



## **WITHOUT ADEQUATE PUBLIC SPENDING, A CATASTROPHIC RECESSION FOR SOME**

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Last week it was announced that the unemployment rate topped 7% in December 2008, its highest rate in almost 16 years, and the economy is certain to deteriorate further without a major policy intervention soon. According to most projections, unemployment won't peak until mid-2010 when, absent substantial public investment, the rate is likely to reach 10.2%. It could remain as high as 7.6% at the end of 2012, four years from now.

Those numbers alone don't capture the extent of pain that heavily impacted demographic groups will feel. Some black and Hispanic communities will see catastrophic levels of unemployment. Teens and workers without college degrees will have higher-than-average rates in this recession, as they do even in the best of times. This report lays out the consequences of letting the labor market continue to deteriorate, making the case that immediate and vigorous action is essential to counter these trends.

Unless action is taken (and fast), unemployment and underemployment will plague 35% of the labor force over the course of 2010, as people move in and out of a shrinking pool of jobs. In addition, the accompanying reduction in hours and wages—which has already begun—will cause a sizeable and continuous decline in income throughout this year and next (and probably beyond).

To avoid this outcome, a substantial surge in government spending is needed to spur demand for goods and services. This increased demand will in turn generate more production and employment. This spending is essential given that all other sources have been substantially weakened: consumer spending has been battered by unemployment and the loss of

housing and stock wealth; investment has weakened because of poor business prospects; and exports are flagging due to slow global growth and the still-overvalued dollar.

A major economic recovery package of roughly \$600 billion each year for the next two years is required. An investment of this magnitude—spent strategically to generate jobs for those hardest hit by the recession, and focused on building capacity in education, energy efficiency, and infrastructure—would prevent double-digit unemployment, give the economy a solid footing for future growth, and begin to meet long-term needs.

## Without a substantial recovery package, the outlook is grim

It is widely accepted that the current recession will be the longest and deepest since the Great Depression of the 1930s. Of course, the severity depends upon whether there is a successful, large federal policy intervention or not. Without such action, this recession will be very deep and long, adversely affecting nearly every family, with devastating results to those who already have low incomes and little wealth to cushion their losses.

There is already substantial economic distress in an economy with an unemployment rate of 7.2% in December 2008. The distress will only escalate if the unemployment rate does indeed rise to 10.2%, as projected by Moody's Economy.com in late November 2008 (see the methodology appendix).

Specifically, with no change in policy, the employment landscape in mid-2010 would be characterized by:

- **An overall underemployment rate of 17.9%.** That means 27.3 million workers would be unemployed, working part time involuntarily, or discouraged from even looking for work in a given month. For women, the underemployment rate would reach 18.8%.
- **Black unemployment at 18.2%.**
- **Hispanic unemployment at 13.1%.**
- **Teenage unemployment at 30.1%.** More than half of all black teens and more than one-third of all Hispanic teens would be jobless.
- **College-educated unemployment at 5.1%.** The

TABLE 1

### Changes in unemployment in first year and to trough of business cycles since 1970

<i>Business cycle peak</i>	<i>Peak</i>	<i>One year after peak</i>	<i>One-year change</i>	<i>Peak-to-trough change*</i>	<i>Trough:</i>	
					<i>Highest unemployment Rate</i>	<i>Date</i>
November 1973	4.8%	6.6%	1.8%	4.2	9.0%	May 1975
January 1980	6.3	7.5	1.2	1.5	7.8	July 1980
July 1981	7.2	9.8	2.6	3.6	10.8	Nov-Dec 1982
July 1990	5.5	6.8	1.3	2.3	7.8	June 1992
March 2001	4.3	6.1	1.8	2.0	6.3	June 2003
December 2007	4.9	7.2	2.3	5.3**	10.2**	mid-2010

\* Change from the peak month to the month with the highest unemployment rate over the cycle.

\*\* Estimated to reach 10.2% in mid-2010.

SOURCE: Authors' analysis of BLS data. See Methodology Appendix for details.

previous historic high was set in 1983 at 3.9% at the depths of the 1980s recession.

