



# Congressional Budget Office

February 20, 2014

## The Rise in Long-Term Unemployment: Causes, Effects, and Policy Options

Presentation to the Winter Policy Forum of the  
National Association of State Workforce Agencies

William J. Carrington  
Microeconomic Studies Division

Full reports:

*Understanding and Responding to Persistently High Unemployment*, [www.cbo.gov/publication/42989](http://www.cbo.gov/publication/42989);

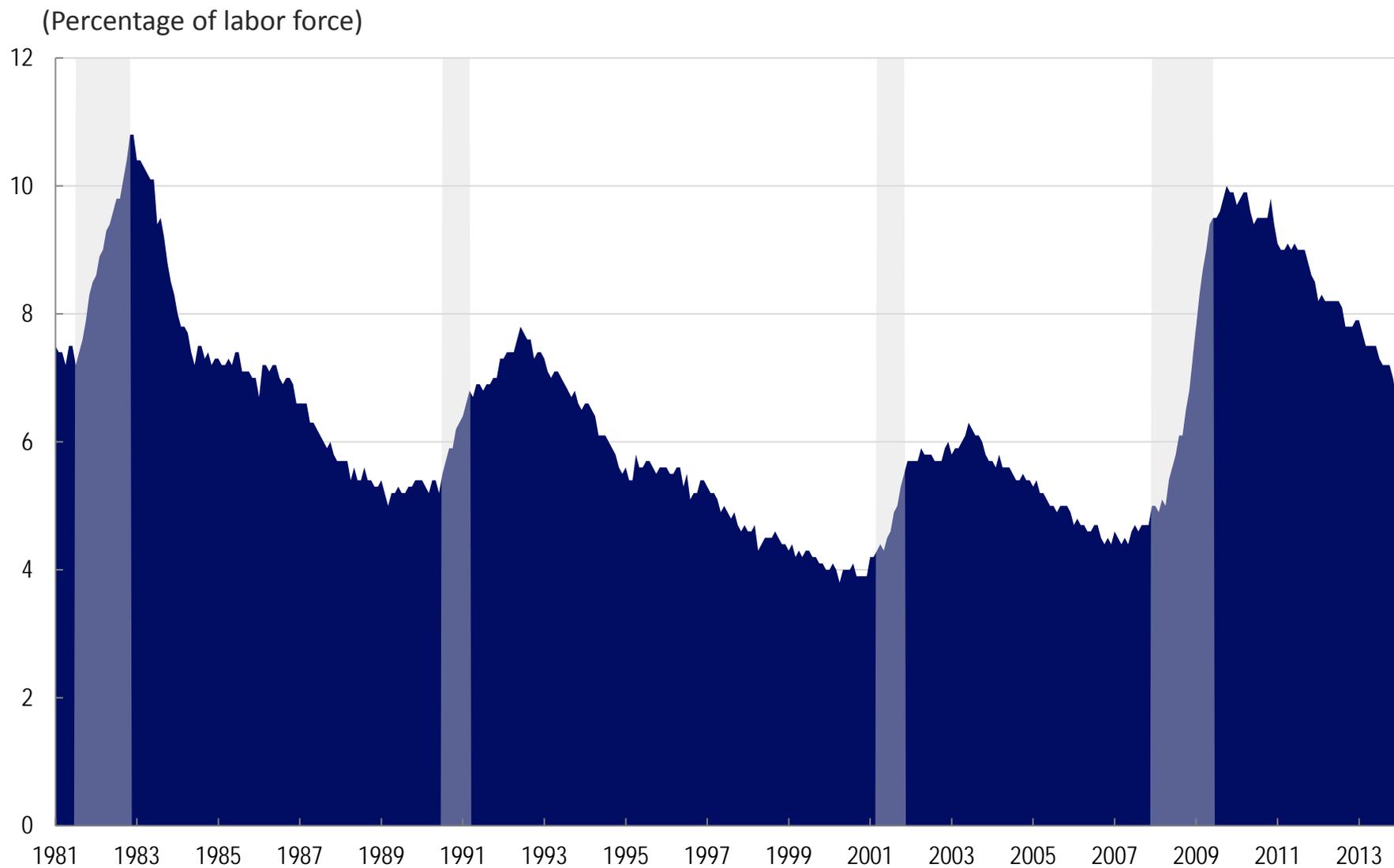
*Unemployment Insurance in the Wake of the Recent Recession*, [www.cbo.gov/publication/43734](http://www.cbo.gov/publication/43734)

