Recession and Recovery

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# Unemployment and Income in a Recession

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With many forecasting a long and deep recession, a look back at how individuals and families fared leading up to, during, and after the economic downturns of the past 35 years could help policymakers deal with the current economic crisis.

Dating the beginning and end of a recession requires taking many factors into account, but one hallmark that directly involves individuals and families is the unemployment rate—the share of the civilian noninstitutionalized population that wants work but cannot find it. The U.S. unemployment rate stood at 6.7 percent in November 2008 and is sure to climb in the coming months (U.S. Bureau of Labor Statistics 2008). Unemployment rates above 6 percent have been extremely rare since the economic expansion of the 1990s accelerated in 1995 (figure 1).[1] Between 1995 and 2007, the annual unemployment rate was below 6 percent in every year except 2003. For the most part, workers under the age of 40 have spent their entire working lives in a relatively strong labor market.

But things were very different for older cohorts. Americans in their mid-50s spent the first half of their working lives negotiating some pretty tough labor markets. Consider the years between 1974 and 1994. The average unemployment rate topped 6 percent for 16 of those years and 7 percent for 11 of them. During the worst years, 1982 and 1983, the annual unemployment rate exceeded 9 percent. When it dropped to 7.5 percent in 1984, Americans celebrated the economic revival.

As figure 1 illustrates, unemployment rates begin to rise rapidly at the start of a recession. During the 1974–75 and 1980–82 recessions, the unemployment rate's decline coincided with the end of the recession. But the downturns of 1990–91 and 2001 saw unemployment continue to climb even after the recessions ended, declining only a year or more after the economy had started growing again. It took about five years for the unemployment rate to drop below its pre-recession levels after the 1980–82 and 1990–91 recessions; the rate never returned to its pre-recession levels during the recoveries following the 1974–75 and 2001 recessions. Thus, even if the current recession ends in 2009, we may not see unemployment rates as low as 2007's 4.6 percent for years to come.

*FIGURE 1. Unemployment Rate and Employment-Population Ratio, 1974–2007*


*Source:* U.S. Bureau of Labor Statistics.

*Note:* The annual employment-population ratio was calculated by averaging the monthly employment-population ratios for each year.

The unemployment rate, however, tells only part of the story. The jobless who have become so discouraged that they fail to look for work are not considered to be in the labor force. The second line on figure 1 shows the share of *all* adults who are working, or the employment-to-population ratio. It moves in the opposite direction of the unemployment rate but shows the same pattern. The employment-to-population ratio has generally risen over time from around 56 percent in the mid-1970s to over 64 percent in 1999 and 2000, before ebbing below 63 percent in 2007. By November 2008, it had fallen to 61.4 percent.[2] Note that neither the unemployment rate nor the employment-to-population ratio registers underemployment—people working part time who would prefer full-time work

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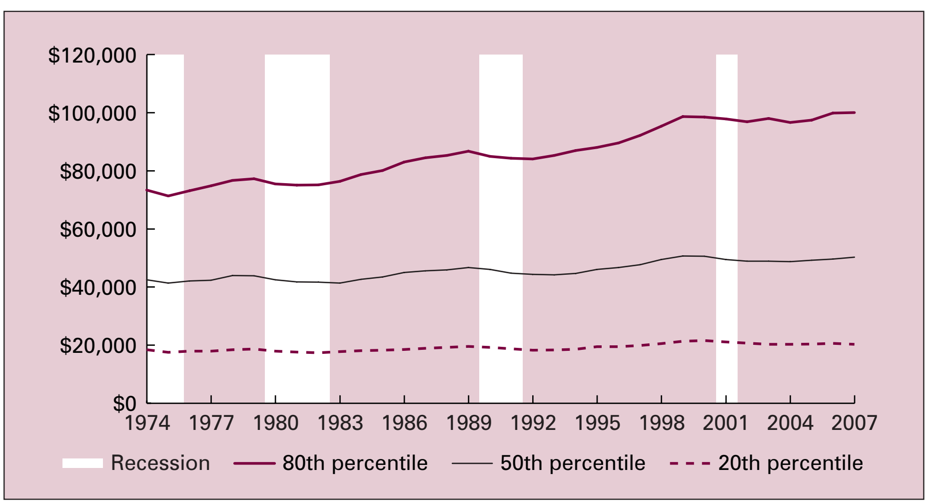
or working in low-paying jobs for which they are overqualified.

The most basic measure of family economic well-being is income. Whether through job loss, the loss of overtime pay, limited wage growth, or even pay cuts, family incomes decline during recessions. As a consequence of the 1980–82 recession, real median household income fell 5.7 percent from its pre-recession level in 1979 until it hit bottom in 1983 (figure 2).[3] Not until 1986 did real median household income exceed its pre-recession levels. This pattern repeated itself during the recession of the early 1990s, with income falling by 5.4 percent from 1989 to 1993, and not exceeding its 1989 level until 1996. In 2007, the median household's income was $50,233. If history is a guide and incomes fall 5 to 6 percent over the next few years, they will fall to almost $47,500—about the level of real median household income in 1997.

Lower-income households experience greater income losses (as a percentage of income) during recessions, and it takes them somewhat longer than higher-income households to get back on their feet. Real income at the 20th percentile of the income distribution fell 7.0 percent during the early 1980s' recession from its 1979 pre-recession peak to its trough in 1982. In contrast, income at the 80th percentile fell only 2.8 percent from peak to trough. This pattern repeats during the 1990–91 and 2001 recessions. Further, after the 1980–82 recession, income at the 20th percentile did not return to its pre-recession level until 1987, while income at the 80th percentile recovered by 1984. The same pattern holds following the 1990–91 and 2001 recessions—in fact, even by 2007, income at the 20th percentile was still below its 2000 pre-recession peak.

There is no guarantee that this recession will be like the last—especially given the weakened state of the global financial system. But the past can give us a perspective on the future. Rising unemployment and falling incomes will take a toll on American families and their standards of living. The effects will be felt most directly by those who lose their jobs and potentially their homes, but almost all Americans will see their standards of living at least stagnate, if not drop. Nevertheless, unemployment rates well above today's 6.7 percent were common for Americans during the 1970s and 1980s, yet most families were able to cope, albeit with considerable sacrifice. And recessions, even long and deep ones, do eventually end.

*FIGURE 2. Household Income, 1974–2007*




*Source:* U.S. Census Bureau (2008).

*Note:* Income is converted to 2007 CPI-U-RS adjusted dollars.

## Notes

1. Historical data on unemployment rates come from U.S. Bureau of Labor Statistics, "Annual Average Unemployment Rate, Civilian Labor Force 16 Years and Over (percent)," http://www.bls.gov/cps/prev_yrs.htm.
2. Data are from U.S. Bureau of Labor Statistics web site, http://data.bls.gov/PDQ/servlet/SurveyOutputServlet.
3. Income data are from the U.S. Census Bureau.

## References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