- **About 33.7 million people unemployed at some point in 2010.**

**TABLE 2**

**Unemployment rates by demographic group projected to 2010**

	<b>Percentage-point change:</b>		
	<b>2007:4</b>	<b>2010:2</b>	<b>2007:4 to 2010:2</b>
<b>Unemployment rate</b>			
<i>All *</i>	4.8%	10.2%	5.4
<b>Race/ethnicity</b>			
<i>White</i>	4.3%	8.9%	4.6
<i>Black</i>	8.6	18.2	9.6
<i>Hispanic</i>	5.9	13.1	7.2
<b>Teenagers (by race/ethnicity)</b>			
<i>All</i>	16.4%	30.1%	13.7
<i>Black</i>	30.9	55.7	24.8
<i>Hispanic</i>	16.3	35.7	19.4
<b>Education (25 years and older)</b>			
<i>Less than high school</i>	7.5%	14.6%	7.1
<i>High school</i>	4.6	9.2	4.6
<i>Some college</i>	3.5	7.9	4.4
<i>College or more</i>	2.2	5.1	2.9
<b>Gender</b>			
<i>Men</i>	4.9%	10.5%	5.6
<i>Women</i>	4.7	9.8	5.1
<b>Location</b>			
<i>Urban (central city)</i>	5.5%	12.9%	7.4
<i>Suburban</i>	3.9	9.1	5.1
<i>Rural</i>	4.6	9.9	5.3

\* Based on Economy.com projections assuming no stimulus/economic recovery program.

**SOURCE:** Authors' analysis of BLS data. See Methodology Appendix for details.

- **About 35% of the labor force unemployed or underemployed at some point in 2010.**
- **Lower incomes for all families.** Because of higher un- and underemployment, as well as the reduced weekly hours and the slower wage growth that accompanies higher unemployment, incomes for low- and middle-income families would drop. Low-income families would lose an average of 9.8%, or \$1,571 a year. Those in the middle would earn 7.7% less (-\$4,704) per year in 2010 than 2007.

There would be no quick recovery under this scenario. Unemployment would remain at recessionary levels, close to 8%, even at the end of 2012.

The estimates are based on historical patterns of unemployment, underemployment, and incomes using the recent projection by Moody's Economy.com for a 10.2% unemployment rate in mid-2010 (see the methodology appendix for details).

## This recession in history

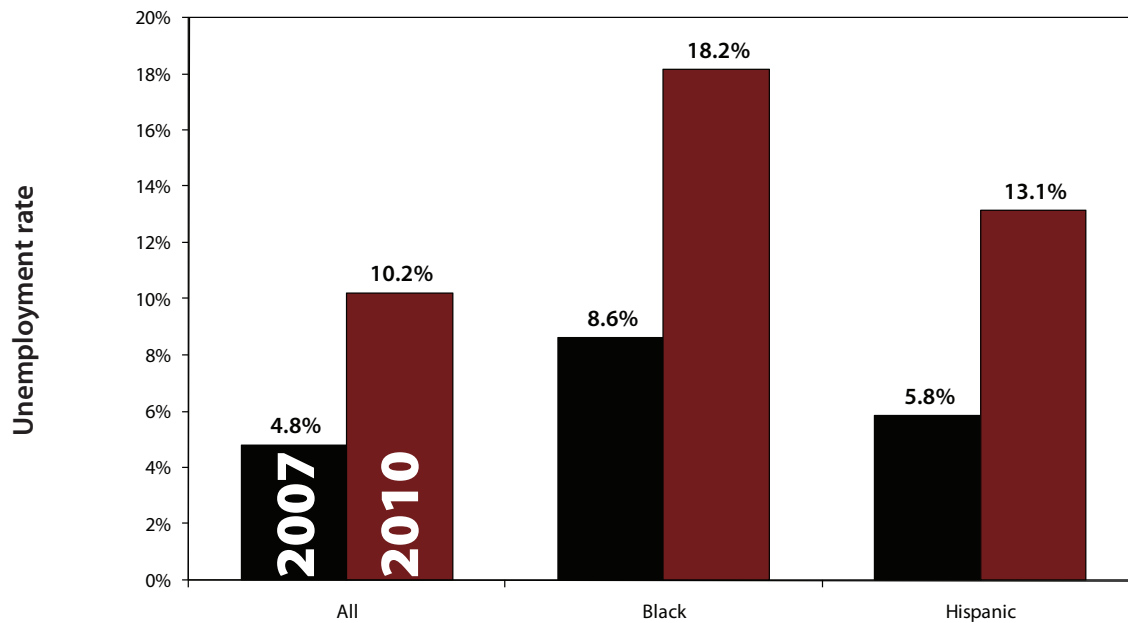
In the first year of the current recession, which began in December 2007, unemployment jumped by 2.3% (Table 1). That is a sharper increase than any other post-1970 recession (except the one in 1981).