# Unemployment and Long-Term Unemployment Were Very High During and After the Recession

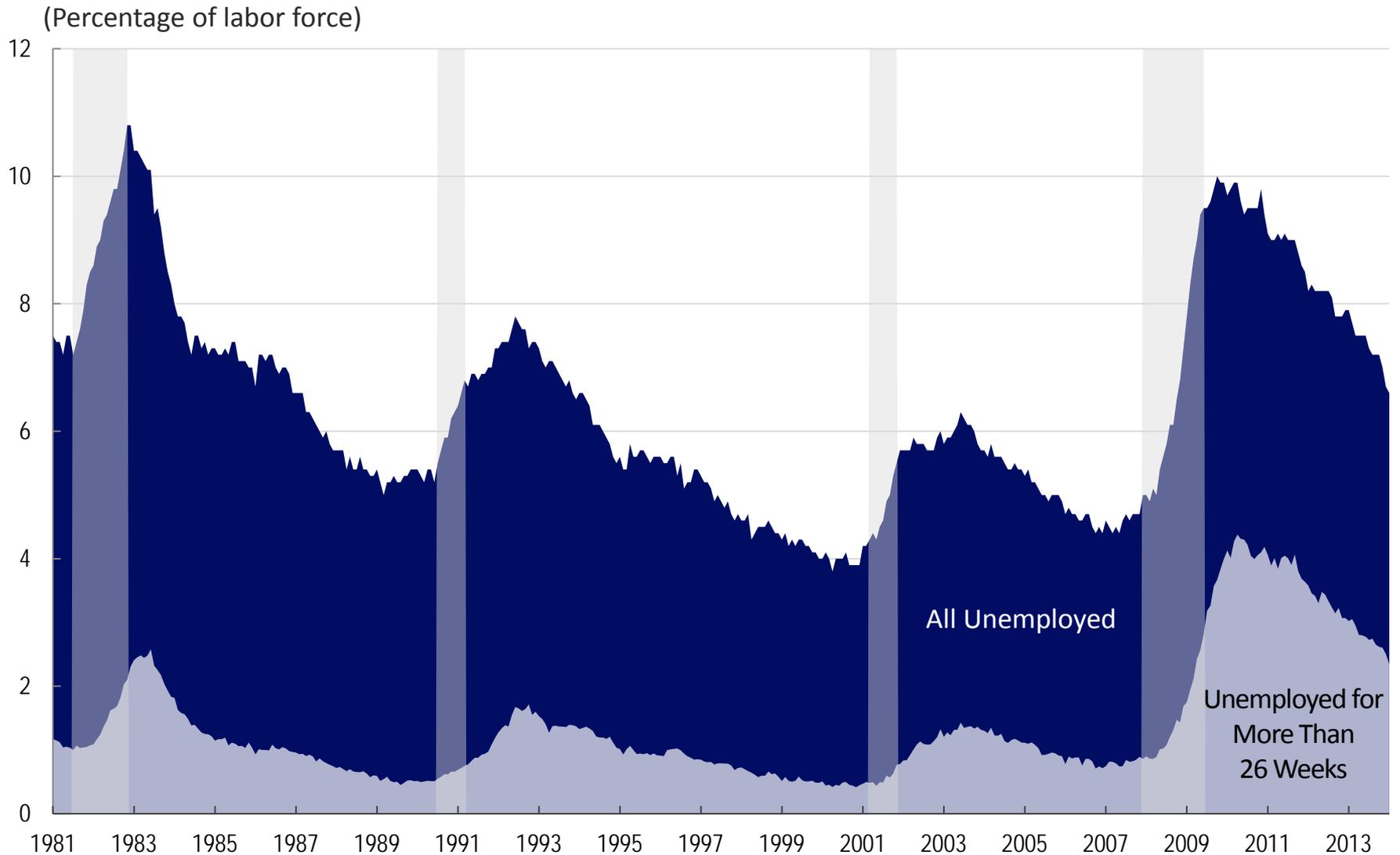
---

- The unemployment rate rose from less than 5 percent in most of 2007 to 9.6 percent in 2010, and it has now fallen to 6.6 percent.
- Unemployment initially rose mostly because of a large number of layoffs and plant closings in 2008 and 2009.
- Long-term unemployment (defined as being unemployed for more than 26 consecutive weeks) rose to a historic high; during a typical month since 2010, roughly 40 percent of unemployed people have been unemployed for more than 26 weeks.

