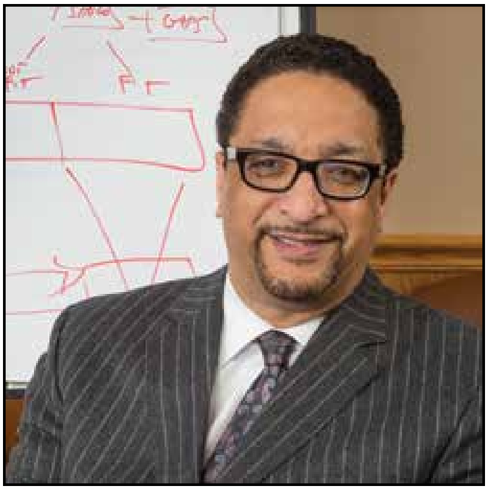
ASSISTING THE UNEMPLOYED



CLYDE MCQUEEN, president and chief executive officer of Full Employment Council, Kansas City, Mo.

THE INFLUENCE OF EXTENDED BENEFITS ON THE RECOVERY

During the Great Recession, every worker category of the labor force was adversely affected regardless of age, education and gender. For every category, the unemployment rate doubled.

It has taken eight years for unemployment to almost reach pre-recession levels—6.7 percent in January—and Federal Reserve Bank of Kansas City economist Jun Nie says extended unemployment benefits may have contributed to higher joblessness by reducing the urgency some workers felt to take a job.

Nie and Federal Reserve Bank of Atlanta economist Lei Fang wrote in their working paper, "Human Capital Dynamics and the U.S. Labor Market," that the extension of maximum benefits beyond 26 weeks made unemployed people "more relaxed and more patient in selecting jobs." This resulted in the unemployment rate staying half a percentage point higher throughout the recovery.

Although the extension of unemployment benefits depressed economic output because fewer people were working, Nie and Fang found that the extension actually increased labor productivity by allowing unemployed workers to be more patient and find employment that matched their skills.

Human capital in the workforce

The attributes of a person that are productive in some economic context are known as human capital. Researchers generally consider human capital to be closely related to educational attainment. Whether in knowledge or skills, education is an investment that provides monetary returns through increased labor compensation.

In viewing the recovery, some researchers say there is little evidence of a mismatch between jobs and workers. Instead, they say, the economy was too weak to create enough jobs.

Others say a labor market shift that was occurring before the Great Recession would have, over time, caused workers to improve their human capital by seeking more education or training to qualify for available jobs in a changing economy. This shift especially affected people in middle-skill jobs such as manufacturing. At the same time, the recession accelerated a shift for which many workers were unprepared.

Nie and Fang concluded the loss of human capital in the recession made it more difficult for the unemployed to find jobs, pushed the unemployed to quickly take low-wage jobs and made employed workers less willing to leave their current employers.

The job of being unemployed

Clyde McQueen says extended benefits helped a lot of people find employment.

McQueen is president and chief executive officer of Full Employment Council, a government-contracted organization in Kansas City, Mo., that assists the unemployed and underemployed.

"A lot of people did search for jobs, but what they really needed was to retrain and rethink their positions in the workforce," McQueen said.

The recession caused many companies to shrink their workforces through various means, including outsourcing jobs overseas, implementing technology to replace workers and eliminating jobs. And the unemployed were either underqualified or overqualified for the jobs companies were creating.

The most noticeable long-term trend in U.S. labor is a shift to a highly educated workforce. The workers in highest demand are those with the most education or skills, yet the population of highly educated workers increased at a faster rate than employment.

"People who don't have the education or skills for the jobs that are being created in this new economy are being left behind," McQueen said.

McQueen said the extension of benefits enabled people to decide whether to return to the workforce and in what capacity. It also afforded many people the capability to search for work and gave them what they may have needed most—time.

"After the recession, people interviewed for multiple jobs and some application processes were taking up to seven months," he said.

During a job search people needed to pay bills, put gasoline in their cars, keep clothes clean and stay current on the jobs market. Some of those workers, especially ones working in diminishing job sectors, needed time to gain relevant skills and knowledge.

"If you're out of work, with no money, you can't do those things," McQueen said.

"After the recession, people interviewed for multiple jobs and some application processes were taking up to seven months."

Adding to the pressure on job seekers was the changing business environment. For example, McQueen said his own company had to retool in order to remain relevant in the current economy.

"This change in environment was occurring before the recession, but at a much slower pace," he said. "The recession accelerated this change in how we do business."

Many unemployed workers, and even companies trying to stay afloat, were thrust from a labor market built for the 20th century into a 21st century labor market. Extended unemployment benefits allowed workers to meet the new century's demands, which are driven by technology.

For example, how people apply for jobs has changed. More and more companies require job seekers to fill out applications online, and in many instances, software programs vet potential candidates, replacing the need for humans to review initial applications.

"If they have time to maintain or either gain the necessary requirements needed, and if they can put it together properly, they can get into the workforce quicker and at a more productive level," McQueen said. "That's what unemployment benefits allowed many people to do."

The dual role of benefits

Regardless of what caused the changes in unemployment after the recession, Nie said if there are fewer jobs in the economy, workers should be less willing to leave their current jobs. This is true, he added, even if retaining a job results in a cut in wages—human capital loss.

And human capital loss—a depreciation in earning potential due to losing full employment—should have prompted people to leave the unemployment pool quickly.

Evidence shows, however, that extended unemployment benefits played two opposite roles in the labor market, Nie said.

First, extended benefits worked as a disincentive to the unemployed to re-enter the workforce quickly. Generous benefits made the unemployed less willing to take a job at a lower wage. Second, the extension improved efficiency as the unemployed had time to search for better jobs.

For example, men more than women were adversely affected in the recession, especially in the job sectors related to construction, manufacturing and trade, transportation and utilities. Nearly 70 percent of the unemployed after the recession were men.

In the first 18 months of the labor market recovery, however, men accounted for 90 percent of the increase in employment. Women made up 31 percent of the unemployed in the recovery and only 10 percent of the jobs gained.

Researchers found the difference between men and women finding jobs was not due to growth of male-dominated industries like construction and manufacturing. Some thought gender views of human capital played a role in this difference, although both men and women benefited from unemployment benefits.

Evidence suggests that in the face of high unemployment and falling wages, men have a higher attachment to the workforce and are more likely to accept less desirable employment opportunities than women. Women are willing to seek further education and hold out for jobs that meet their skill level and wage needs.

Although extended benefits affected all unemployed workers, regardless of gender, age or race, it had a greater effect on highly educated workers than on less-educated workers, Nie said.

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BY KEVIN WRIGHT, EDITOR

FURTHER RESOURCES

"U.S. HUMAN CAPITAL DYNAMICS AND THE U.S. LABOR MARKET"
By Jun Nie and Lei Fang
http://www.KansasCityFed.org/publicat/reswkpap/pdf/rwp14-02.pdf

COMMENTS/QUESTIONS are welcome and should be sent to teneditors@kc.frb.org.