A GREAT RECESSION BRIEF

The Labor Force and the Great Recession

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KEY FINDINGS

- **The best single indicator of labor market strength, the percentage of 25–54-year-olds who are employed, not only slumped sharply for men and women during the Great Recession but has since recovered very slowly.**
- **College graduates have retained their relatively privileged position in the labor market. In 2011, 4.3% of college graduates 25 years old and over were unemployed, compared with 9.4% of high school graduates and 14.1% of those with incomplete high school education.**
- **The unemployment rate continues to vary sharply by racial ancestry. Within the 25–54-age category, the unemployment rate in 2011 was 7.0% for Asian Americans, 7.9% for whites, 11.5% for hispanics, and 15.8% for African Americans. These rates increased over the course of the Great Recession in proportion to the baseline levels prevailing before the recession. Because hispanics and African Americans had high baseline levels of unemployment, they were accordingly hardest hit in absolute terms.**

The Great Recession and the slow recovery since have been the longest economic slump in seventy years. It affected vulnerable populations more than others. In this brief, our aim is to put this disaster into historical context, looking first at the overall state of the labor market and then at how the economic harm has been distributed across the population by gender, level of education, and race and ethnicity.

There has been much popular commentary suggesting that the burdens of unemployment and job loss have been widely shared across all population groups. The shared-burden account applied in early 2009 but became less accurate as the recession deepened. At that point layoffs at surviving firms replaced the failure of whole firms as the main source of new unemployment. Typically in a recession, selective layoffs affect less-educated, African-American, younger, and foreign-born workers more than others. In 2010 less-educated, African-American and younger workers saw their unemployment rise faster than others did. Foreign-born unemployment actually increased less than that of native workers; most demographers have concluded that was because many Mexican immigrants returned to Mexico during the recession (see “Immigration and the Great Recession” for details). When new jobs were created in the aftermath, educated and experienced applicants were favored, but enough less- educated, African-American, and young workers have found work to lower the differences in unemployment rates to pre-recession patterns.

The purpose of this recession brief, then, is to provide a broad profile of labor market outcomes during the Great Recession and its aftermath, highlighting disparities and inequalities by gender, race, and education. We will show, perhaps not surprisingly, that the Great Recession affected vulnerable groups the most. More surprisingly, perhaps, the recovery, such as it is, has reduced these disparities slightly.

Historical Context

We begin by providing the larger context behind the Great Recession. Since 1900, the American economy has experienced 22 recessions and recoveries, all of which are shown in figure 1. This figure plots unemployment rates with recession months shaded gray.

The Great Depression of the 1930s stands out as the only time when unemployment exceeded 20 percent. Almost inconceivably, unemployment exceeded 10 percent every year from 1930 to 1942. It was, by far, the worst economic period in the twentieth century.

Prior to the 1929 collapse, the economy grew and recessed in rapid succession; periods of expansion averaged less than two years from recession low point to recovery high point. But since 1960, ups have won out over downs; periods of growth have lasted longer while the recessions have been far less frequent. Macroeconomic policy, regulatory powers to carry out that policy, and the ever-greater sophistication of the scientific management tools available to the Federal Reserve Board tamed the boom-bust tendencies of market capitalism.

The recent recession of 2007 to 2009 has been exceptional in both the suddenness of the economic collapse and the long duration of its employment consequences. Unemployment more than doubled, from 4.5 percent to 10.6 percent, in 26 months from the onset of recession to the peak unemployment in January 2010. In contrast, it took 38 months for unemployment to double in the recession of the early 1980s. And a year after the peak joblessness of the recent recession, the unemployment rate had fallen only 1.5 percentage points below the peak, whereas by January 1984 it had fallen 2.6 percentage points below the peak.

Unemployment is persisting not only for the economy as a whole but also for individual workers. In fact, long-term unemployment might well be the defining difference between the Great Recession and others since World War II ended. In the four recessions between 1977 and 2001, workers were out of work an average of nine weeks at the depths of the recession. In January 2010, they had been out of work an average of 21 weeks. The consequences of long-term unemployment are far greater than short-term. Research on past recessions shows that the unemployed, especially those just starting their careers, bear a "scar of unemployment" that lasts for years. They fall behind while others gain experience, many desperately settle for work that requires less skill than they have, and few ever catch up with their peers who were not unemployed.