# Unemployment Rate, 1981 to 2013

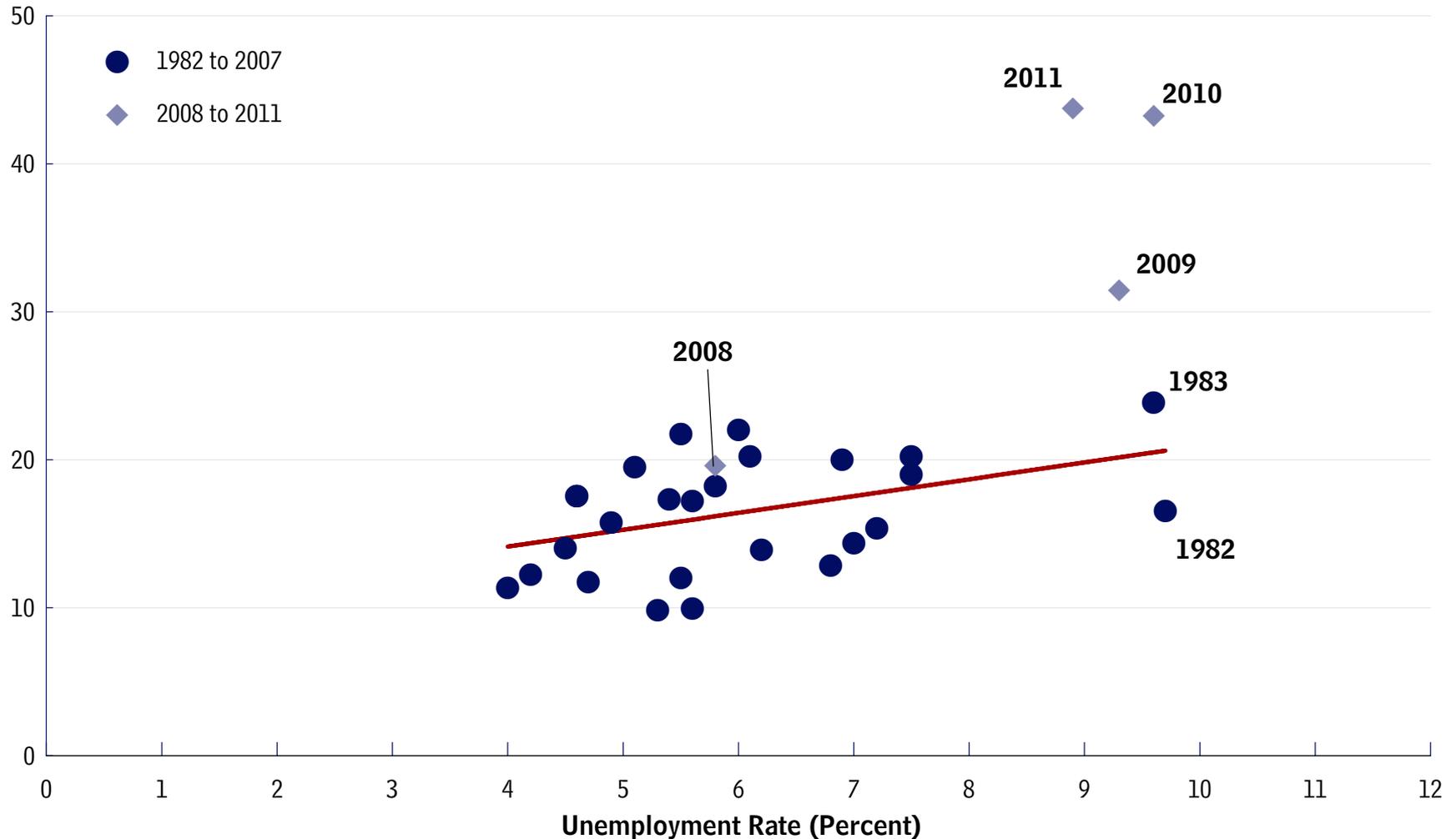


# Long-Term Unemployment Rate, 1981 to 2013

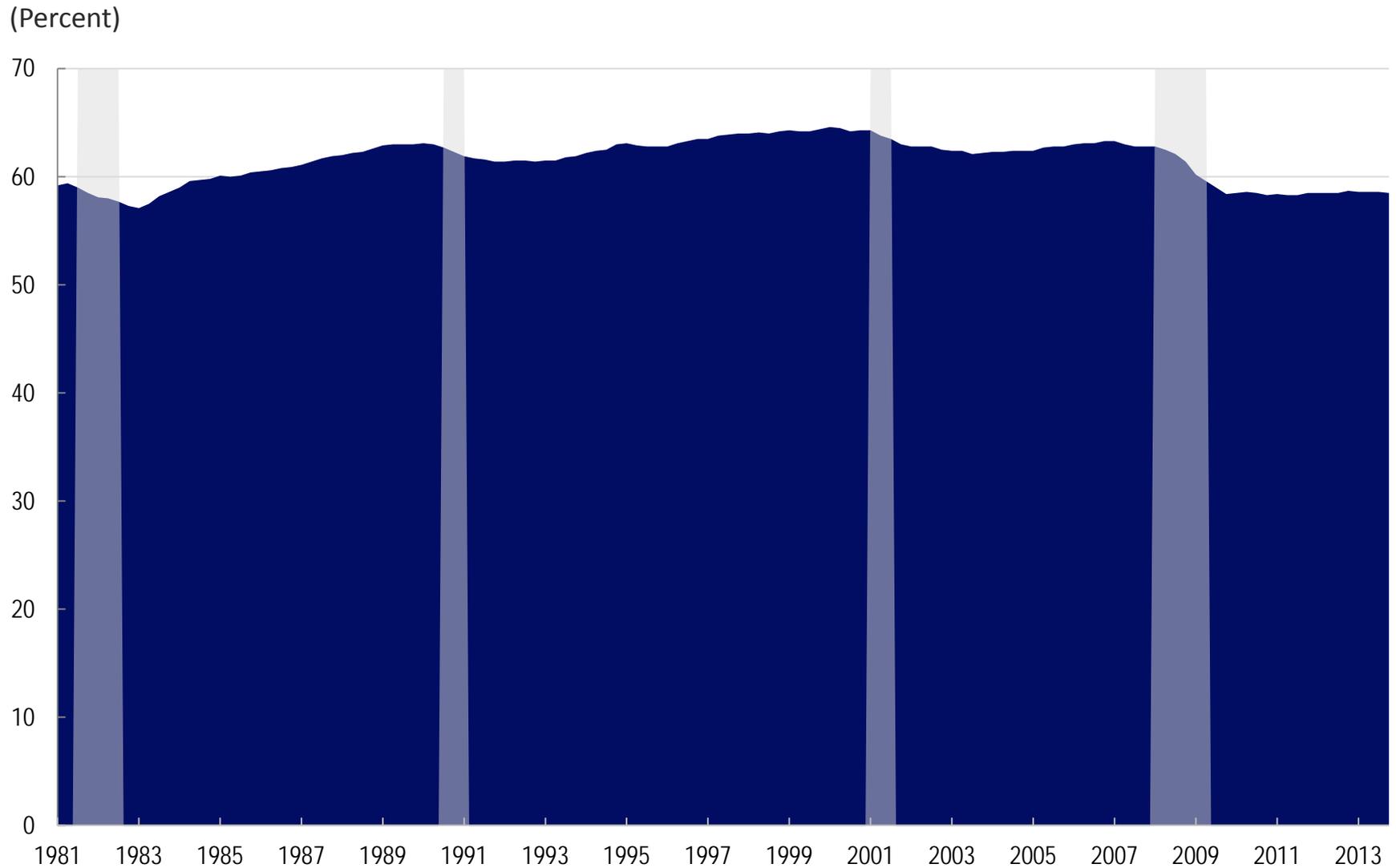


