



**Arabella**  
Advisors

# Opportunities to Address Long-Term Unemployment

## ABOUT THE PROJECT

Arabella Advisors, with support from the Rockefeller Foundation, conducted an in-depth analysis of the causes and consequences of long-term unemployment and strategies to address it. Arabella interviewed over 40 policymakers, economists, employment advocates, employers, training providers, and funders. Its research also included a review of relevant literature and a thorough analysis of employment-related grant making. Its work was further informed by research partners, including the Urban Institute and IDEO.org. Unemployment experts at The Urban Institute conducted an extensive literature review and data analysis on the characteristics, causes, consequences, and policy options on issues of long-term unemployment. The IDEO team conducted in-depth interviews with unemployed workers and employers to produce an insights document and an accompanying video.

Long-term unemployment is an unrelenting, debilitating hardship for millions of Americans, and dealing with this challenge requires a comprehensive strategy that will address the needs of both job seekers and employers. Weak labor demand in the wake of the Great Recession threatens to create a cohort of workers who face a lifetime of diminished wages and opportunities. Despite the scale and urgency of the problem, few programs focused on employment issues address challenges specific to long-term unemployment. However, those hoping to address this problem can adapt a number of existing approaches and use them to increase demand for long-term unemployed people, better equip them with the skills necessary for in-demand positions, and improve employment processes to better match them with open jobs. Taken together, these efforts can help place long-term unemployed people in good jobs, improve their livelihoods, increase their social and economic security, and fortify their resilience.

## THE CAUSES AND IMPACT OF LONG-TERM UNEMPLOYMENT

Although the economy is improving and unemployment rates as a whole are slowly dropping, long-term unemployment rates remain disturbingly high. As of May 2013, 4.4 million people were still long-term unemployed—meaning they had been out of work for 27 weeks or longer. These long-unemployed people make up 37.3 percent of the total unemployed population in the United States—a higher proportion than during any other post-war recession.<sup>1</sup> In addition, this recession was marked by a longer duration of unemployment compared to past recessions. From 2009 to 2012, the proportion of the unemployed who were out of work for 99 weeks or longer rose from 6 percent to 14 percent. Even if long-term unemployment continues to decline at the current rate, 1.5 million people will still be long-term unemployed in 2020.

Bureau of Labor Statistics figures on the long-term unemployed do not include several populations who are also significantly impacted by long-term unemployment. Eight million individuals are “underemployed,” meaning that while they may be able to find part-time work, they want but are unable to find full-time employment. Another 2.3 million workers remain “marginally attached” to the labor market, including 835,000 discouraged workers who have sought jobs during the past 12 months but have not looked for work in the past four weeks.<sup>2</sup> Official figures also do not account for those who have chosen early retirement or have dropped out of the workforce completely because they were unable to find work.

### Root Causes of Long-Term Unemployment

A literature review conducted by the Urban Institute for this project determined that weak labor demand and the anemic economic recovery have driven these historic unemployment challenges, including challenges related to long-term unemployment. Most economists agree and believe hiring should increase as labor demand rises. However, economic growth thus far has been too sluggish to significantly reduce overall unemployment:<sup>3</sup> for every job available, there are multiple unemployed workers.

At the same time, some long-term unemployed people lack the experience necessary for meaningful employment and will continue to face challenges even after labor demand increases. Over half (54.2 percent) of the long-term unemployed have a high-school diploma or less.<sup>4</sup> During the Great Recession, the economy lost 5.6 million jobs for these Americans, and lost 1.75 million jobs that require an associate’s degree or some college.<sup>5</sup> Many employers report they are unable to find workers with the skills they need. For example, a survey conducted by the Society for Human Resource Management showed that 66 percent of polled organizations hiring full-time staff are having a difficult time recruiting for job openings because applicants lack specific skills. And the skills gap is pronounced in some industries, such as manufacturing.<sup>6</sup> In 2012, while 13 million individuals remained unemployed, nearly half of the employers surveyed for a Manufacturing Institute study reported that they were unable to fill open positions.

Perhaps most challenging for those who have long been out of work is the self-perpetuating cycle that makes it harder for them to find a job the longer they are unemployed. Unemployed workers lose opportunities to update their skills and job-specific competencies and may lose touch

with their professional networks.<sup>7</sup> Even if this erosion of skills and networks does not affect workers, employers often see long-term unemployment as a sign of an applicant’s lack of productivity.<sup>8</sup> Recently, researchers at Northeastern University found that job applicants who have been out of work for over six months received dramatically fewer callbacks from potential employers, despite having better qualifications than those who have been employed during that time.<sup>9</sup> Personal barriers can exacerbate this trend, including a lack of English proficiency, lack of child care or transportation, a criminal record, housing instability, multi-generational poverty, health issues, and substance abuse.<sup>10</sup>

Inefficiencies in job-seeking and recruiting processes also increase the barriers facing long-term unemployed job seekers. IDEO.org found that, as unemployment persists, these job seekers are more likely to apply to jobs that do not fit their qualifications or experience. This influx of applications creates a “digital deluge” that overwhelms employers. In order to sift through all the applications, employers rely on stringent criteria to narrow down the applicant pool, and the long-term unemployed are often screened out early. Current employment processes also suffer from a communications gap between job seekers and employers. Existing application processes hinder the ability of job seekers to effectively market their skills, and they are challenged to explain the large holes in their resumes. Employers struggle to effectively communicate what skills they need from the workforce and to identify strong applicants.<sup>11</sup>