If unemployment reaches 10.2% in the middle of 2010, it will have increased a total of 5.3% from where the rate stood at the end of 2007, when the recession began. This would clearly be the largest increase in unemployment during a recession since the 1930s (Table 1). (The actual unemployment rate reached a slightly higher 10.8% in December 1982, but it started at a higher level when that recession began.)

Without a major recovery package of public investment and other spending, this recession will also be long by historic standards, especially when it comes to the labor market, which is the way most Americans experience it. Recessions are often described by financial analysts as periods of negative gross domestic product (GDP), but

FIGURE A

### The future of unemployment without recovery package



NOTE: Data and projections are for 2007:4 and 2010:2.

SOURCE: Authors' analysis of BLS data. See Methodology Appendix for details.

that fails to capture the experience on the ground. In fact, jobs can disappear and unemployment rise even while the economy grows by GDP measures. This is because the population, and pool of workers, grows all the time. The economy must create 125,000 to 130,000 jobs every month to absorb the growth in the population alone. To create that number of jobs and hold the unemployment level steady, GDP must grow at a 2.5% to 3.0% annual rate.

For measuring how workers are doing, unemployment and underemployment rates are far more useful metrics. In this recession, unemployment started rising in the spring of 2007, when it was 4.4%. Without intervention, it is projected to reach its highest level three years later, in the spring of 2010, and then begin to fall. Still, it will likely remain near 8% (7.6% to 7.8%) at the end of 2012, a level reached only one other time in the past 28 years. It would take several more years for unemployment to drop to a level close to 4.0, which is needed to propel shared prosperity.

Thus, without federal intervention to generate jobs and income growth, we are facing a very steep rise in unemployment that will last a very long time.

## How different groups will experience the recession

Unemployment will be higher for some groups than others, but even those who are typically sheltered, such as college graduates, will see historically high rates. **Table 2** presents the array of unemployment rates expected in 2010 if the average rate is 10.2%. The projections are based on the relation between the average unemployment rate and the unemployment rate of particular groups in recent recessions (details are provided in the methodology appendix).

As the average unemployment rate more than doubles, rates will do the same for each racial and ethnic group (**Figure A**). For blacks, this means an unemployment rate exceeding 18%—double the roughly 9% rate projected for whites. Blacks experience recessionary unemployment rates in the best of times; they will face stratospheric unemployment during this recession without a major policy intervention. Hispanic unemployment would rise from 7.2% to 13.1%.

Teen unemployment, which was high at 16% at the beginning of the recession, will reach 30% overall. More than half of black teens (55.7%) and a third (35.7%) of Hispanic teens will be unemployed.

Workers without a high school degree (about 10% of all the employed in 2007) will face unemployment rates of 14.6%. College graduates (including those with advanced degrees) will see their unemployment more than double and reach 5.1%. Though low by relative standards, a 5.1% unemployment rate among college graduates far exceeds the historical high in the prior 30 years, the 3.9% reached in early 1983.

Finally, unemployment would be slightly higher for men than women (10.5% versus 9.8%) and would be higher in urban areas than the suburbs (12.9% versus 9.1%).

## Beyond unemployment to underemployment

The unemployment rate does not capture the full extent of underemployment generated by a recession. The Bureau of Labor Statistics provides the data for this broader measure, which includes two additional groups: those working part time but wanting full-time work (called “part time for economic reasons”); and those who are “marginally attached,” meaning they are neither working nor looking for work even though they want and are available for a job and have looked for work in the recent past. As **Table 3** shows the number of underemployed is significantly greater than those unemployed: 11.8 million versus 7.4 million at the end of 2007.

There has already been a sizeable increase in underemployment in this recession, from 8.7% in December 2007 to 13.5% in December 2008 (**Figure B**). The projection in **Table 3** indicates that underemployment could rise to 17.9% of the labor force, or 27.3 million people. Underemployment affects women more than men, in contrast to unemployment, which affects a greater share of men.

