

Special Commentary — May 24, 2022

Diversity & Inclusion: A Tale of Two Economies

Part III: The Path to an Inclusive Labor Market Recovery

Summary

Whether a recession is mild or severe, it tends to affect the Black or African American labor market more than other groups. Consequently, long-term unemployment appears to be a durable trend within the Black labor market. In this third and final installment, we take a deeper dive into the implications of long-term unemployment and conduct scenario analysis.

The first simulation assumes, all else equal, that the Black or African American and national labor markets experienced the same paces of recovery.

- Under this simulation, the Black labor market shows significant improvement by following the same recovery pace that the national market observed.
- For example, during the expansionary phase following the 2007-09 recession, the projected Black unemployment rate is lower by 0.27 percentage points (pp) per quarter, on average, than the actual Black unemployment rate during that period.
- The faster recovery of the Black labor market also boosts the national recovery pace, driving a 1.15pp total drop in the U.S. unemployment rate over the recovery phase from the Great Recession.

The second simulation repeats the process of Scenario One, but assumes that the Black women and national labor markets experienced the same paces of recovery.

- There would have been a 10.65pp increase in employed Black women had they experienced the same pace of recovery that the overall labor market observed during the post-Great Recession era.
- The faster recovery among Black women reduced the aggregate unemployment rate by 1.85pp in the expansion following the Great Recession.
- By the same token, the faster recoveries among Black women caused the national unemployment rate to decline by 0.71pp following the 2001 recession and 1.11pp after the 1990-91 downturn.

Our findings ultimately suggest that an intersectional approach provides a clearer and more holistic picture of the labor market's health. By identifying subgroups that play a major role in their broader community's labor market, we are able to discern targeted considerations for policymakers, such as those at the Federal Reserve Board, who aim to maximize employment in a broad-based and inclusive manner. In turn, the scenarios presented here suggest that focusing on specific groups, such as Black women, can have major implications for the national labor market.

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Introduction

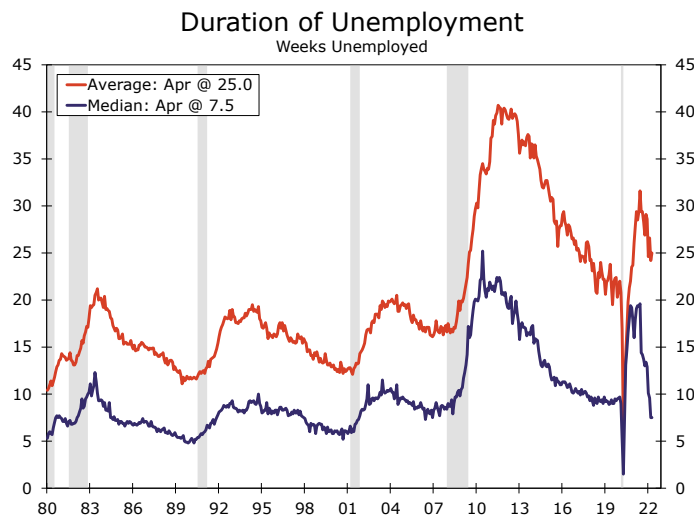
In [Part I](#) of this series,¹ we introduced an approach to analyzing the unemployment recovery across different communities based on race/ethnicity and gender and measured the economic damages from the COVID recession. We found that the pandemic resulted in asymmetric damages to some segments of the population, and the pace of recovery from the subsequent recession has varied. In [Part II](#), we applied our framework to the past three business cycles (recessions in 2007-09, 2001 and 1990-91). Our analysis suggests that each recession has produced asymmetric damages, and the severity of those damages varies greatly by community.

Whether a recession is mild or severe, it tends to affect the Black or African American labor market more than other groups. Consequently, long-term unemployment appears to be a durable trend within the Black labor market. In this third and final installment, we take a deeper dive into the implications of long-term unemployment and conduct scenario analysis. Does the Black or African American unemployment rate's slower pace of recovery have implications for the national labor market?

What Is Long-Term Unemployment?

