The jobless trap

By Paul Krugman
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F.D.R. told us that the only thing we had to fear was fear itself. But when future historians look back at our monstrously failed response to economic depression, they probably won't blame fear, per se. Instead, they'll castigate our leaders for fearing the wrong things.

For the overriding fear driving economic policy has been debt hysteria, fear that unless we slash spending we'll turn into Greece any day now. After all, haven't economists proved that economic growth collapses once public debt exceeds 90 percent of G.D.P.?

Well, the famous red line on debt, it turns out, was an artifact of dubious statistics, reinforced by bad arithmetic. And America isn't and can't be Greece, because countries that borrow in their own currencies operate under very different rules from those that rely on someone else's money. After years of repeated warnings that fiscal crisis is just around the corner, the U.S. government can still borrow at incredibly low interest rates.

But while debt fears were and are misguided, there's a real danger we've ignored: the corrosive effect, social and economic, of persistent high unemployment. And even as the case for debt hysteria is collapsing, our worst fears about the damage from long-term unemployment are being confirmed.

Now, some unemployment is inevitable in an ever-changing economy. Modern America tends to have an unemployment rate of 5 percent or more even in good times. In these good times, however, spells of unemployment are typically brief. Back in 2007 there were about seven million unemployed Americans — but only a small fraction of this total, around 1.2 million, had been out of work more than six months.

Then financial crisis struck, leading to a terrifying economic plunge followed by a weak recovery. Five years after the crisis, unemployment remains elevated, with almost 12 million Americans out of work. But what's really striking is the huge number of long-term unemployed, with 4.6 million unemployed more than six months and more than three million who have been jobless for a year or more. Oh, and these numbers don't count those who have given up looking for work because there are no jobs to be found.

It goes without saying that the explosion of long-term unemployment is a tragedy for the unemployed themselves. But it may also be a broader economic disaster.

The key question is whether workers who have been unemployed for a long time eventually come to be seen as unemployable, tainted goods that nobody will buy. This could happen because their work skills atrophy, but a more likely reason is that potential employers assume that something must be wrong with people who can't find a job, even if the real reason is simply the terrible economy. And there is, unfortunately, growing evidence that the tainting of the long-term unemployed is happening as we speak.

One piece of evidence comes from the relationship between job openings and unemployment. Normally these two numbers move inversely: the more job openings, the fewer Americans out of work. And this traditional relationship remains true if we look at short-term unemployment. But as William Dickens and Rand Ghayad of Northeastern University recently showed, the relationship has broken down for the long-term unemployed: a rising number of job openings doesn't seem to do much to reduce their numbers. It's as if employers don't even bother looking at anyone who has been out of work for a long time.

To test this hypothesis, Mr. Ghayad then did an experiment, sending out résumés describing the qualifications and employment history of 4,800 fictitious workers. Who got called back? The answer was that workers who reported having been unemployed for six months or more got very few callbacks, even when all their other qualifications were better than those of workers who did attract employer interest.

So we are indeed creating a permanent class of jobless Americans.

And let's be clear: this is a policy decision. The main reason our economic recovery has been so weak is that, spooked by fear-mongering over debt, we've been doing exactly what basic macroeconomics says you shouldn't do — cutting government spending in the face of a depressed economy.

It's hard to overstate how self-destructive this policy is. Indeed, the shadow of long-term unemployment means that austerity policies are counterproductive even in purely fiscal terms. Workers, after all, are taxpayers too; if our debt obsession exiles millions of Americans from productive employment, it will cut into future revenues and raise future deficits.

Our exaggerated fear of debt is, in short, creating a slow-motion catastrophe. It's ruining many lives, and at the same time making us poorer and weaker in every way. And the longer we persist in this folly, the greater the damage will be.