# Relationship Between the Unemployment Rate and the Long-Term Unemployed as a Share of All Unemployed, 1982 to 2011

(Long-term unemployment as a percentage of all unemployed)



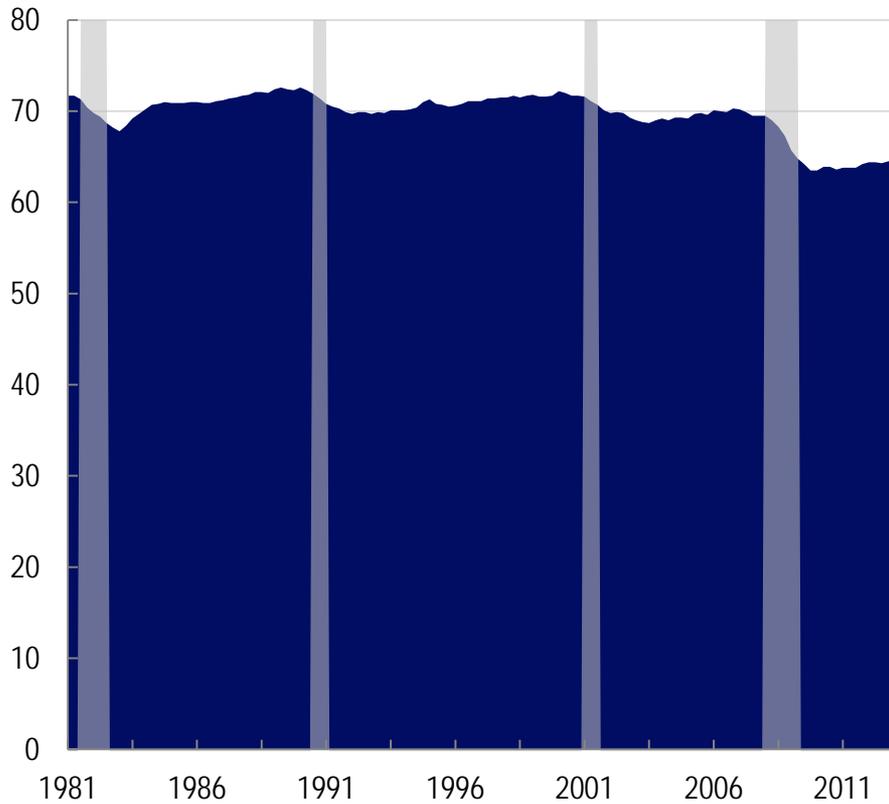
# Employment-to-Population Ratio, 1981 to 2013



