

The human disaster of unemployment

By Dean Baker and Kevin Hassett

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In 2007, before the Great Recession, people who were looking for work for more than six months — the definition of long-term unemployment — accounted for just 0.8 percent of the labor force. The recession has radically changed this picture. In 2010, the long-term unemployed accounted for 4.2 percent of the work force. That figure would be 50 percent higher if we added the people who gave up looking for work.

Long-term unemployment is experienced disproportionately by the young, the old, the less educated, and African-American and Latino workers.

While older workers are less likely to be laid off than younger workers, they are about half as likely to be rehired. One result is that older workers have seen the largest proportionate increase in unemployment in this downturn. The number of unemployed people between ages 50 and 65 has more than doubled.

The prospects for the re-employment of older workers deteriorate sharply the longer they are unemployed. A worker between ages 50 and 61 who has been unemployed for 17 months has only about a 9 percent chance of finding a new job in the next three months. A worker who is 62 or older and in the same situation has only about a 6 percent chance. As unemployment increases in duration, these slim chances drop steadily.

The result is nothing short of a national emergency. Millions of workers have been disconnected from the work force, and possibly even from society. If they are not reconnected, the costs to them and to society will be grim.

Unemployment is almost always a traumatic event, especially for older workers. A paper by the economists Daniel Sullivan and Till von Wachter estimates a 50 to 100 percent increase

in death rates for older male workers in the years immediately following a job loss, if they previously had been consistently employed. This higher mortality rate implies that a male worker displaced in midcareer can expect to live about one and a half years less than a worker who keeps his job.

There are various reasons for this rise in mortality. One is suicide. A recent study found that a 10 percent increase in the unemployment rate (say from 8 to 8.8 percent) would increase the suicide rate for males by 1.47 percent. This is not a small effect. Assuming a link of that scale, the increase in unemployment would lead to an additional 128 suicides per month in the United States. The picture for the long-term unemployed is especially disturbing. The duration of unemployment is the dominant force in the relationship between joblessness and the risk of suicide.

Joblessness is also associated with some serious illnesses, although the causal links are poorly understood. Studies have found strong links between unemployment and cancer, with unemployed men facing a 25 percent higher risk of dying of the disease. Similarly higher risks have been found for heart disease and psychiatric problems.

The physical and psychological consequences of unemployment are significant enough to affect family members. The economists Kerwin Charles and Melvin Stephens recently found an 18 percent increase in the probability of divorce following a husband's job loss and 13 percent after a wife's. Unemployment of parents also has a negative impact on achievement of their children. In the long run, children whose fathers lose a job when they are kids have reduced earnings as adults — about 9 percent lower annually than children

whose fathers do not experience unemployment.

We all understand how the human costs can be so high. For many people, their very identity is their occupation. Few events rival the emotional strain of job loss.

It seems clear that neither political party was prepared to deal with the crisis of long-term unemployment. In spite of the severity of the downturn, there was a general expectation that the economy would bounce back, as it had after previous downturns.

Some countries that were more familiar with long-term unemployment, notably Germany, were much better prepared to deal with the fallout from the crisis. The German government aggressively pushed work-sharing measures. This meant that instead of workers' being laid off and receiving unemployment benefits, the German government helped companies keep employees, working fewer hours, on their payrolls by subsidizing their wages with the money saved on unemployment benefits.

The result of this policy is that Germany's unemployment rate is now lower than it was at the start of the downturn, even though its growth has been no better than ours.

Thankfully, there is some effort to learn from this model. The recent bill that extended the payroll tax cut included a provision that covered the cost of work-sharing programs in the 23 states that already had them as part of their unemployment insurance systems, and it helped other states start such programs. This should slow job destruction in those states, which will improve chances for all workers seeking employment. From now on, the first line of defense during a recession should be to expand work sharing rather than simply extend unemployment benefits.

But these changes come late, and we must get much better at sending a lifeline to those who are hardest to reconnect.

In the United States and elsewhere, government training programs have a mixed record at best. Some people have suggested that the unemployed be encouraged to start their own businesses, and entrepreneurship is one valid option for some. But given that most new businesses will fail, it may not be the best advice to tell older workers who have lost their jobs to also put their savings at risk to start a new business.

Clearly, an improving economy will help some, but those who have been out of work for an extended period have a difficult time finding jobs for many reasons. They are more likely to be discouraged, more likely to have seen their skills wane, and more likely to be seen as a risk by a prospective employer.

Policy makers must come together and recognize that this is an emergency, and fashion a comprehensive re-employment policy that addresses the specific needs of the long-term unemployed. A policy package that as a whole should appeal to the left and the right should spend money to help expand public and private training programs with proven track records; expand entrepreneurial opportunities by increasing access to small-business financing; reduce government hurdles to the formation of new businesses; and explore subsidies for private employers who hire the long-term unemployed. Those who hire for government jobs must do their share, too: managers who are filling open positions should be given explicit incentives to reconnect these lost workers.

Every month of delay is a month in which our unemployed friends and neighbors drift further away.

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