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<https://escholarship.org/uc/item/6nn9g3t7>

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Publication Date

2013-05-01

Research & Policy Brief

Number 13– May 2013

California Crisis: The Ups and Downs of Recovery -- Where Have the Unemployed Workers Gone?

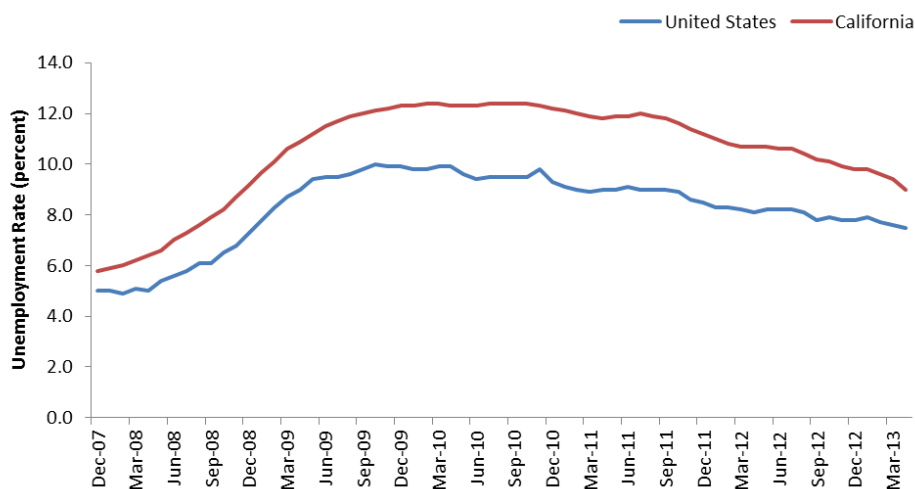
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It has been nearly four years since the United States entered a recovery following the Great Recession of 2007-2009. While it is true that the national economy has been growing since July 2009, what this growth means for the lives of working people around the country and in California is less clear. Certainly, recent job gains are a positive development, inspiring a greater degree of confidence among a discouraged labor force. But is it enough to offset the impact of a jobs crisis reaching historic proportions? This brief will examine the employment situation in the U.S. and California today and explore how years of slow job growth after years of the worst recession since the great depression is affecting the nation's labor force.

Unemployment and Job Loss/Creation in the United States and California

It took almost 3 years from when unemployment peaked at 10% in October 2009, but it finally happened – unemployment dropped below 8% in September 2012. Seven months later, in April 2013, the unemployment rate fell to a post-recession low of 7.5%. It took a little longer for the situation to begin improving in California, remaining at or above 12% for 18 months from September 2009 through February 2011. Since then, the state has witnessed a decrease in the unemployment rate by 3 percentage points, from 12% in February 2011 to 9% unemployment in April 2013.¹

Figure 1. Unemployment rate in the United States and California since start of the Great Recession



Source: Bureau of Labor Statistics

¹ Bureau of Labor Statistics.

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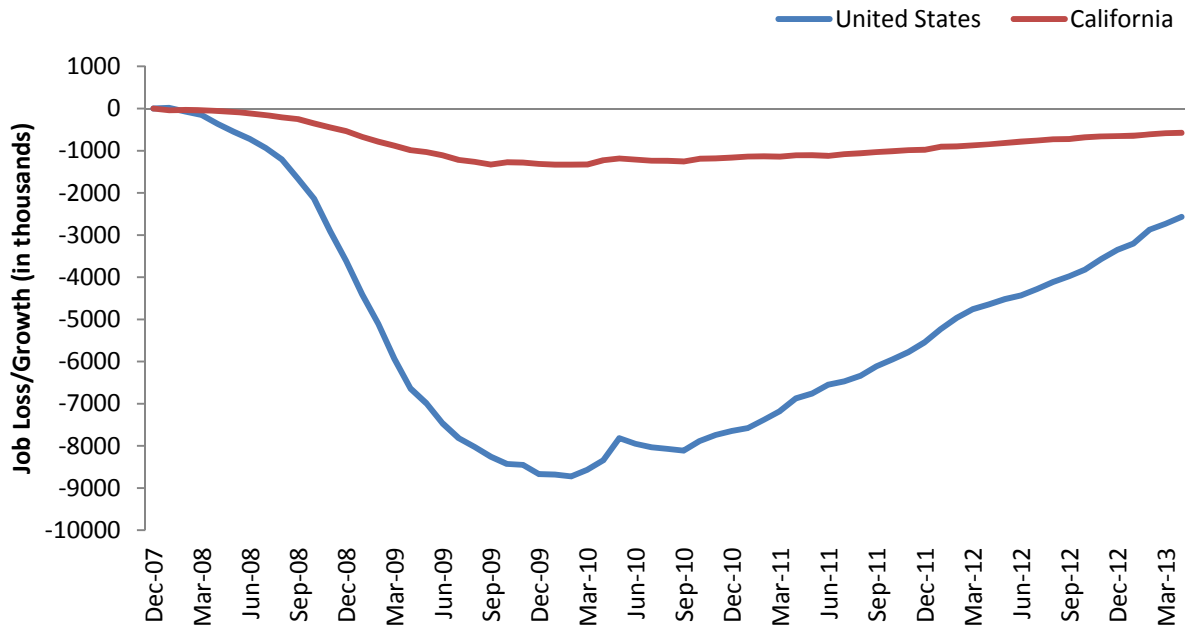
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Furthermore, 4.9 million jobs have been created nationwide and over 600,000 jobs have been created in California since the recovery officially began in July 2009.²

