“Long-term and Structural Unemployment in the Great Recession”

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*The views expressed are solely my own and are in no way attributable to the Federal Reserve Bank of San Francisco or the Board of Governors of the Federal Reserve System. I thank Katherine Kuang for outstanding research assistance.
Long-term unemployment at historic high

Unemployment Rate & Duration

Unemp. Rate (left axis)

Unemp 27 weeks+ (right axis)

Percent (all unemp)

2011

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Some definitions: types/sources of unemployment

Multiple variations on “structural unemployment:”

(1) often equated with persistent (long-term) unemployment; but this can be cyclical (disappears as economy recovers)

(2) mismatch between skills/location of workers and jobs (common definition)

(3) sources of unemployment (other than “frictional”) that contribute to a higher equilibrium “natural rate of unemployment” or NAIRU ("non-accelerating inflation rate of unemployment").

My view: moderate amount of type 3 (about 1¼ percentage points), will largely dissipate (see Daly-Hobijn-Valletta 2011; FRBSF WP 2011-05)
Modest effect of UI extensions
UI extended up to max of 99 weeks in Nov. 2009

Limited effect on unemp duration and rate (0.3-0.9 p.p.)
(Valletta and Kuang 2010, Rothstein 2011 preliminary)

Note: Authors' calculations of expected completed duration from CPS microdata. The gray area denotes the latest recession, dashed vertical lines indicate effective dates for expansions of maximum UI duration under EUC08 and EB.
Little or no “house lock” effect

Unemp Duration by Home Ownership
(MSAs with large price declines)

- Owners
- Renters

Note: Authors' calculations from monthly CPS microdata. Duration measured in expected completed form, see text for description. MSA house prices from FHFA, change measured over 2007-2010. Gray bar denotes NBER recession date.
Beveridge Curve suggests labor market mismatch

U.S. Beveridge Curve
Monthly, December 2000 to February 2011

Source: BLS JOLTS and CPS data. Dotted blue series indicates fit of values from December 2000 to June 2009.
Emp growth has evened out, unemp high in some sectors

Dispersion Across 15 Major Industries
Weighted standard deviation of 12-month employment growth and unemployment rates

Source: Bureau of Labor Statistics and FRBSF
Main cause of LT unemp: massive job loss

Nonfarm Payroll Employment: 4 Recessions

Months since employment peak
Some longer-term considerations

- Persistent unemployment can become structural
  - “Hysteresis” (self-reinforcing) effects: skill deterioration, reduced job attachment (80s Europe)
  - Argues in favor of short-term stimulative policies

- Persistent unemployment has not appeared to exacerbate the long-term trend towards labor market “polarization” (hollowing out of the middle)
  - Prolonged unemployment hits low-skilled hardest

- But education is not a panacea (returns to college flattening out); perhaps need earlier or more targeted training (Germany).