

JA Worldwide®

High Unemployment:

The Recession's
Harsh Reality



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Assessing joblessness

The current United States' recession began in December 2007. In the ensuing 21 months, more than 7 million jobs have been lost, generating considerable stress, anxiety, and loss of income. Individuals and families have lost their homes, and many students have had to drop out of school. As a result, Americans have looked to their government for help. In response, the **recession** has dominated policy discussions and actions at federal, state, and local government levels.

With incomes declining as employment plummets, and confidence about the future deteriorating, spending on goods and services by consumers and businesses has weakened dramatically. In February, Congress and the president responded to the impending threat to the nation by passing the **American Recovery and Reinvestment Act (ARRA)** of 2009.

Taken together, the various provisions of the Act provided a massive \$787 billion stimulus to the economy. The Act's foremost provision was "to preserve and create jobs and promote economic recovery."

The focus of this article is on the **unemployment rate**—how it is measured, why it gets so much attention, what has happened to unemployment since the recession began, how unemployment varies geographically and by educational level, and the outlook for unemployment over the next year or so. Such analysis is driving policymaker discussions and decisions about what else, if anything, needs to be done to improve the future performance of the economy, and, more specifically, to help those affected by joblessness. It is important to note that those persons who lose their jobs will obviously experience a loss of income and, as a result, will curtail their spending.



Recession: The U.S. based National Bureau of Economic Research defines a recession as "a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP growth, real personal income, employment (non-farm payrolls), industrial production, and wholesale-retail sales." A recession begins when the economy reaches a peak of activity and ends when the economy reaches its trough. Between trough and peak, the economy is in an expansion. The usual rule of thumb denoting a recession is at least two consecutive quarters (six months) when the quantity of goods and services produced and sold in the economy, real GDP, declines.

Unemployment rate: The percent of the labor force that is unemployed.

However, many others with friends or family members who are laid off, or work in firms that are laying off employees, will likely also curtail their spending as their job security and confidence about the future is undermined to some degree. These indirect, psychological effects of increasing unemployment, and the ensuing cutbacks in spending, help produce a cumulative falloff in spending and production that makes reversing the recession so challenging.

The unemployment rate: Some basics

Typically, on the first Friday of each month, at 8:30 a.m. Eastern Time, the BLS (U.S. Bureau of Labor Statistics) releases a host of data on employment and unemployment, including the unemployment rate for the previous month. The rate tells us the percent of the labor force that is unemployed. For example, if the labor force, that is, those working and those actively looking for work, totals 100 million persons, and there are 9 million persons unemployed, then the unemployment rate is 9 percent ($9/100 = 0.09$). The data release almost always receives considerable attention in the media and can have a significant impact on stock prices and financial markets in the United States and around the world. It also can affect the public's assessment of how well our elected government officials are doing in managing the economy. Here are the lead headlines on September 2, following the most recent release of data: “**Job Losses Weigh on Recovery**” and “**Unemployment Rate Hits 9.8%, Highest Since 1983.**”

The data for the labor force, those who are employed and unemployed, are compiled from a survey of about 60,000 households each month. It's impractical to interview every person in the nation each month, so a large survey is used. Considerable research by leading statisticians over many years allows us to conclude that the likely errors from such a survey are not significant—that is, the data give us a fairly accurate indication of the unemployment situation.¹



American Recovery and Reinvestment Act (ARRA) of 2009:

Passed by the Congress and signed by the president in February 2009; the aims of the act are:

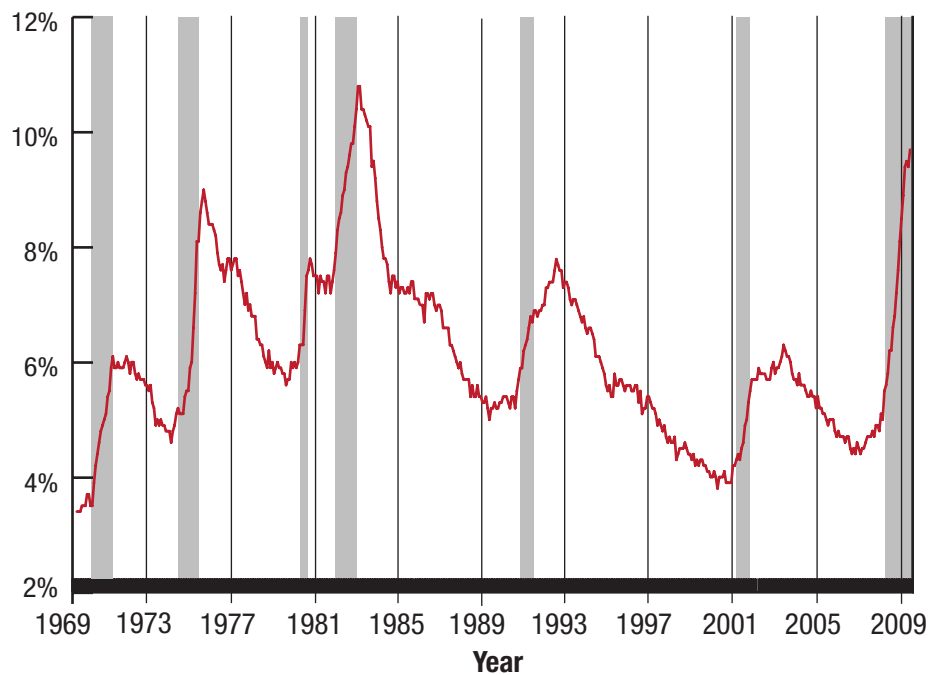
- To preserve and create jobs and promote economic recovery.
- To assist those most affected by the recession.
- To provide investments needed to increase economic efficiency by spurring technological advances in science and health.
- To invest in transportation, environmental protection, and other infrastructure that will provide long-term economic benefits.
- To stabilize state and local government budgets, in order to minimize and avoid reductions in essential services and counterproductive state and local tax increases. In all, the bill provided a whopping \$787 billion to stimulate the economy.

¹ The BLS also releases data on total employment from a survey of approximately 150,000 businesses and government agencies. To assess the overall employment situation, analysts use both the results from the household survey and the firm (establishment) survey, which includes data on hours worked. (See www.bls.gov/ for more details.)

How the unemployment rate shifts over time

The U.S. labor market is always in a state of considerable flux. As the population grows, the number of persons looking for work generally expands, even as some older workers retire. At the same time, some employers are hiring, while others are laying off workers. Layoffs can be temporary or permanent. In general, as you would expect, the number of persons employed increases on balance when the economy is expanding and decreases on balance as the economy is contracting. The chart below shows the fluctuations in the unemployment rate over the last 40 years.

Unemployment rate



As you can see, the rate increases during recessions (the shaded areas), and falls during expansions. In the current recession, you can see that the rate has increased 4.9 percentage points, from 4.9 percent in December 2007 to 9.8 percent in September 2009. Put in more human terms, more than 7 million people have lost their jobs over the past 21 months.

stop, (take a) noun
recession noun
turn, depression, slump

While these numbers suggest many people are suffering, keep in mind that between 1929-33, as the Great Depression gripped America, the unemployment rate increased from a measly 3 percent in 1929 to 25 percent in 1933. Fortunately, what was learned from that devastating experience helped policymakers in the United States and around the world take actions to strengthen the social safety net, and take actions this time around that most agree helped head off another depression.

“When your neighbor loses his job, it is a recession. When you lose your job, it is a depression.”

—Presidents Harry S. Truman
(1945-1953)
and Ronald Reagan
(1981-1989)

Who’s hit the hardest?

While the overall unemployment rate for the nation as a whole gets nearly all the media attention, much can be learned by looking at unemployment rates for select groups or geographical areas. Table 1 on page 5 displays the overall unemployment rate at the start of the recession in December 2007 and for August 2009, as well as unemployment rates for persons with very different levels of educational attainment and those for different states around the country.

Note the dramatic difference in unemployment rates in December 2007 for those over 25 years old with less than a high school diploma and those with at least a bachelor’s degree—7.5 percent versus only 2.1 percent. The first was well above the overall unemployment rate of 4.9 percent and the second was well below. Now, look at where we were in August 2009.



During the Great Depression in the 1930s, unemployed men are forced to stand in line for hours on end just to get a few scraps of bread and a small bowl of warm soup that they can bring home to their starving families.

The rate for those with little education was 15.6 percent, up more than 8 percentage points, while that for college graduates was only 4.7 percent; higher to be sure, but about one-third of the rate for those with less than a high school education. As parents, friends, and teachers emphasize, there are many benefits of a college education—the data show that diminished vulnerability in an economic downturn is certainly one of the important ones!