Multiple challenges arise when workers are disconnected from employment for prolonged periods. Long-term unemployment is tracked on a monthly basis by the Bureau of Labor Statistics (BLS) and is formally defined as an unemployment spell of 27 weeks or more. The loss of a job certainly has a profound impact on an individual, but the effects go beyond just income. The deterioration of social networks tends to make reemployment more difficult. As months pass, reaching out to former colleagues or other professional contacts can become an onerous experience. The longer a worker is unemployed, the greater the chance they lose their skills, or their skills become obsolete. Even when employment growth picks up, the long-term unemployed may not have the skills or education required by the new available jobs.

Figure 1

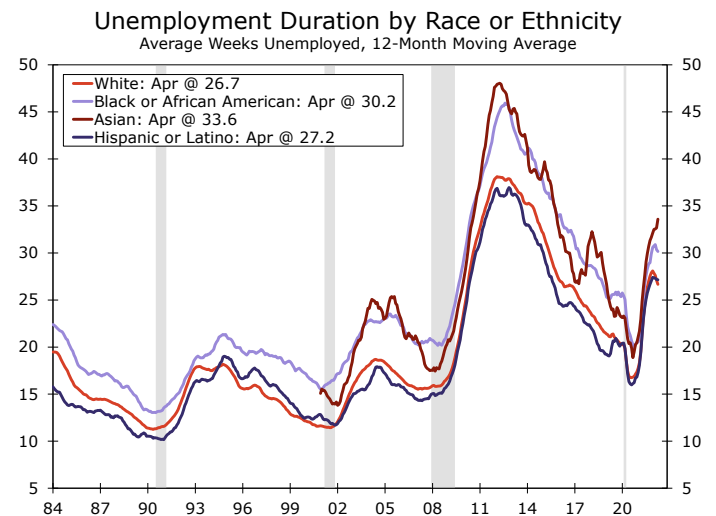


Source: U.S. Department of Labor and Wells Fargo Economics

Beyond the unemployed worker themselves, long-term unemployment can have negative consequences for the worker's family and broader communities. Children whose parents suffer longer unemployment and larger income losses may experience worse education and labor market outcomes. At the community level, high concentrations of unemployment are associated with higher poverty rates.²

During the expansionary phase following the Great Recession, the average duration of unemployment was slower to recover than the median duration of unemployment. Similar dynamics have played out in the aftermath of the COVID recession ([Figure 1](#)). The large spread between the average and median suggests that a subset of workers continues to face long spells of unemployment, pulling the average duration higher. While several worker characteristics and macroeconomic factors can influence unemployment durations, breaking out the series by race or ethnicity shines a light on disparities across communities. As shown in [Figure 2](#), the average unemployment duration for Black or

Figure 2



Source: U.S. Department of Labor and Wells Fargo Economics

African American and Asian workers has generally trended above that of White and Hispanic or Latino workers over the past few decades. Research from the BLS supports this notion, finding that Black male workers, in particular, have higher odds of experiencing a long-term unemployment spell in any given month and are also less likely than their counterparts to be reemployed after a long-term jobless spell.³

Estimating Different Paces of Recovery

With long-term unemployment being a more durable trend within the Black or African American labor market, we turn to scenario analysis to decipher whether a faster recovery in the Black unemployment rate would have led to a faster labor market recovery at the national level. Returning to the framework presented in Part I and Part II of this series, we employ the CBO's estimate of the natural rate of unemployment as a benchmark in our analysis. First, we identify the recovery period of the past three business cycles, or the time between the peak-quarter unemployment rate and the quarter when the overall labor market reached the natural rate. For example, the U.S. unemployment rate peaked at 9.9% in Q4-2009 and crossed the natural rate of 4.6% in Q1-2017, making the recovery period 30 quarters.

Next, we calculate the growth rate of unemployed persons during the recovery period ([Table 1](#)). The average growth rate of unemployed persons was -2.47% during the expansionary phase following the Great Recession. Said another way, the number of unemployed people dropped by an average of 2.47% per quarter following the 2007-09 downturn. The comparable statistics for the Black and White labor markets are -1.96% and -2.76%, respectively. The White labor market experienced the fastest drop in unemployed persons during each of the past three cycles.