Figure 2. Cumulative job loss/growth in the United States and California



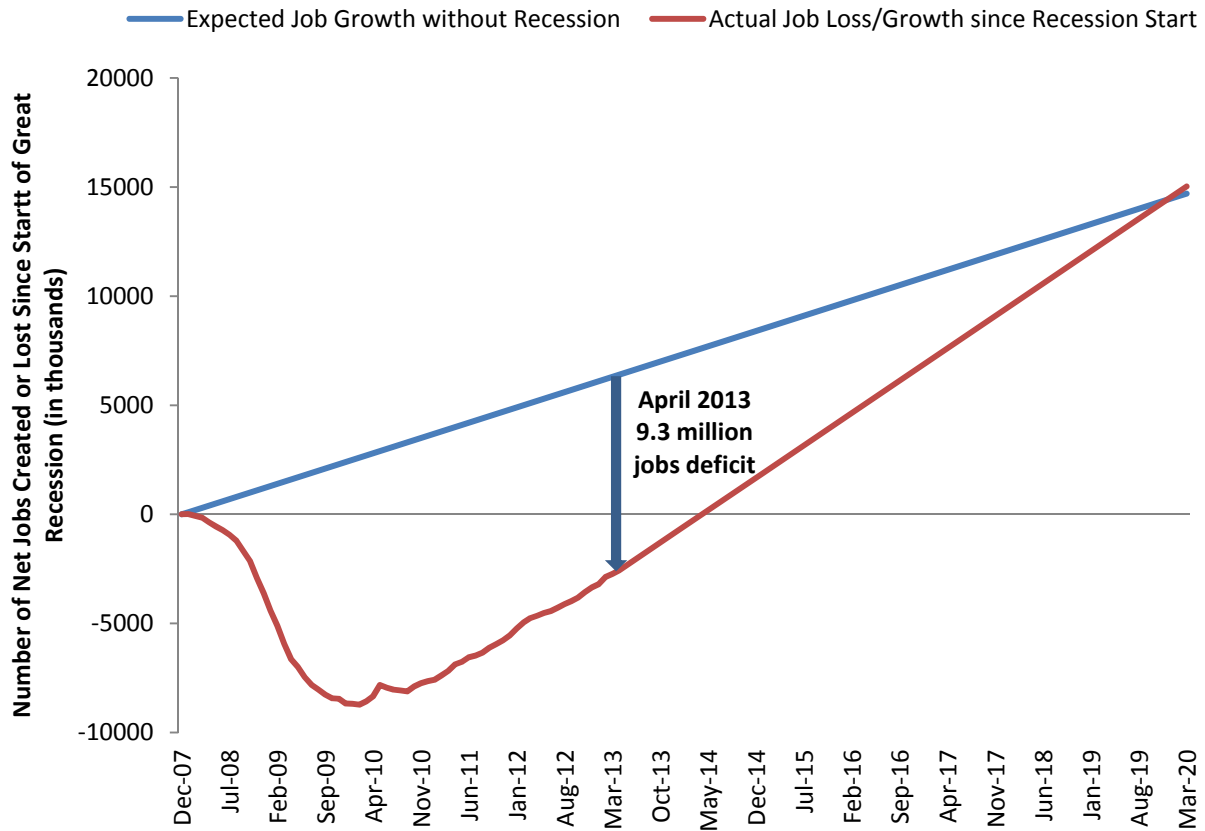
Source: Bureau of Labor Statistics

While this is all good news, it only tells part of the story. When the recovery began in July 2009, 7.8 million jobs had been lost and an additional 1.9 million jobs that are usually created to account for monthly increases in the working age population had not been created. After the end of the recession, the country needed to recover not only the jobs lost and not created during the recession, but also create nearly 100,000 additional jobs each month to keep up with the continued growth of the working age population. That means, for the United States to have as many jobs in April 2013 as it would have had without the recession, there should have been 14.2 million jobs created during the recovery thus far. As already noted, 4.9 million jobs or just over one-third of the jobs needed to bring the country back to trend have been created. Thus, if future growth in the working age population remains around 100,000 