueger, a Princeton economist and former senior aide to Barack Obama, released research showing extremely grim prospects for the long-term unemployed.

Among workers who had been unemployed for more than six months between 2008 and 2012, only 36 per cent were employed a year later, with 30 per cent still without work. The remaining 34 per cent gave up looking for a job and dropped out of the workforce altogether. Even more troubling, only 11 per cent had found stable, full-time employment for at least four months, Mr Krueger’s study found.

“The longer somebody is jobless, the lower the chances they are going to find another job,” says Keith Hall, a former commissioner at the Bureau of Labor Statistics now at George Mason University. “I worry that we are creating a group of people who are – I’m not going to say unhirable – but who are going to find it very difficult to ever get back into the labour force,” he adds.

... The main culprit of America’s long-term unemployment problem is the depth and ferocity of the recession. But its failure to return to its pre-recession levels after five years of recovery has led to a flurry of studies by economists seeking to explain its stubbornness.

Some have pointed to discrimination as an important factor. In 2012 Rand Ghayad, a doctoral student at Northeastern University in Boston, sent out nearly 5,000 fictitious CVs and found a systematic bias against the long-term jobless, even when their qualifications were similar to those who had been out of work for less time.

“Employers are facing a huge pool of applicants and they can’t hire everybody – so they have to pick the right person and unfortunately they think the length of time you have been out of work has to do with how productive you are on the job. They are using the length of unemployment as a symbol of productivity,” says Mr Ghayad.

His work was published by the Federal Reserve Bank of Boston and earned him a visit to the White House, which this year secured a pledge from 80 of the largest US companies – from Pfizer to PepsiCo – not to discriminate against the long-term unemployed in their hiring.

There are also worries that technological shifts and globalisation have left many US workers unfit for the high-skilled jobs of the 21st century, making it even more difficult for the long-term unemployed to make a comeback. The evidence that the US is suffering from a chronic skills mismatch has been mixed, but much of the political attention in Washington has been focused on tackling that very problem.
Last month President Obama and Joe Biden, the vice-president, took a rare joint trip to a Pennsylvania community college to tout a $600m package of job-training proposals. These are designed to help schools link with businesses to equip workers for jobs in fast-growing sectors, from information technology, to advanced manufacturing, to healthcare.

Charles Fogarty, a Democrat who is director of the Rhode Island labour and training department, says developing CV and interview techniques, keeping a LinkedIn profile – as well as apprenticeship programmes – are critical to reconnecting the unemployed with the workforce. “We don’t spend enough on worker training,” Mr Fogarty notes.

But efforts to bolster federal job training programmes – already worth $18bn a year – have faced opposition from Republicans who argue that existing efforts should be streamlined first, transferring more power to the states to direct the assistance.

“Less bureaucracy means more resources helping those in need, rather than getting caught up in the quagmire pit of red tape and regulation that big government creates,” Tim Scott, a Republican senator from South Carolina, said last month in the national Weekly Republican Address.

Separately, the White House and Congress have been clashing over the merits of federal jobless benefit cheques, which lapsed in December. Democrats want them reinstated but most Republicans argue that overall unemployment has fallen substantially from its recession highs, so the additional safety net is not necessary – and may actually deter people from looking as hard as they could for jobs.

At the Federal Reserve, tackling long-term unemployment became an increasing preoccupation for Ben Bernanke during his second term as chairman, and is high on the agenda for Janet Yellen, his successor.

For Ms Yellen and other Fed officials, the concern is that the long-term unemployed are so divorced from the workforce that they no longer have much of an effect on wages – a conclusion that Mr Krueger’s study suggested.

This means that salaries could start rising among the short-term unemployed, lifting inflation and forcing Ms Yellen and the Fed to increase rates much earlier than they expect or wish to. So far, however, the prevailing view at the US central bank is that the labour market still has plenty of slack and that moment is in the distant future.

But the Fed is certain to be monitoring any indication of a sudden rise in wages. “We have not yet seen clear indications that the short-term unemployed are finding it increasingly easier to find work relative to the long-term unemployed,” Ms Yellen said recently. “This fact gives me hope that a significant share of the long-term unemployed will ultimately benefit from a stronger labour market.”

But in the interim, the persistence of long-term unemployment, especially in hotspots such as Rhode Island, is ravaging the local economies – and straining the safety net. The needs of the Rhode Island food bank nearly doubled between 2008 and 2013, with 68,000 people using its services last year compared with 37,000 at the beginning of the recession, says Andrew Schiff, its director.

Ms Tevyaw feels lucky that she has not fallen into destitution, thanks to help from relatives and friends. She still has her car and once a week she can still go to the local Italian social club for a game of darts. And while she waits for the job she really wants moving dirt and concrete, she is looking for a part-time job in retail to tide her over.

“I’m going to start on my street. There’s Denny’s, there’s Ace Hardware. You gotta do something,” she says. “It’s hard even for kids to find jobs. You have to not give up.”

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Benefits: The ideological dispute over a safety net

Jack Reed, the Democratic senator from Rhode Island, sees little to sugar coat in the problems of his state’s economy. “We are gradually seeing some improvement, but it’s still a very difficult situation,” he says. So it is no surprise that Mr Reed – along with Dean Heller, a Republican senator from Nevada, which has the second-highest unemployment rate in the country – is leading the charge to extend federal jobless benefits that lapsed on December 28.

For the short-term jobless, unemployment benefits are covered by the state but for the long-term unemployed the federal government has been picking up the tab – worth about $25bn per year – under a programme of aid launched during the recession.

Since those benefits expired, the White House and Democrats – with the backing of a handful of Republicans – have been trying to
renew them retroactively. Last month, the Senate passed a bill extending federal unemployment benefits for five months but it still faces substantial obstacles in the House of Representatives, where Republicans have said they will not vote on it unless it is attached to their own legislation to spur job creation.

At the root of the impasse, however, is a fundamental disagreement over the merits of unemployment benefits. Democrats argue that they are essential, not just as a matter of economic justice but because having the extra income makes it easier for people to find jobs. This is because without funds to pay their mortgage, their car and their phone, the unemployed person’s search for a new position is impaired. Jobless cheques also help the local economy by providing stimulus to distressed neighbourhoods, increasing the chances that businesses will be hiring.

But many Republicans have resisted on the grounds that overall unemployment has fallen from its recession highs. In some states, such as North Dakota, joblessness is below 3 per cent, so the additional safety net is not necessary. Moreover, they argue that the extra cash may deter people from looking as hard as they could for jobs.

Mr Reed rejects that view: “People much prefer to work.”

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