Table 1

Estimating Paces of Recovery

By Race During the National Recovery Phase*, Percentage Points			
Business Cycle	Average Growth Rate of Unemployed Persons**		
	Overall	Black	White
1990-1991	-2.00	-1.30	-2.16
2001	-2.12	-1.39	-2.27
2007-2009	-2.47	-1.96	-2.76

*Over the same quarters taken for national U.R. cycle peak to reach the natural U.R. (cycle-end)

**Average growth rate per quarter over the recovery phase

Source: U.S. Department of Labor, CBO and Wells Fargo Economics

We measure the pace of recovery in this way to allow us to impose a specific growth rate to reconstruct the unemployment rate based on the average drop. For example, while the White labor market saw an average 2.27% drop in unemployed persons following the 2001 recession, we could "shock" the series by inputting a different growth rate to see how the change effects the White and overall unemployment rates.

Scenario One

The first simulation assumes, all else equal, that the Black or African American and national labor markets experienced the same paces of recovery over the past three business cycles. In other words, we take the U.S. average growth rate of -2.47% per quarter following the Great Recession and plug that rate in for the overall and Black labor markets in our scenario. We then use that average growth rate to reconstruct the U.S. aggregate and Black unemployment rates and repeat the process for the 2001 and 1990-91 cycles. Our results are reported in [Table 2](#).

Under this simulation, the Black labor market shows significant improvement by following the same recovery pace that the national market observed. For example, during the expansionary phase following the 2007-09 recession, the projected Black unemployment rate is lower by 0.27pp per quarter, on average, than the actual Black unemployment rate during that period. The stronger recovery pace led the projected Black unemployment rate to be a whopping 10.83pp less than the actual rate over the recovery phase.

Table 2

Scenario One: Same Paces of Recovery for the Black and National Labor Markets

Business Cycle	Overall		Black	
	Average Drop in U.R.*	Total**	Average Drop in U.R.*	Total**
1990-1991	0.02	0.54	0.20	6.95
2001	0.03	0.50	0.21	3.70
2007-2009	0.03	1.15	0.27	10.83

*The average quarterly percentage point drop in unemployment rate from the peak to the cycle-end

**The total percentage point drop in the unemployment rate over the recovery phase

Source: U.S. Department of Labor, CBO and Wells Fargo Economics

The faster recovery of the Black labor market also boosts the national recovery pace. Following the 2007-09 recession, the overall unemployment rate drops by an average of 0.03pp per quarter in response to a faster recovery in the Black or African American labor market. The quicker pace drove a 1.15pp total drop in the U.S. unemployment rate over that same recovery phase. Put differently, all else equal, a faster jobs recovery among Black workers would have led to a 1.15pp increase in total employed workers in the United States during the post-Great Recession era.

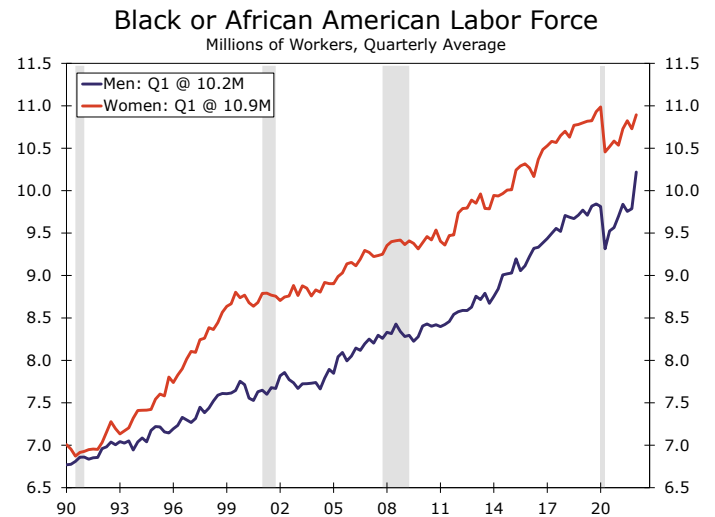
Using the same assumption, the Black unemployment rate is reduced by 0.21pp per quarter, with a total reduction of 3.7pp, following the 2001 recession. The comparable figures for the recovery phase following the 1990-91 recession are an average drop of 0.2pp per quarter, with a 6.95pp total drop in the Black unemployment rate. The implications for the national market follow the same trend. The national unemployment rate would see a total drop of 0.5pp for the 2001 cycle and a 0.54pp reduction for the 1990-91 cycle. Ultimately, a faster pace of recovery among Black workers reduces the national unemployment rate.