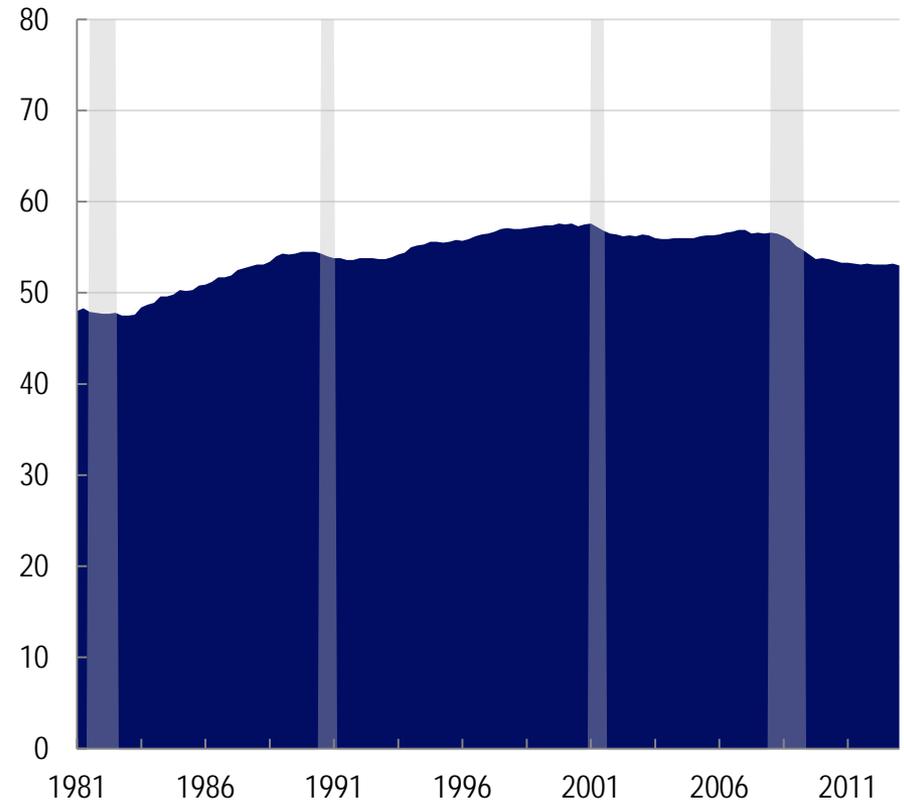
# Employment-to-Population Ratio for Men and Women, 1981 to 2013

(Percent)

