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# Economic and Psychological Consequences of Long-Term Unemployment

Lauren D. Appelbaum  
*University of California, Los Angeles*

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weeks of federal temporary benefits, but if the state maximum were 20 weeks the federal supplement would be 10 weeks.

A much neglected potential reform on the benefit side would be to institute waiting periods of 2–4 weeks, with the duration of the wait depending inversely on the aggregate level of unemployment. Current UI take-up rates among the eligible unemployed range from 60 to 80 percent depending on job market conditions. A somewhat longer waiting period will reduce program entry by those with ready reemployment options, and help to preserve the income security strength of the system for those who are involuntarily jobless for 4, 5, or 6 months. This approach could help preserve benefit adequacy while fiscal reforms broaden the tax base and range of rates to restore the experience rating principle. Better cost recovery of benefit charges will assure that final prices of goods and services more properly reflect the full cost of unemployment risk in their production.

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*Christopher J. O’Leary is a senior economist at the Upjohn Institute.*

*Lauren D. Appelbaum*

# Economic and Psychological Consequences of Long-Term Unemployment

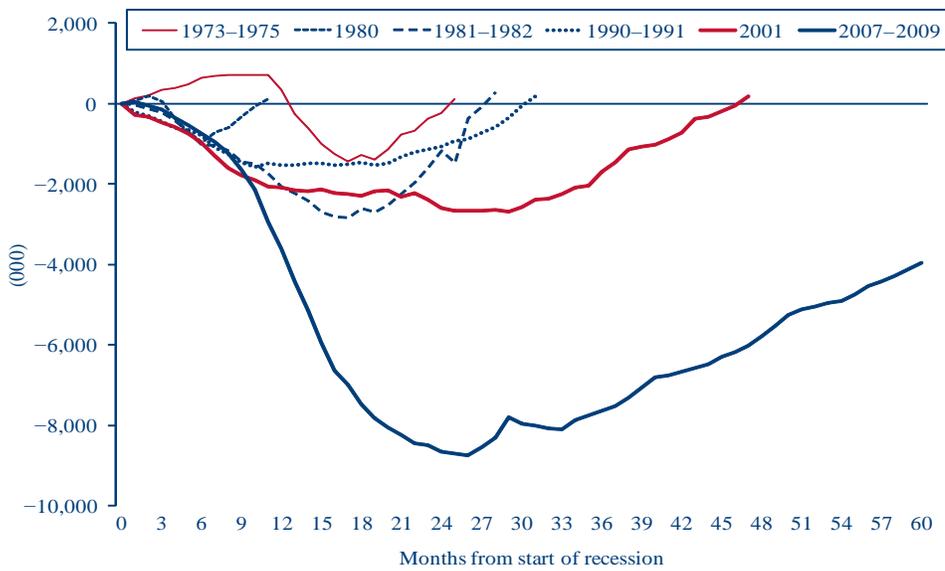
**O**n April 1–2, 2011, the UCLA Institute for Research on Labor and Employment (IRLE) hosted an Upjohn Institute–sponsored conference on long-term unemployment, its causes and consequences, and policies to mitigate it. With a loss of 7.9 million jobs from the start of the Great Recession in December 2007 until jobs started to consistently increase in October 2010 (Bureau of Labor Statistics 2013a), the recession of 2007–2009 resulted in far greater job losses in the United States than any other recession in recent history. Thus, the conference, with participants from the United States, Canada, and Europe, was held in response to the jobs crisis that began with and followed from the Great Recession in the United States and the severe economic downturn felt around the world.

The UCLA-IRLE conference was held 21 months after the recovery from the Great Recession had begun, and the United States was still mired in a severe jobs crisis, having created only 1.1 million jobs during the 21 months from July 2009 through March 2011. While this job growth was welcomed, it did little to alleviate unemployment, as it would have taken the creation of more than 2 million jobs in this time period merely to keep up with the growth in the working age population. In addition, in March 2011, the month prior to the conference, 8.4 million workers were working part time when they wanted to have full-time positions. The unemployment rate was 8.8 percent, and 45.5 percent of the unemployed found themselves out of work for 6 months or more. One-third of the unemployed had been looking for work for at least one year (Bureau of Labor Statistics 2013a,b).