people per month and if job growth continues at its recent three-month (February through April 2013) average of 212,000 net new jobs created each month, pre-recession employment levels will not be reached for nearly another 7 years or until the beginning of 2020.³

² Bureau of Labor Statistics.

³ Bureau of Labor Statistics.

Figure 3. Jobs deficit in the U.S. since start of the Great Recession and number of months needed to return to trend



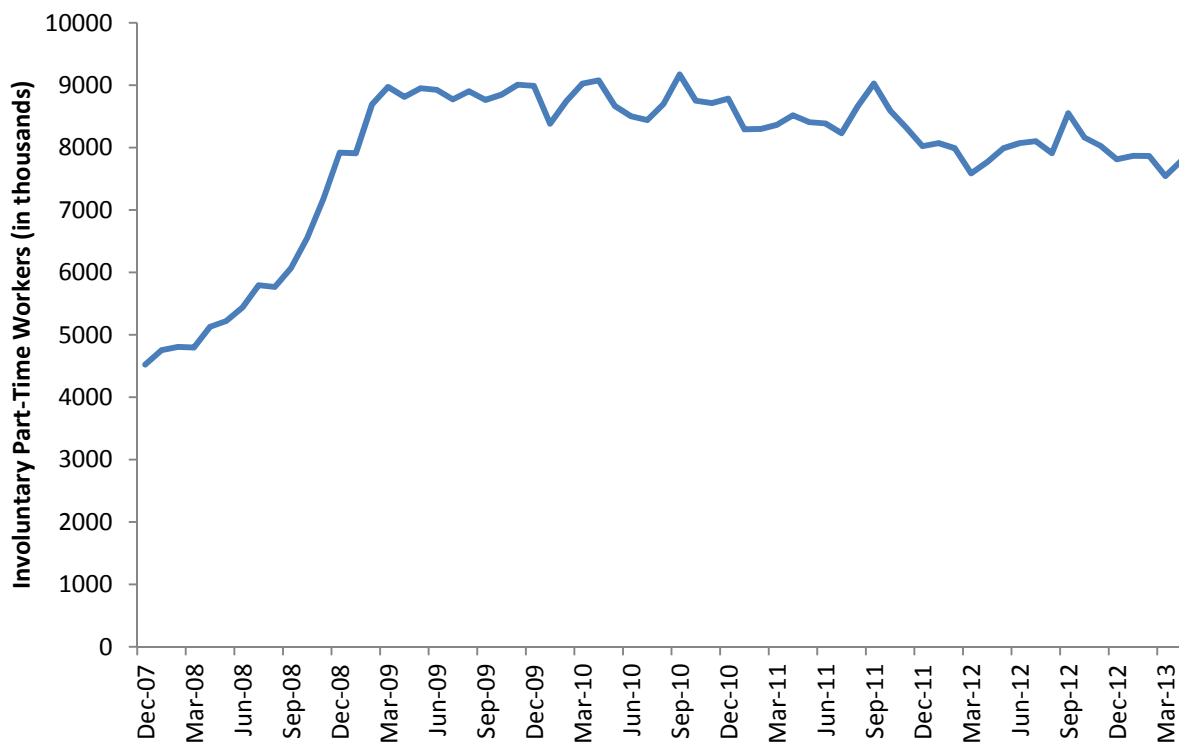
Source: Author's analysis of Bureau of Labor Statistics data

Recovery and Underemployment

Furthermore, some of this job growth has likely been due to more individuals working at part-time jobs. The number of workers who are working part-time for economic reasons peaked at 9.4 million in September 2010. Yet, at 7.9 million people in April of 2013, the number of involuntary part-time workers is still nearly double the 4.6 million workers who were working part-time for economic reasons in December 2007, at the start of the recession (See Figure 4).⁴

⁴ Bureau of Labor Statistics.