Scenario Two

The second simulation repeats the process of Scenario One, but assumes that the Black women and national labor markets experienced the same paces of the recovery. We decided to run the scenario with Black women specifically for two reasons. First, there are more women than men in the Black or African American labor force (Figure 3). Second, Black women have experienced a slower pace of recovery relative to Black men and the Black labor market at large over the past three business cycles. For instance, the average growth rate for unemployed Black women was -1.62% following the Great Recession, -1.09% after the 2001 dotcom bust and -0.95% following the early 1990s downturn. Black men, on the other hand, observed larger average drops (i.e. faster recoveries) at -2.1%, -1.34% and -1.51%, respectively.

As shown in Table 3, there would have been a 10.65pp increase in employed Black women had they experienced the same pace of recovery that the overall labor market observed during the post-Great Recession era. The scenario also suggests an average drop of 0.27pp per quarter in the unemployment rate for Black women during the cycle. Over the same period, the U.S. unemployment rate would have been 1.85pp lower. By the same token, the faster recoveries among Black women caused the national unemployment rate to decline by 0.71pp following the 2001 recession and 1.11pp after the 1990-91 downturn.

Figure 3



Source: U.S. Department of Labor and Wells Fargo Economics

Table 3

Scenario Two: Same Paces of Recovery for Black Women and National Labor Markets

Business Cycle	Overall		Black Women	
	Average Drop in U.R.*	Total**	Average Drop in U.R.*	Total**
1990-1991	0.03	1.11	0.20	6.72
2001	0.04	0.71	0.17	2.98
2007-2009	0.05	1.85	0.27	10.65

*The average quarterly percentage point drop in unemployment rate from the peak to the cycle-end

**The total percentage point drop in the unemployment rate over the recovery phase

Source: U.S. Department of Labor, CBO and Wells Fargo Economics

Conclusion

In sum, our first scenario suggests that a faster pace of recovery in the Black or African American labor market at large would help to reduce the magnitude of long-term unemployment in the Black community. That is, if Black individuals experienced a similar pace of improvement in the number of unemployed individuals as the national labor market, then employment conditions would generally improve within the Black labor market and durations of unemployment would presumably decline. The faster recovery among Black workers would also boost the pace of the national labor market recovery in each of the past three business cycles.

Our second scenario, which considers a quicker rebound among Black women specifically, highlights the importance of concentrating on gender dimensions in addition to racial and ethnic identities. Women more broadly experience slower recoveries in employment due a variety of factors, but the lofty costs associated with finding and paying for childcare have largely driven [recent trends](#). Black women, in particular, have faced historical structural exclusion from the country's economic, political and educational institutions, which has likely shaped the community's greater job insecurity during economic downturns.

Bottom line, our findings indicate that an intersectional approach provides a clearer and more holistic picture of the labor market's health. By identifying subgroups that play a major role in their broader community's labor market, we are able to discern targeted considerations for policymakers, such as those at the Federal Reserve Board, who aim to maximize employment in a broad-based and inclusive manner. In turn, the scenarios presented here suggest that focusing on specific groups, such as Black women, can have major implications for the national labor market.

Endnotes

1 This series is based on a 2022 American Economic Association Annual Meeting paper by Azhar Iqbal titled *Diversity & Inclusion: A Tale of Two Economies*. Please contact Wells Fargo Economics if interested in the full paper. ([Return](#))

2 See Austin Nichols, Josh Mitchell, and Stephan Lindner, "[Consequences of Long-Term Unemployment](#)," *The Urban Institute*, July 2013. ([Return](#))

3 The article specifically tracked unemployment conditions among men born in the years 1957-64 from their labor market entry through 2009. See Donna S. Rothstein, "[An analysis of long-term unemployment](#)," *Monthly Labor Review*, U.S. Bureau of Labor Statistics, July 2016. ([Return](#))

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