## Men



## Women



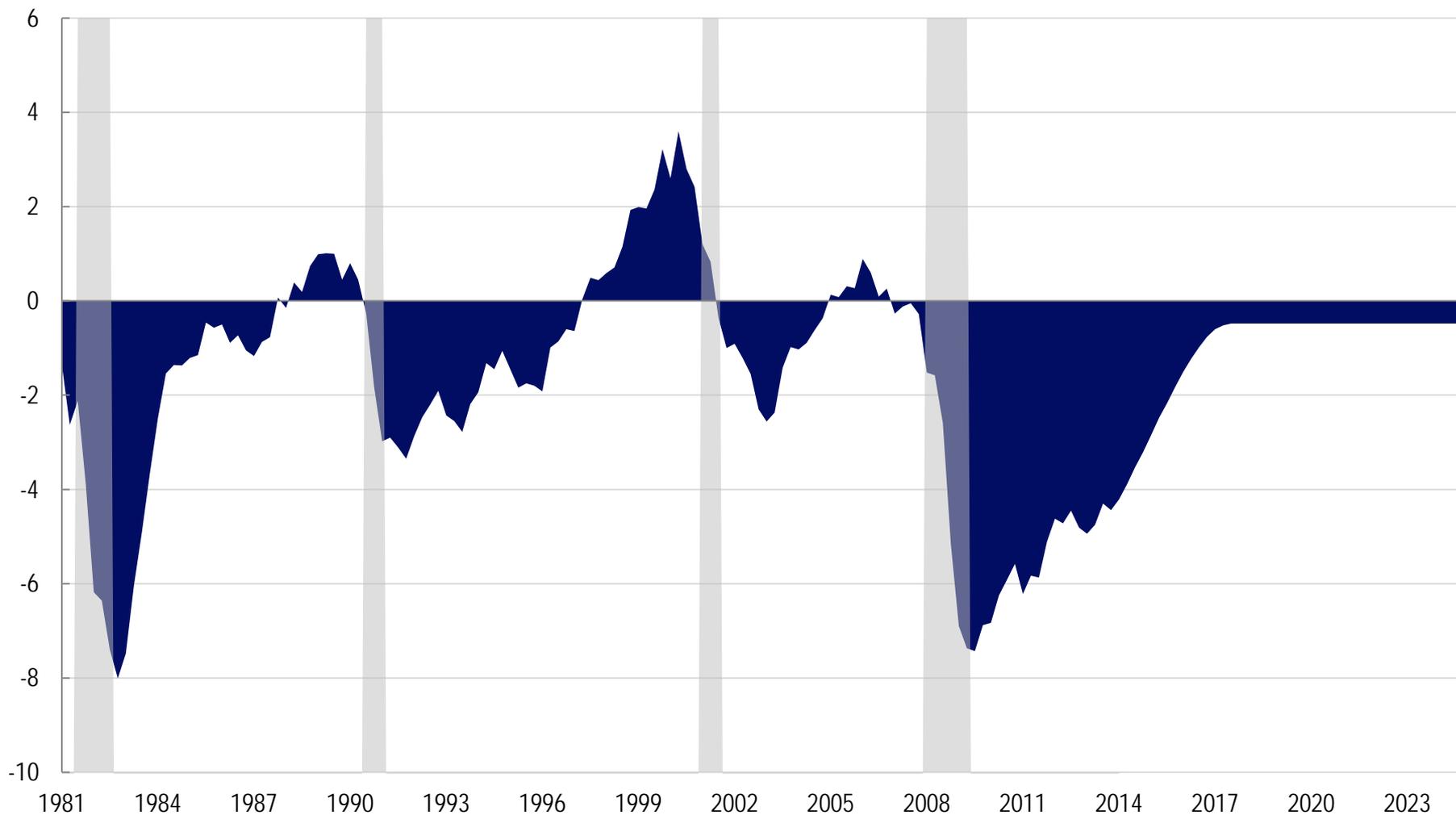
# Causes of High Unemployment and Long-Term Unemployment