**Table 4** (and **Figure B**) present the projections for underemployment rates by race and ethnicity. When overall underemployment reaches 17.9% in 2010, we can expect underemployment rates for blacks and Hispanics to be much higher (25.0% for Hispanics, 27.8% for blacks)

TABLE 3

### Projected unemployment and underemployment by gender in current recession

	2007:4 (1)	2010:2 ** (2)	Change from 2007:4 to 2010:2	
			Change (2) - (1)	Percentage change (2) / (1)
<b>Unemployment (millions)</b>				
<i>All</i>	7.375	16.060	8.685	118%
<i>Men</i>	4.044	8.894	4.850	120
<i>Women</i>	3.332	7.141	3.809	114
<b>Unemployment rate</b>				
<i>All</i>	4.8%	10.2%	5.4	
<i>Men</i>	4.9	10.5	5.6	
<i>Women</i>	4.7	9.8	5.1	
<b>Underemployed (000) *</b>				
<i>All</i>	11.793	27.275	15.482	131%
<i>Men</i>	6.354	14.166	7.812	123
<i>Women</i>	5.439	13.226	7.787	143
<b>Underemployment rate *</b>				
<i>All</i>	8.1%	17.9%	9.8	
<i>Men</i>	8.0	17.2	9.2	
<i>Women</i>	8.1	18.8	10.7	

\* The U-6 measure of unemployment:

Total unemployed, plus all marginally attached workers, plus

Total employed part time for economic reasons, as a percent of the civilian labor force plus all marginally attached workers

\*\* Based on Economy.com projections assuming no stimulus/economic recovery program.

**SOURCE:** Authors' analysis of BLS data. See Methodology Appendix for details.

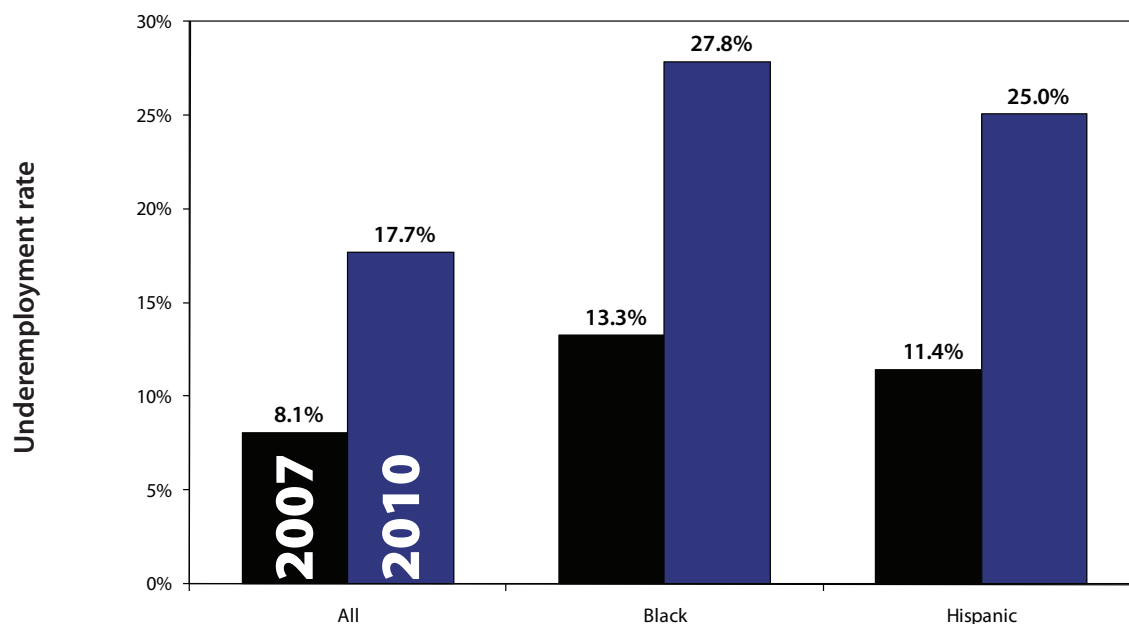
## How many affected in a year?

Unemployment rates measure the share of the labor force that is jobless in a month. This fails to capture the total share of workers who will be jobless at some point during the year, which is generally twice as large. For example, as **Table 5** shows, about 15.1 million people were unemployed at some point in 2007, although the monthly average was only 7.4 million unemployed.