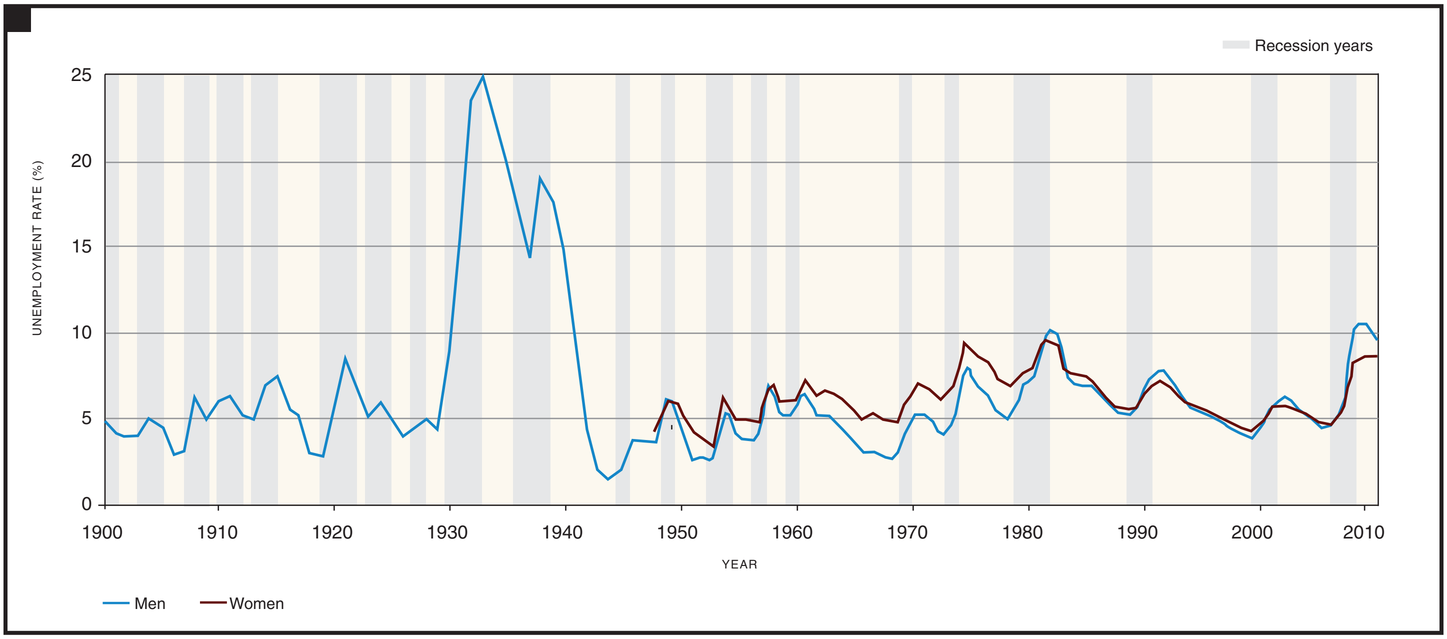
Calling the recent recesson the "Great Recession" thus attests to how exceptional it has been in both the suddenness of the economic collapse and the long duration of the employment consequences. We turn next to describing how different population groups fared during this exceptional period and the halting recovery thereafter.

Gender

Men were particularly hard hit by the recession, prompting some commentators to use the term "man-cession." Much of the gender difference is explained by occupation and industry; men are more heavily concentrated in the construction and building trades, which were hit the hardest by the recession Women, by contrast, are concentrated in the public sector, where employment was sustained by stimulus spending until the spring of 2010. In figure 2, we put the trend in men's and women's unemployment into broader historical context.

A drop in men's employment ratio is to be expected during a recession; it has dropped during each recession in the postwar era. The surprise in figure 2 is in the recovery periods. Each successive recession has been like a hammer driving men's employment down another notch. Men got back to work during most recovery periods, but even during the longest growth periods, employment did not fully recover to where it had been at the peak of the previous growth period. In November 2010, 80 percent of working-age men were

FIGURE 1. Official Unemployment Rate, 1900–2011



Source: U.S. Bureau of Labor Statistics.

employed, down from 88 percent before the recession. At no other time since 1948 has male employment been so low, nor has it ever fallen as much as 8 percentage points during a recession. Thus for men, the recession was a particularly severe turn of a downward trend that goes back decades.

In contrast, the recession brought about a reversal in the long-term trend for women's employment. Recessions led to brief pauses in the upward trend, but growth periods resulted in gains beyond the previous high points. The historic rise in women's employment only halted during the first decade of the twenty-first century, and then it fell during the 2007 to 2009 recession. Women's employment decreased 4 percentage points between 2000 and 2010, after rising in every other decade shown in figure 2.