Figure 4. Involuntary part-time workers since December 2007



Source: Bureau of Labor Statistics

Given such slow job growth, why then are we seeing continued improvement in the unemployment rate? Of course, some people are finding jobs. However, a troubling reason for the consistent drop in unemployment is that millions of workers have simply disappeared from the labor force. Given the aforementioned increase in the working age population of about 100,000 people per month, the labor force should have increased by 6.5 million people since the Great Recession began in December 2007. However, it only rose by 1.3 million people,⁵ resulting in a 5.2 million person gap. As people leave the labor force, the proportion of people in the labor force looking for jobs relative to the total number of people in the labor force will decrease. Unfortunately, a reduction in the unemployment rate due to disappearing workers does not point to improvement in the labor market.

Recovery and Long-Term Unemployment

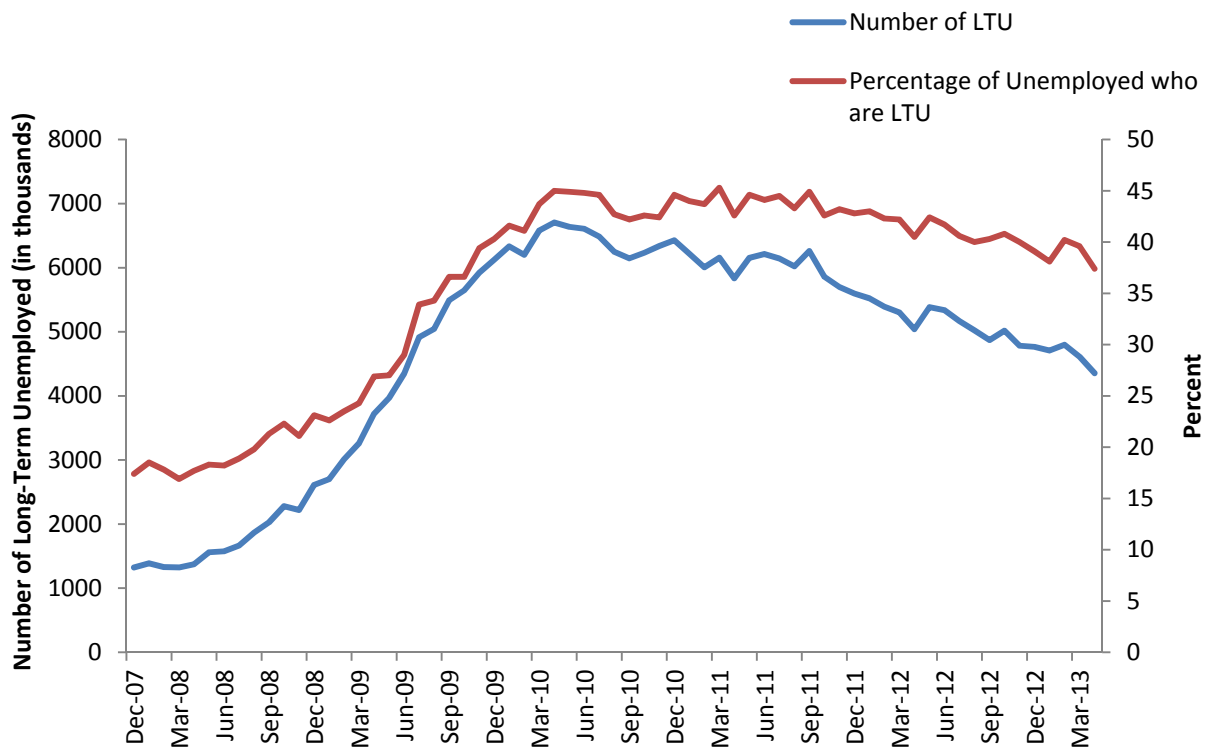
Long-term unemployment peaked in March 2011 with 45.3% of the unemployed remaining out of work for 6 months or more. In April 2013, the long-term unemployed had dropped to 37.4% of all unemployed people and the average length of unemployment had fallen from a peak of 40.7 weeks (November 2011) to 36.5 weeks.⁶ Despite this recent decrease in the duration of unemployment, long-term unemployment remains at historic highs. While the number of unemployed people who have been

⁵ Bureau of Labor Statistics.