Using historical patterns from the last two recessions and a projected unemployment rate of 10.2% in 2010, we can project that 33.7 million members of the labor force will experience unemployment at some point in 2010, substantially more than the 16.0 million who will show up in the average of any particular month in that year. About 8.1 million black workers would be jobless at some point during the year, as would 4.7 million Hispanics.

FIGURE B

The future of underemployment without recovery package



NOTE: Data and projections are for 2007:4 and 2010:2.

SOURCE: Authors' analysis of BLS data. See Methodology Appendix for details.

As we clearly show, unemployment rates understate the pain of a recession by leaving out underemployed workers and all those jobless during the year. It is difficult to compute the total number of people who would be unemployed or underemployed at some point in the year. A rough estimate could be made in this way: the rate of unemployment and underemployment combined is 75% greater than the rate of unemployment only, and the number of unemployed at some point in a year is more than double the average monthly number of unemployed. Doing the math suggests that as much as 35% of the labor force could experience unemployment or underemployment at some point in 2010.

### Potential income losses in the recession

Recessions also cause widespread income losses for reasons beyond unemployment and underemployment. In hard

times, many workers see their hours reduced and their wages diminished relative to inflation, as high unemployment leads to slower wage growth. Although declines will register at every income level, the sharpest income losses hit low-income families. Table 6 shows the income losses associated as unemployment potentially grows from 4.6% in 2007 to 10.2% in 2010.

On average, a family in the bottom fifth of the scale will have an annual income in 2010 that is 9.8% lower (-\$1,571) than it was in 2007 as a result of the increase in unemployment. The cumulative losses for this family through 2008, 2009, and 2010 would reach \$3,058. Families in the middle fifth would earn 7.7% (\$4,704) less income in 2010 than in 2007, and the cumulative loss would reach \$9,138 for these families. Even those in the top fifth would see their incomes adversely affected by higher unemployment, although to a lesser extent.

Another way to illustrate the impact of higher unemployment on incomes is to examine the impact on poverty.

**TABLE 4**

**Projected unemployment and underemployment by race/ethnicity in current recession**

<i>Race/Ethnicity*</i>	<b>2007:4</b> <i>(1)</i>	<b>2010:2</b> <i>(2)</i>	<b>Change from 2007:4 to 2010:2</b>	
			<b>Change</b> <i>(2) - (1)</i>	<b>Percentage change</b> <i>(2) / (1)</i>
<b>Unemployment (millions)</b>				
<i>All</i>	7.349	16.060	8.711	119%
<i>White</i>	5.315	11.413	6.097	115
<i>Black</i>	1.506	3.293	1.787	119
<i>Hispanic</i>	1.274	2.966	1.692	133
<b>Unemployment rate</b>				
<i>All</i>	4.8%	10.2%	5.4	
<i>White</i>	4.3	8.9	4.6	
<i>Black</i>	8.6	18.2	9.6	
<i>Hispanic</i>	5.8	13.1	7.3	
<b>Underemployed (millions)</b>				
<i>All</i>	11.793	27.275	15.482	131%
<i>White</i>	6.536	14.869	8.333	127
<i>Black</i>	2.166	4.796	2.630	121
<i>Hispanic</i>	2.395	5.502	3.108	130
<b>Underemployment rate</b>				
<i>All</i>	8.1%	17.9%	9.8	
<i>White</i>	6.6	14.4	7.8	
<i>Black</i>	13.3	27.8	14.6	
<i>Hispanic</i>	11.4	25.0		

\* Race and ethnic categories do not sum to 'all' because individuals are allocated to more than one race/ethnic group (e.g., a black Hispanic).

**SOURCE:** Authors' analysis of BLS data. See Methodology Appendix for details.

Sharon Parrott (2008) at the Center on Budget and Policy Priorities recently calculated (based on the last three recessions) that an unemployment rate of just 9% would cause significant increases in poverty. Parrott wrote that “The

number of poor Americans will rise by 7.5-10.3 million, the number of poor children will rise by 2.6-3.3 million, and the number of children in deep poverty will climb by 1.5-2.0 million.”