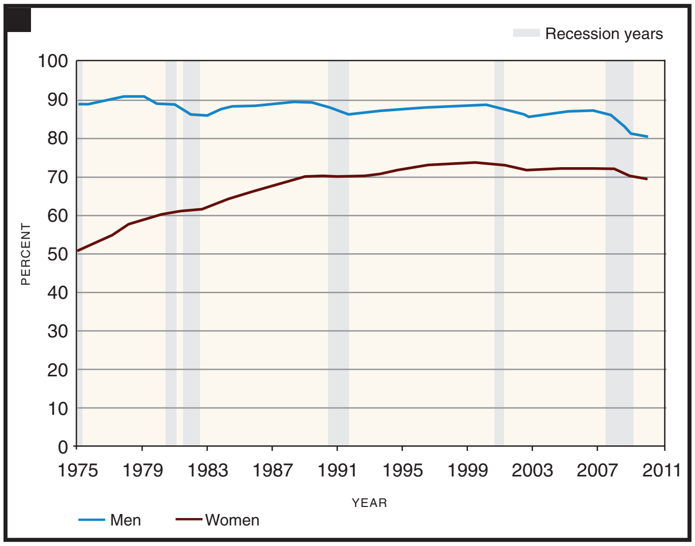
Although men were especially hard hit, then, by virtue of being concentrated in the ailing construction and building trades, the downturn was widespread enough that it also affected the economic sectors in which women were concentrated. This in turn led to a reversal in the long-term upward trend in women's employment.

Education

Employers strongly prefer educated workers, a point they have demonstrated over and over by paying an ever-growing premium for college graduates, seeking H-1 visas for foreign college graduates, and seizing on other tactics to locate and hire educated workers. Thus we would expect them to protect their college-educated workers from being laid off in the recession. Contrary to this expectation, accounts of the recession in the popular media frequently have a storyline that this recession is hurting everyone, including the college-educated. The data suggest that this storyline is not totally without foundation, but is misleading and overstated.

Figure 3 shows that the risk of being unemployed declines sharply as education rises. Prior to the recession, unemployment for people with less than a high school degree hovered around 7 percent, while unemployment for college graduates was only about 2 percent. As unemployment spread, the rate for each educational category rose more or less proportionally. At peak unemployment in 2010, the rate for people without a high school degree had increased from 7 to nearly 15 percent and the rate for college graduates had increased from 2 to about 4.7 percent. The baseline differences were so large that proportional increases raised unemployment most for the least-educated and least for the most-educated. Even though unemployment rose for everyone, people without a high school degree bore a much greater unemployment burden.

FIGURE 2. Employment to Population Ratio (Ages 25–54) by Gender, 1975–2011



Source: U.S. Bureau of Labor Statistics

Race

Like people with less education, African Americans and Hispanics are exposed to more unemployment than other groups even in good times. But how have these groups fared in bad times? We address this question in figure 4 by plotting the unemployment rate by race and ethnicity.

This figure shows that unemployment among African Americans and Hispanics was substantially higher than among other groups prior to the recession and rose to the greatest height as the recession progressed. As in figure 3, the rates in figure 4 all increase more or less proportionally. However, since African Americans and Hispanics had such a high unemployment rate before the recession, they suffered far more in terms of absolute numbers than other groups.

These results make it clear that African Americans and Hispanics were hard hit because they experienced a proportionate increase in unemployment off of an especially high pre-recession base. This result, important though it is, doesn't fully represent how dire the situation for African Americans is. There are two additional points that should in particular be stressed. First, unemployment data omit people who do not reside in households, which is important for assessing racial differences because these groups differ a great deal in the propensity to live somewhere other than a household. We know, for example, that African Americans are at high risk of living in a prison. Roughly 80 percent of prisoners would be in the labor force if they were not incarcerated. Because African-American men are especially likely to be in prison, their labor force statistics are especially affected by omitting those living in institutions. The simple upshot: the data of figure 4, stark as they are, understate how exceptionally high Black non-employment is.

The second point of caution is that education has substantially less return for African Americans than for other American workers. There is of course still some return: unemployment is lower for African-American college graduates than for African Americans with some college or only a high school diploma. But a multivariate analysis of the data, not reported here, indicates that a college degree gives white and Asian American workers twice the protection against unemployment that African Americans get. It follows that an African American, when confronted with the dire data of figure 4, cannot count on education as providing the same relief against the risk of unemployment that it provides to other groups.