Table 1

SELECTED UNEMPLOYMENT RATES		
	December 2007	August 2009
Overall Unemployment Rate	4.9	9.7
Rate by Educational Level		
Less than high school diploma*	7.5	15.6
Bachelor's degree and higher *	2.1	4.7
Rate in Selected States		
	December 2007	August 2009
California	5.9	12.2
Michigan	7.3	15.2
Connecticut	4.9	8.1
Texas	4.4	8.0

*Civilian population 25 years and over

Source: Bureau of Labor Statistics

“When workers are unemployed, they, their families, and the country as a whole lose. Workers and their families lose wages, and the country loses the goods or services that could have been produced. In addition, the purchasing power of these workers is lost, which can lead to unemployment for yet other workers.”

-The U.S. Department of Labor's Bureau of Labor Statistics

The bottom half of Table 1 shows state unemployment rates. Here, too, large differences are visible. What accounts for them? Let's start with the obvious—the economies of each state differ; some are dominated by manufacturing, some by service-oriented firms or home construction, or oil and natural gas production; some have a fairly diversified set of firms that provide employment opportunities; others are more specialized and concentrated. With those hints, it's easier to surmise that the experience in Michigan, which now has a 15.2 percent unemployment rate—more than double the rate at the start of the recession and well above the overall national rate—is very much tied to the difficulties in the auto industry. On the other end of the spectrum, Connecticut, which has a more diversified industrial base and has benefited from some of the increased spending on national defense in recent years, has an unemployment rate about half that of Michigan. (Check your own state statistics at www.bls.gov/lau/.)



Further insight into how employment and unemployment vary across the country and across individuals can be gleaned by carefully studying Table 2. It shows the percentage change in employment by sector from the start of the recession through August 2009. Heading the list of shrinking sectors in the top half of the table is “motor vehicles and parts,” down 32 percent. While the recently completed “cash for clunkers” program may help some, clearly it’s a long way back for this industry and for states like Michigan.



As can be seen in the bottom half of the table, some sectors have actually continued to grow during the recession. More specifically, health-related fields, education, and, more recently, the federal government have done relatively well as the \$787 billion of stimulus money embedded in the American Recovery and Reinvestment Act began to be spent. (See www.recovery.gov/?q=content/investments-state for information on ARRA funds allocated to each state and how much has been spent so far.)

Table 2

Industry:	Dec. 2007	Aug. 2009		% change
Motor Vehicles and Parts	957.8	649.6	-308.2	-32%
Employment Services	3445.1	2442.3	-1002.8	-29%
Furniture and Related Products	516.3	379.7	-136.6	-26%
Residential Building	897.1	688.3	-208.8	-23%
Construction	7523	6093	-1430	-19%
Manufacturing	13777	11771	-2006	-15%
Finance and Insurance	6080.8	5725.4	-355.4	-6%
Data Processing, Hosting and Related Services	266.3	256.2	-10.1	-4%
Service-Providing	116109	112652	-3457	-3%
Leisure and Hospitality	13551	13156	-395	-3%
Accounting and Bookkeeping Services	968.7	943.9	-24.8	-3%
Petroleum and Coal Products	115	114	-1	-1%
State Government	5142	5149	7	0%
Local Government	14481	14517	36	0%
Waste Management and Remediation Services	359	361.7	2.7	1%
Education and Health Services	18570	19321	751	4%
Health Care	13112.3	13656.3	544	4%
Federal Government (Except U.S. Postal Service)	1971.7	2122.9	151.2	8%

Unemployment insurance: A key element of the social-safety net

To help cushion the economic effects of unemployment, there is a federal-state program of unemployment insurance for covered workers. Most of the funds come from a tax on employers. The specifics of each program vary considerably by state. In general, as of the end of September, most states were providing benefits for 50-75 weeks, depending on the severity of unemployment within a state. The typical benefit ranged from \$400-500 per week. Better than nothing to be sure, but well below what many need to cover their rent, food, and other living needs. (See www.ows.doleta.gov/unemploy/uifactsheet.asp for more details on the unemployment insurance program.)