**TABLE 5**

**Unemployment over a year**

	Monthly unemployment	Unemployed in 2007	Monthly unemployment	Unemployed in 2010
	2007:4		2010:2 *	
<b>Unemployed (millions)</b>				
<i>All</i>	7.375	15.117	16.060	33.745
<i>White</i>	5.358		11.413	
<i>Black</i>	1.511	2.293	3.293	8.126
<i>Hispanic</i>	1.281	2.720	2.966	4.727

\* Based on Economy.com projections of average unemployment assuming no stimulus/economic recovery program.

**SOURCE:** Authors' analysis of BLS data. See Methodology Appendix for details.

**TABLE 6**

**Projected income losses along the income scale due to higher unemployment**

	Lowest fifth	Middle fifth	Upper fifth
<b>Annual family income (\$2007)</b>			
<i>2007</i>	\$16,068	\$61,444	\$186,529
<i>2010</i>	\$14,497	\$56,740	\$176,114
<b>Income loss in 2010 relative to 2007</b>			
<i>Percent</i>	-9.8%	-7.7%	-5.6%
<i>Dollars</i>	-\$1,571	-\$4,704	-\$10,415
<b>Cumulative loss over the 2008-10 period</b>			
<i>Dollars</i>	-\$3,058	-\$9,138	-\$20,114

\* Based on Economy.com unemployment projections assuming no stimulus/economic recovery program.

**SOURCE:** Authors' analysis of Census Bureau data.

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## Methodology Appendix

The estimates in this analysis are not precise projections, but offer a rough picture of the employment landscape in 2010 absent significant intervention. We constructed these estimates using Moody's Economy.com's projections (made in late November 2008), which cover 2009 through 2012. The key projection is that unemployment will reach 10.2% in the second quarter of 2010. Their more recent estimates, presented by Mark Zandi to Congress on January 6, indicate that unemployment could rise to 11.1% in 2010. We use the earlier projections, so the projections in our analysis, if anything, *understate* the outlook for what will happen absent a major economic recovery package.

It was necessary to estimate the labor force in 2010 in order to calculate the number of unemployed: to make such an estimate, we grew the 2008:3 labor force for a year and three quarters at an annual growth rate of 1.0 % and then applied the unemployment rate to obtain the number of workers affected.

To compute the unemployment for each demographic group in 2010 we calculated the ratio of that groups' unemployment rate in 2002-03 relative to the national unemployment rate and applied that to the 10.2% projection for 2010. In computing underemployment rates for demographic groups we started with the underemployment rate in the third quarter of 2008 and calculated the ratio of underemployment to unemployment. We applied these ratios to the unem-

ployment rate computed for mid-2010 to estimate the unemployment rates in 2010. To estimate the number of workers underemployed in mid-2010, we needed to estimate the size of the "augmented" labor force for mid-2010.<sup>1</sup> To do so, we applied an annual growth rate of 1% to the current "augmented" labor force, as described above for the labor force itself. We then applied the projected underemployment rate for 2010 to the projected size of the "augmented" labor force.

To calculate the number of people experiencing unemployment over a year we computed the ratio of "unemployed during the year" to average unemployment for the years 2002-03 and 1992-93 based on BLS published tabulations of work experience based on the March CPS. The ratios were then applied to our estimates of unemployment in 2010.

Last, we computed the change in family incomes by fifth using the elasticities from a 2002 study by Timothy Bartik as seen in Table 3.2 in Mishel et al. (2009). These estimates only take into account the rise in unemployment and the relationship between higher unemployment and family income estimated over the period since 1967. We are grateful to Mark Zandi for supplying the Economy.com projections. The race/ethnic categories used in our analysis reflect BLS categories and therefore have overlapping populations—e.g., the experience of a black Hispanic would be reflected in both categories.

## Endnote

1. The underemployment rate is defined as the number of unemployed workers plus workers who are part-time for economic reasons plus marginally attached workers, over the labor force plus the number of marginally attached workers. The denominator (labor force plus marginally attached workers) is the "augmented" labor force.

## References

- Mishel, Lawrence, Jared Bernstein, and Heidi Shierholz. 2009. *The State of Working America 2008/2009*. An Economic Policy Institute Book. Ithaca, N.Y.: ILR Press, an imprint of Cornell University Press.
- Parrott, Sharon. 2008. *Recession Could Cause Large Increases in Poverty and Push Millions into Deep Poverty*. Center on Budget and Policy Priorities, < <http://www.cbpp.org/11-24-08pov.htm> > November 24.