⁶ Bureau of Labor Statistics.

out of work 6 months or more has dropped from a high of 6.7 million in April 2010, at 4.4 million people in April 2013, this figure remains at more than 3 times its prerecession level. Furthermore, it is likely that some of the decrease in long-term unemployment is due to changes in the length of time that people receive unemployment insurance. While individuals are receiving unemployment benefits they must continue searching for work. Once those benefits end, some people become discouraged and give up their search. Thus, the recent decrease in the duration of unemployment may be associated with a reduction in the number of weeks unemployment insurance benefits are available as long-term unemployed workers leave the labor force rather than find a job.⁷

Figure 5. Number and percent of the unemployed who are out of work for six months or more



Source: Bureau of Labor Statistics

Conclusion

The job growth experienced over the past 2.5 years or so has been a positive turn in both the country and in California. However, unlike the good jobs that were lost during the recession, the jobs created during the recovery are in industries that are more likely to pay low-wages, have high turnover,

⁷ Baker, D. (2013, May 3). Economy Adds 165,000 Jobs in April, Unemployment Drops to 7.5 Percent. *Jobs Byte*, Washington, DC: Center for Economic and Policy Research. <http://www.cepr.net/index.php/data-bytes/jobs-bytes/jobs-2013-05>. (accessed May 10, 2013)

limited benefits, and little opportunity for career advancement.⁸ Furthermore, at the current rate of job creation, it will take almost 7 years to reach pre-recession employment levels. Additionally, there is no guarantee that job growth will continue. An April 2013 NELP report notes that if cuts due to austerity policies and sequestration are allowed to persist, GDP growth will slow and as many as 2.4 million jobs could be lost.⁹

Moreover, nearly 22 million people are still unemployed, underemployed, or marginally attached to the labor force (having given up searching for a job, but available and willing to take one should a job become available). Not only do these people and their families continue to suffer economically, physically, and mentally,¹⁰ but the economy continues to suffer. It is difficult to grow a consumer economy without consumers with disposable income.

We need to create jobs, not cut back. The American public agrees. A 2011 national survey found support for putting the recovery and unemployment reduction at the top of the country's policy priorities.¹¹ It is clear that job creation policies must be implemented. Austerity policies have been discredited by the disastrous effect such policies have had on the UK and other European economies. Not only has unemployment increased, but the debt-to-GDP ratio has risen and austerity has had a negative impact on GDP. Spending cuts have led to slower growth in GDP, making it more difficult – not less – to manage debt. The theoretical justification for austerity has likewise been undermined by the discrediting of Reinhart and Rogoff's argument for limiting the debt ratio. In view of continuing high unemployment in the U.S. and no sign of inflation, there is no excuse for austerity now. It is great that the U.S. will soon be entering its fourth year of recovery from the recession. But if we want the economy to truly be healthy, we need to recover from the jobs crisis by bringing back those workers who have disappeared and reconnecting them to decent jobs and to our economic community.

⁸ Research conducted by the National Employment Law Project found that 60% of the jobs lost during the recession were in mid-wage occupations. Evangelist, M., & Christman, A. (2013, April). Scarring Effects: Demographics of the Long-Term Unemployed and the Danger of Ignoring the Jobs Deficit. *Briefing Paper*, New York: National Employment Law Project. http://nelp.3cdn.net/4821589f87f6c502e1_nem6b0xjt.pdf. (accessed May 10, 2013)

⁹ Evangelist, M., & Christman, A. (2013, April). Scarring Effects: Demographics of the Long-Term Unemployed and the Danger of Ignoring the Jobs Deficit. *Briefing Paper*, New York: National Employment Law Project. http://nelp.3cdn.net/4821589f87f6c502e1_nem6b0xjt.pdf. (accessed May 10, 2013)

¹⁰ Diette, T. M., Goldsmith, A. H., Hamilton, D., & Darity, W. Jr. (2012). Causality in the relationship between mental health and unemployment. In L. D. Appelbaum (Ed.). *Reconnecting to Work: Policies to Mitigate Long-Term Unemployment and Its Consequences*. (pp. 63-93). Kalamazoo, MI: W.E. Upjohn Institute for Employment Research.

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¹¹ Van Horn, C. E. (2013). *Working Scared (Or Not at All): The Lost Decade, Great Recession, and Restoring the Shattered American Dream*. Plymouth, UK: Rowman & Littlefield Publishers, Inc.