The book *Reconnecting to Work: Policies to Mitigate Long-Term*

*Unemployment and Its Consequences*, published recently by the Upjohn Institute, is based on the proceedings of the 2011 conference. Although the employment situation in the United States has since improved somewhat, with unemployment dropping to below 8 percent in September 2012 for the first time since January 2009, this book is still all too relevant (Bureau of Labor Statistics 2013b). The jobs deficit is worse and jobs recovery slower following the Great Recession than in the five preceding recessions (see Figure 1).

While the unemployment rate has in fact declined, the country still faces a jobs deficit of 4 million compared with the number of jobs in the economy in December 2007 (plus more than 5 million jobs that should have been created since the start of the recession to keep up with the growth in the working age population). The rate of job growth has been increasing, but not fast enough—at the current rate, it will take until the next decade to alleviate the jobs deficit created by the recession (Baker 2013). Moreover, despite the recent improvement in the unemployment rate, the broader measure of unemployment that includes individuals working part time for economic reasons and those who are only marginally attached to the labor force has remained much higher—14.4 percent in December 2012. Also in that month, there were 7.9 million people who were working part-time for economic reasons. While there were 500,000 fewer involuntary part-time workers in December 2012 than when the conference was held in April 2011, there were still 3.3 million more of these workers that month than when the recession began in December 2007. Furthermore, long-term unemployment remains a serious problem in the United

**Figure 1 Cumulative Job Growth/Loss from Start of Recession**

SOURCE: Bureau of Labor Statistics, Current Employment Statistics.

States; the percentage of unemployed workers who have been looking for work for 6 months or more dropped below 40 percent to 39.1 percent in December 2012 for the first time in nearly 3 years (Bureau of Labor Statistics 2013c).

Thus, *Reconnecting to Work* remains an important and timely discussion of the impacts of long-term unemployment, as well as policies that can address it. As was the case at the IRLE-UCLA conference, the book takes both a national and an international comparative perspective. This article focuses on the two chapters that examine the economic and psychological consequences of long-term unemployment—“Job Displacements in Recessions: An Overview of Long-Term Consequences and Policy Options,” by Till von Wachter, and “Causality in the Relationship between Mental Health and Unemployment,” by Timothy Diette, Arthur Goldsmith, Darrick Hamilton, and William Darity, Jr. The impacts of long-term unemployment, which are felt for years following job loss, highlight the importance of implementing policies that will reduce unemployment rather than simply accepting inflated unemployment rates as the new “normal.”

Because policymakers failed early on to recognize the severity of the

economic problems facing the country and to adopt macroeconomic policies adequate to address them, the United States has experienced a period of persistent and long-term unemployment. As noted by von Wachter in Chapter 2 of the book, losing a job has economic repercussions for workers that can take 15–20 years to overcome. Von Wachter says that although there is variation in degree, these economic losses are felt by all unemployed workers regardless of demographic factors or industry. Even mobile workers who are able to leave a depressed area to find work elsewhere are negatively impacted. While workers who move may gain in the short run, von Wachter finds that they still suffer long-term earnings losses. In addition, poor economic outcomes can also lead to poor health outcomes. The negative effects of unemployment are felt not only by the worker, but also by the workers’ families.

Von Wachter also explores policy options for relieving the economic costs of job loss. In particular, he notes that unemployment insurance extensions, helping with the costs of relocating, and assisting families with college costs are policies that are particularly important in light of the finding that the consequences of unemployment go beyond the worker. The negative effects of unemployment

are felt by workers’ children, who may continue to suffer all the way into adulthood. Given the long-lasting impacts of unemployment and long-term unemployment, it is critical not only to reduce the costs once jobs are lost, but to prevent job loss in the first place. In line with several other authors in this volume, von Wachter cites work sharing and work-time accounts (in which a portion of an employee’s overtime pay is saved to be used in slack times to avoid layoffs) as policies to prevent workers from experiencing unemployment.