---

- Weak demand for goods and services as a result of the recession and its aftermath
- Mismatches between the needs of employers and the skills and location of the unemployed
- Incentives from extensions of unemployment insurance (UI)
  - Reduced incentives to take jobs
  - Increased incentives to stay in the labor force and therefore be counted as unemployed (rather than being counted as out of the labor force)
- Real and perceived erosion of skills and motivations of the long-term unemployed

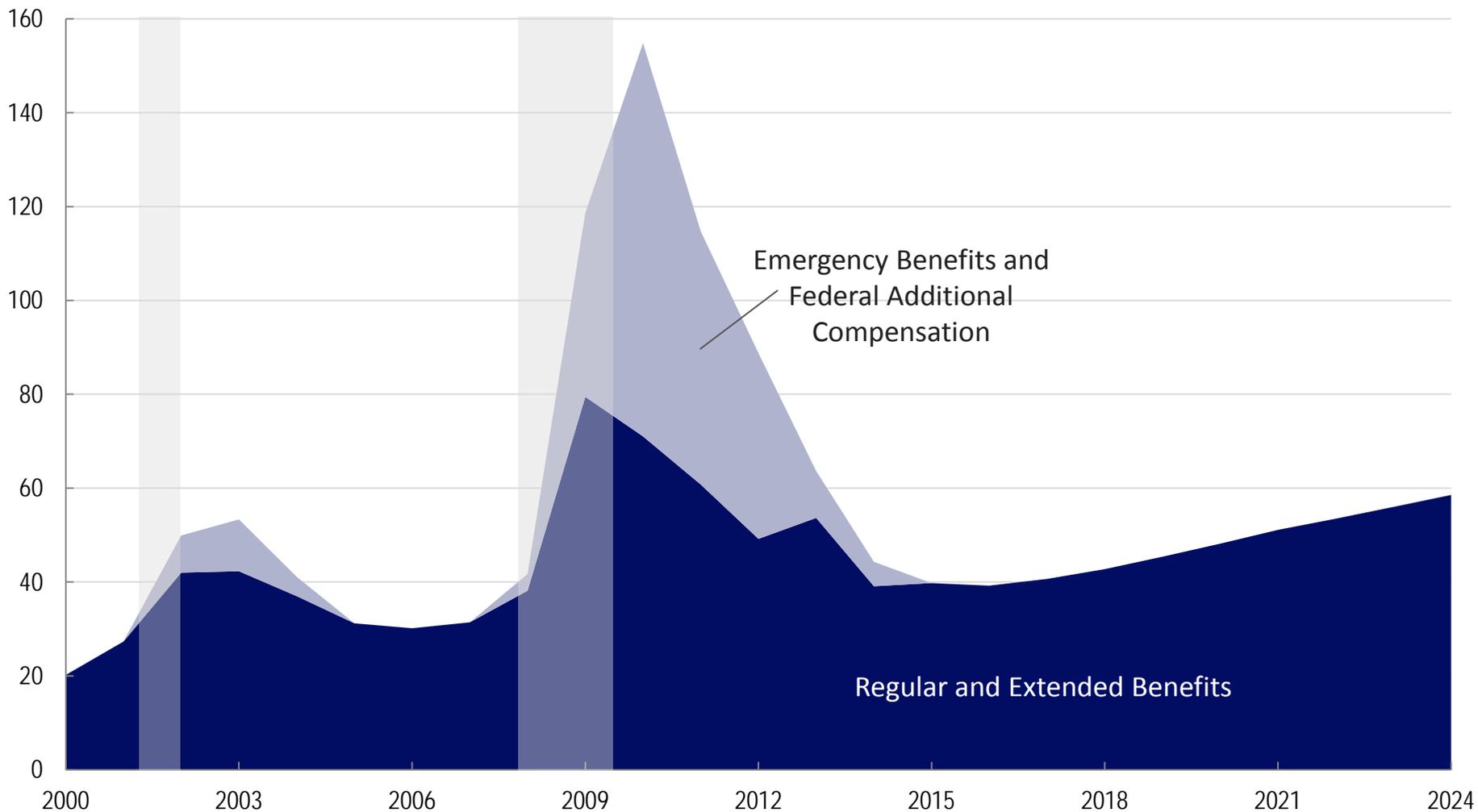
# Gross Domestic Product Gap, 1981 to 2024

(Percentage of potential gross domestic product)



# Outlays for Unemployment Benefits, by Fiscal Year, 2000 to 2024

(Billions of dollars)



[Labeling corrected on March 13, 2014]

# Consequences of High Unemployment and Long-Term Unemployment

---

- Reduced earnings after job loss
  - Workers' earnings would be lower for many years after job loss
- Lower long-term earnings for workers entering the labor force during periods of high unemployment
- Job loss is bad for health
  - Increased rates of depression and death
- Some evidence that recessions are *good* for health in general
- Effects on educational attainment and future earnings of workers who lose jobs

# Policies to Reduce Unemployment

---

- Fiscal policies
- Training policies
- Unemployment insurance
- Job-search assistance

# Some Fiscal Policies to Reduce Unemployment

---

- Household assistance
  - Increased UI expenditures
  - More generous refundable tax credits
  - Reduced employees' payroll taxes
- Business assistance
  - Reduced employers' payroll taxes
  - Allowing full or partial expensing of investment costs
- Aid to state governments

# Training Policies to Reduce Unemployment

---

- General workforce programs
- Sectoral programs
  - Health care
  - Information technology
- Programs focused on youth
  - Career academies
  - Apprenticeship programs
- Programs focused on displaced workers

# Modifying UI Policy to Reduce Unemployment

---

- Extend the duration of UI benefits
- Offer reemployment bonuses
- Establish personal reemployment accounts
- Offer short-time compensation
- Target services
- Use UI benefits to temporarily place the unemployed in jobs with private-sector employers
- Offer wage/earnings insurance

# Assistance to Unemployed Workers

---

- Increased job-search assistance
- Skill certification programs
- Housing mobility assistance