

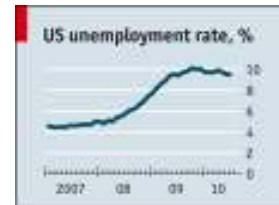
Joblessness in America

A stickier problem

America's jobs woes cannot be cured just by waiting for economic recovery

Aug 26th 2010

THE economy stopped shrinking a year ago, but America's unemployment problem is as big as ever. The official jobless rate was 9.5% in July, and would be higher still had many people not given up searching for work. Some 45% of the unemployed have been out of a job for more than six months—the highest proportion since the 1930s. And judging by the recent rise in applications for unemployment benefits, the situation may soon get worse rather than better.



Why is joblessness still so high? The prevailing view among policymakers is that unemployment is a painful reflection of the economy's weakness. Americans are out of work because the slump was deep and the recovery has been lacklustre. Stronger demand will eventually solve the problem.

The main point of contention is whether policymakers should try to speed up that process with yet more fiscal or monetary stimulus. On the congressional campaign trail Republicans tout high unemployment as proof that stimulus has failed, while Democrats, though they dare not use the "S" word, argue that more must be done to prop up growth (see [article](#)). At their annual gathering in Jackson Hole this week, Federal Reserve officials are chewing over when and how the Fed might try to boost the feeble jobs market by printing more money to buy government bonds.

This focus on stimulus is understandable. America's economy is still operating well below its potential and there is little doubt that most of the rise in unemployment is the direct result of this. But unemployment is high for other reasons too—ones largely neglected in the current debate. Thanks to the scale and nature of the housing and financial bust, the labour market has almost certainly become less efficient at matching the supply of jobseekers with the demand for workers.

People saddled with mortgages worth more than their homes are less able to move in pursuit of new jobs. The skills of those out of work—disproportionately low- and medium-skilled men in construction and manufacturing—may not be those that employers now need. Extensions of unemployment insurance by Congress have been necessary but have also reduced incentives to seek work quickly. And long periods of joblessness in themselves make people less employable. All this erodes America's famed flexibility.

European history lessons

If America's labour market is less efficient, the country's "structural" or "natural" rate of unemployment will be higher. The IMF now reckons it may have risen from 5% before the crisis to 6-6.75%. If so, around one-third of the rise in America's joblessness is impervious to the business cycle and cannot be solved by boosting demand (see [article](#)). That possibility suggests that the debate over more stimulus is important, but insufficient. America needs a more comprehensive strategy to combat joblessness. But what exactly should it include? Much of what economists know about structural unemployment has been gleaned from the sorry history of continental Europe, where fat benefits and rigid firing rules dulled labour-market efficiency. That experience mostly offers pointers to what not to do, from adding to employers' regulatory burdens to letting the long-term jobless shift to the disability rolls.

Getting the to-do list right is trickier, not least because misguided meddling could make unemployment worse. But two avenues seem worth pursuing. The first is a more determined effort to help those trapped in "negative equity" to restructure the mortgages on their homes—an area where the Obama administration has been notably timid. The dire figures for house sales during July, released this week, show how urgent this is. Legal changes, such as a revision to the bankruptcy code that allowed judges to reduce mortgage debt, could help. The second line of attack is to overhaul schemes that help workers retrain and encourage them to search for work. That need not mean more spending (though America does spend a lot less than other rich countries on such "active" labour-market policies). The bigger problem is that existing schemes are fragmented and often ineffective.

The speed of the recovery will still be the main influence on the jobless rate. But if a chunk of America's unemployment is structural, its policymakers need urgently to think beyond stimulus measures, and also to adopt more targeted policies to help the millions stuck in the wrong place with the wrong skills. Otherwise, even a return to brisk economic growth (something that scarcely looks likely right now) will not be enough to rescue them from the breadline.

Leaders

[About *The Economist* online](#) [About *The Economist*](#) [Media directory](#) [Staff books](#) [Career opportunities](#) [Contact us](#) [Subscribe](#)

[\[+\] Site feedback](#)

Copyright © The Economist Newspaper Limited 2010. All rights reserved. [Advertising info](#) [Legal disclaimer](#) [Accessibility](#) [Privacy policy](#) [Terms & Conditions](#)

[Help](#)