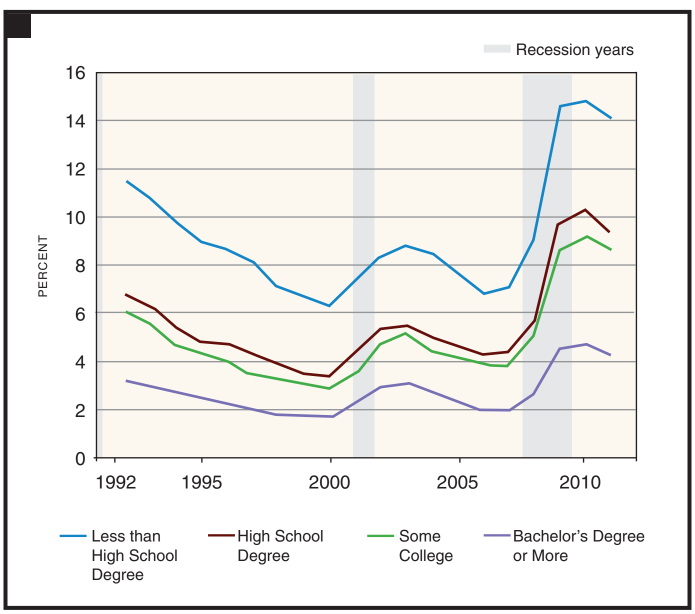
Conclusions

The Great Recession is distinctive for many reasons, but especially because it took unemployment to historic heights. Any recession brings some job loss and boosts unemployment, but the number of jobs lost, the portion of the labor force unable to find work, and the duration of layoffs and job search all hit postwar highs in the Great Recession.

The popular media has often suggested that this has been a "democratic recession" in which everyone, not just the poor and disadvantaged groups, has been hard hit. The Occupy movement might be read as offering a slight modification to that thesis, one that suggests the "1 percent" has been protected and has perhaps flourished during the downturn, whereas the rank-and-file 99 percent has largely suffered. There is no doubt some merit to this account. But our results indicate that there are also clear winners and losers even within the "99 percent." Although there is, to be sure, widespread suffering in the rank-and-file labor market, we have shown that men, the less-educated, and African Americans have been especially hard hit.

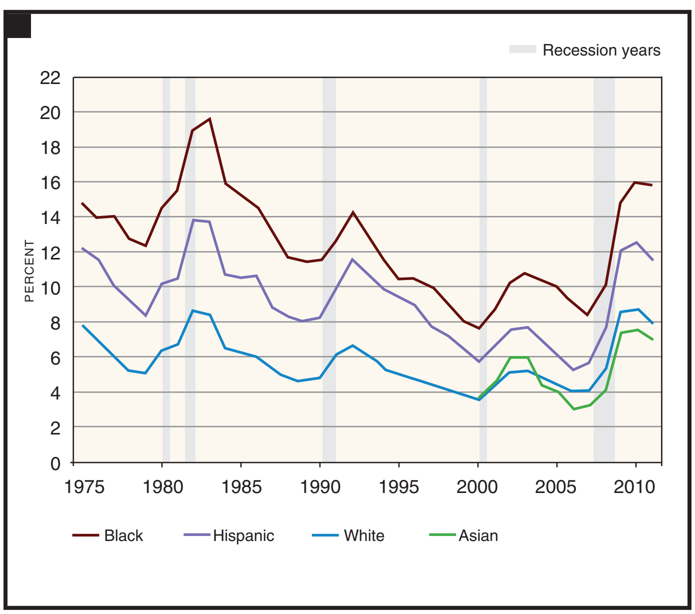
The duration of the Great Recession and its differential impacts suggest that the American economy will have to restructure in order to make a full recovery. A major innovation in goods production along the lines of the automobile and computer innovations of 1983 and 1984 would be very welcome. No expert can say with confidence where innovation will come from—a popular new device, a biotechnology breakthough, green energy. Noteworthy is that all of the prospects for a major job-creating innovation are very technical and likely to favor more-educated workers. If, however, such an innovation does not present itself and economic restructuring does not happen, the United States risks sliding into the kind of "lost decade" that affected Japan in the 1990s.

FIGURE 3. Unemployment Rate by Level of Education (ages 25+) 1992–2011



Source: Source: U.S. Bureau of Labor Statistics.

FIGURE 4. Unemployment Rate by Race/Ethnicity, 1975–2011



Source: Source: U.S. Bureau of Labor Statistics.

ADDITIONAL RESOURCES

Gangl, Markus. 2006. "Scar Effects of unemployment: An Assessment of Institutional Complementarities." *American Sociological Review 71*(6), 986-1013.

Jesse Rothstein, "The Labor Market Four Years into the Crisis: Assessing Structural Explanations." NBER Working Paper No. 17966. Available at: http://www.nber.org/papers/w17966

Rinne, Ulf, and Klaus F. Zimmermann. 2011 "Another Economic Miracle? The German Labor Market and the Great Recession" IZA Discussion Paper No. 6250. Available at: http://www.iza.org/en/webcontent/publications/papers/viewAbstract?dp_id=6250

Niall O'Higgins, "This Time It's Different? Youth Labour Markets During 'the Great Recession'." IZA Discussion Paper No. 6434. Available at: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2032002

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