The sharp decline in GDP during the economic crisis led to a doubling of the unemployment rate from 5 percent in December 2007 to its peak of 10 percent in October 2009. It took nearly three years for the unemployment rate to drop to below 8 percent. The percentage of the unemployed who have been out of work for 6 months or more stayed above 40 percent for nearly three years, from December 2009 through November 2012, barely dropping below that level in December 2012 (Bureau of Labor Statistics 2013b). So many years of high unemployment and high long-term unemployment have certainly taken more than simply an economic toll on the country. In Chapter 4 of *Reconnecting to Work*, Diette et al. examine the psychological effect of unemployment and demonstrate a causal link between long-term unemployment and emotional well-being. Never before have researchers been able to identify with this much certainty the causal direction for the poor psychological outcomes that are associated with unemployment.

That a relationship exists between unemployment and poor mental health is well established, but researchers have struggled with how to determine the directionality of this relationship. Many researchers have shown that over time, involuntary unemployment is associated with declines in mental health while reemployment is associated with improvements in mental health. Nonetheless, this research still allows for the possibility that it was the fragility in mental health that caused the loss of employment, not the other way around. The research presented in the current volume goes beyond the previous work

in this field by developing a new method for identifying the causal link between unemployment and mental well-being.

Diette and his coauthors distinguish psychologically vulnerable workers who have past experience with mental health problems from psychologically resilient workers who have either never suffered from a mental health problem or whose first experience with mental health problems has occurred within the past 12 months. If a person who has had little or no prior experience with mental health issues suffers from a decline in mental health coinciding with becoming unemployed, it is likely that the job loss caused the decline in well-being, not the other way around. Thus, by looking at the differential responses of these workers to unemployment experienced during the past year, these authors are able to estimate the impact of unemployment on emotional health.

Furthermore, Diette and colleagues look at the differing impact of short-term and long-term unemployment (26 or more weeks) on the psychological well-being of vulnerable and resilient workers, and also explore the way in which social characteristics interact with the detrimental effects of experiencing a bout of unemployment. In particular, the authors examine whether being married, having a living mother or a living father, having adult children, having young children at home, talking with friends more or less frequently, or attending religious services more or less regularly will buffer the negative impact of becoming unemployed. They look at the potential buffering effect of these social characteristics for both resilient and vulnerable workers as well as for workers who experienced a short bout of unemployment and those who were out of work for 26 weeks or more during the past year.

According to the research, there are differing impacts of long- and short-term unemployment. For psychologically resilient individuals short-term unemployment was not found to be related to psychological well-being. However, long-term unemployment did have an effect on mental health. Psychologically resilient individuals who were unemployed in the past year

for 26 weeks or more were more likely to experience psychological distress than were resilient individuals who remained employed during this same period. Interestingly, the impact of long-term unemployment on psychological well-being for psychologically resilient individuals was not consistently dampened by the presence of social and economic buffers. Some buffers were associated with an increased chance of experiencing psychological distress for resilient individuals who also experienced long-term unemployment, while others seemed to have the opposite effect and were associated with a decreased likelihood of psychological distress.

This new approach to determining the causal direction of psychological distress associated with job loss provides important insights into the impact of unemployment and the needs of the long-term unemployed. Understanding

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the relationship between psychological well-being and unemployment is critical, given the unprecedented length of time it currently takes the average unemployed person to find a job.

Despite the recent drop in the unemployment rate in the United States and the steady but slow growth in jobs that has been occurring for the past two years, workers are still suffering. Nearly 8 million people are still working part time because they cannot find full-time employment. Over 39 percent of the unemployed have been out of work 6 months or more, and while the overall number of long-term unemployed has been declining, there were nearly as many long-term unemployed workers in December 2012 as there were at the end of the recession in July 2009 (Bureau of Labor Statistics 2012a,b). Equally striking is the fact that at 2.6 million, the number of people who are marginally attached to the labor force remains somewhat higher than it was at the end

of the recession. There are likely millions more who have left the labor force altogether and are simply not counted in the official statistics. All of these people and their families are feeling the negative impacts of the recession and ensuing jobs crisis. As demonstrated in this volume, the consequences of long-term unemployment are both psychological and economic, and persistent. While political leaders in Washington are unable to agree on how to stimulate the economy and create jobs, this volume presents a fresh approach to understanding the jobs crisis, the economic and psychological consequences of high and persistent unemployment, and the policy approaches that can begin to make a difference.

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*Lauren D. Appelbaum is a research affiliate of the Institute for Research on Labor and Employment, University of California, Los Angeles.*