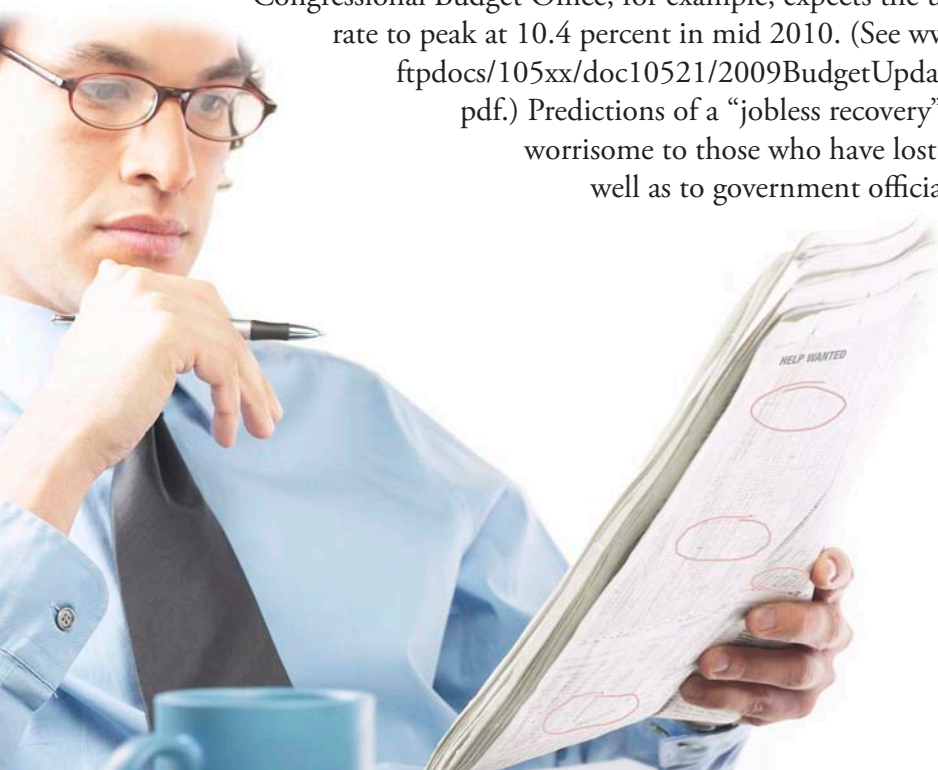
A major concern in coming months, given the length and severity of the recession, is the large number of unemployed who will exhaust their benefits and still be out of a job. Talk about such workers is sure to heat up in coming months, unless the economy improves faster than most currently expect.

The unemployment outlook: When will things improve?

Looking ahead, most experts who track economic trends and employment rates believe economic activity, as measured by GDP (**Gross Domestic Product**), will register a modest rebound in the second half of 2009. However, most also expect little, if any, drop in the unemployment rate, and can envision the rate increasing to more than 10 percent before it begins a slow decline in 2010 and beyond. The non-partisan Congressional Budget Office, for example, expects the unemployment rate to peak at 10.4 percent in mid 2010. (See www.cbo.gov/ftpdocs/105xx/doc10521/2009BudgetUpdate_Summary.pdf.) Predictions of a “jobless recovery” are, of course, worrisome to those who have lost their jobs, as well as to government officials.

Gross Domestic Product

(GDP): The best measure of the level of annual economic activity in an economy; equal to total spending on goods and services by domestic consumers, businesses, and governments, plus spending on domestic goods and services by foreigners (that is, exports), minus imports.



Why is any improvement in the unemployment rate expected to be so slow? To gain some perspective, let's step back for a moment. Imagine you are in charge of production for a national firm that produces home appliances. How do you decide how many stoves, refrigerators, washers, and dryers to produce?

Presumably, you gauge your production decisions on the current strength of sales and your best guess about the number of sales over the coming months. Think for a minute about what you would base your best guesses, or forecasts on. Presumably, you would take into account such factors as what is happening in the home building and remodeling areas, consumer confidence, and the overall strength of the economy. If you see sales dropping over the last month or two, what do you do? If you think the decline is temporary, because other indicators of sales still look good, you would probably do nothing and maintain existing production levels. This also means you would retain the number of persons you employ and the hours they work. Now, imagine the decline in sales continues and the sales indicators noted previously deteriorate. In all likelihood, you would cut production to some degree, perhaps by cutting the hours worked by existing employees. Why not lay workers off immediately? The answer is that you probably spent a considerable amount of time, effort, and money recruiting, hiring, and training your workforce. If you lay off workers, you risk losing them permanently.

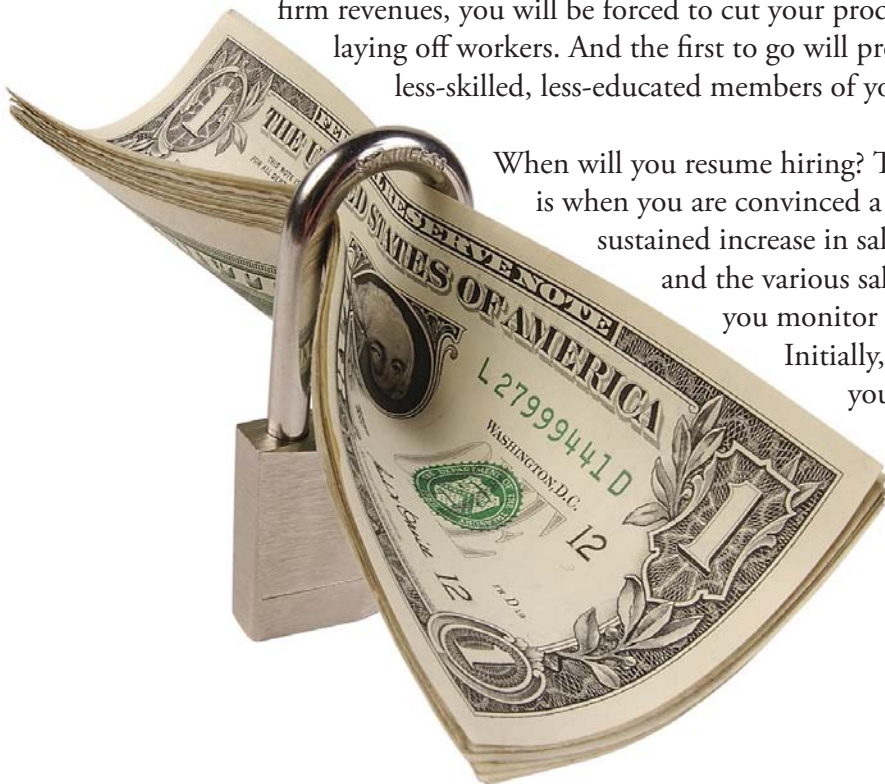
As the weakness in sales persists, production managers like yourself will become more convinced that the drop is not temporary and is not likely to be reversed any time soon. Given the falloff in sales, and thereby firm revenues, you will be forced to cut your production costs by laying off workers. And the first to go will probably be the less-skilled, less-educated members of your work force.

When will you resume hiring? The simple answer is when you are convinced a significant and sustained increase in sales is underway and the various sales indicators you monitor have improved.

Initially, any recovery in your sales would probably lead you to

"I do not believe we can repair the basic fabric of society until people who are willing to work have work. Work organizes life. It gives structure and discipline to life.

— President Bill Clinton
(1993-2001)



extend the hours somewhat of your remaining work force. Only when the sales recovery has been sustained for a time and you are convinced that it will continue, will you direct your human resources department to begin the task of identifying, hiring, and training additional workers, and perhaps recalling some of those laid off previously.

During a recession, firms that survive a significant drop in sales usually do so by cutting costs. Because employee costs often account for two-thirds or more of total costs, survival invariably means eliminating jobs. The bottom line is firms that are bruised and battered by a recession are typically cautious as an economic recovery gets underway, and this vigilance usually leads them to hold back on hiring.

As more of the stimulus funds provided by the ARRA are spent, and as the reluctance to hire recedes, the estimates generated by government economists and those in the private sector suggest that 2.5 to 3.5 million jobs will either be saved or created over the next 18-24 months. Nonetheless, the ongoing difficulties in credit markets, which make it difficult for firms to borrow funds when needed, will continue to be a drag on production and, consequently, overall hiring.

So where are we now? The worst U.S. recession since the 1930s “is very likely over at this point,” stated Federal Reserve Chairman Ben Bernanke on September 15, but he warned that economic growth might not be strong enough to quickly lower the rate of unemployment.

Not the best news, but in an address to the Joint Session of Congress, President Barack Obama offered these words of encouragement. “. . . Our economy may be weakened and our confidence shaken; though we are living through difficult and uncertain times, . . . I want every American to know this: We will rebuild, we will recover and the United States of America will emerge stronger than before.”





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