### Who is Affected by Long-Term Unemployment?

The challenges of long-term unemployment in the wake of the Great Recession have impacted every demographic, every industry, and every region in the United States. Long-term unemployment rates are worse than at any other comparable time in the post-war period, peaking at 45 percent of the unemployed in 2010 compared to 25 percent during the 1983 recession.<sup>12</sup> However, the challenges of long-term unemployment affect poor and vulnerable populations most dramatically. In general, the long-term unemployed tend to be non-white, unmarried, disabled, and impoverished. African Americans, in particular, disproportionately experience long-term unemployment. While African Americans make up 10.5 percent of the total employed population, they represent 22.6 percent of the long-term unemployed. Not surprisingly, poor populations have also been particularly affected by long-term unemployment, as

they are forced to deplete any remaining savings or assets and rely on public assistance.

Workers at both ends of the age spectrum are also disproportionately affected by long-term unemployment. Younger workers struggled to enter the labor market during the Great Recession, and without work experience or established professional networks, continue to experience high rates of unemployment. Many face mounting student loan debts and expiring grace periods. Those who start their careers during times of high unemployment also have lower lifetime earnings than those who begin their careers in better economic conditions. Long-term unemployment also harshly affects older workers ages 46 to 65. Once they become unemployed, older workers tend to remain unemployed longer than other age groups. As older Americans become discouraged by the job search, many opt for early retirement, damaging their lifetime earnings, retirement savings, and long-term quality of life.

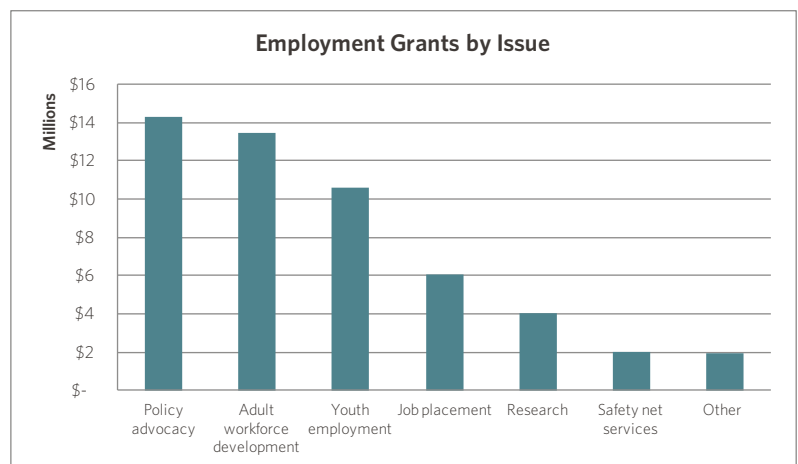
## The Consequences of Long-Term Unemployment

Those impacted by long-term unemployment are at a significant risk of health impacts and lifetime income loss. For many, the threshold wage for accepting a job significantly decreases as unemployment persists, contributing to a typical 5 to 10 percent wage cut upon reemployment.<sup>13</sup> In addition, workers displaced during recessions have been shown to experience a 19 percent income decline 25 years after the recession's end. Research shows that long-term unemployment can also have adverse effects on workers' health, including increased rates of disability, depression, addiction, and other mental health issues. Family upheavals, disruptions, and emotional stress can also cause depressive symptoms in the children of the long-term unemployed.

## LANDSCAPE OF EFFORTS TO ADDRESS LONG-TERM UNEMPLOYMENT

While no funder currently focuses on long-term unemployment as a distinct issue, employment funders have made significant investments in issues related to long-term unemployment, particularly during recessionary periods. From 2000 through 2011, about 1,100 funders made nearly 7,000 grants for employment issues totaling approximately \$450M. A modest increase in giving followed the recession in 2000; a more pronounced spike in giving occurred in 2009. The top 12 employment funders<sup>14</sup> accounted for 32 percent—\$48.6M—of all employment-related giving from 2009 through 2011. Grants focused on the long-term unemployed remain a small portion of the grant making of these funders. Only six percent, or \$3.2M, of these funders' grant dollars focused specifically on the long-term unemployed.

While the majority of employment grant dollars have historically supported service provision, advocacy remains an important component of this work. Roughly 60 percent of the total grant dollars between 2009 and 2011 supported program delivery, including adult workforce development, youth employment, job placement, and safety net services. At the same time, the top 12 funders provided \$14.3M (or 29 percent of total grant dollars) to a broad range of federal and state policy advocacy efforts.



Source: Arabella Advisors analysis of compiled grants data from 2009-2011

Leading employment funders remain largely focused on improving workforce policies and programs to train and place low-income workers in middle-wage jobs, often with a focus on distinct populations and/or specific geographies. Much employment-related grant making is conducted through a population lens, targeting vulnerable families, the incarcerated, disconnected youth, children, older workers, the disabled, or veterans. A third, or \$16.7M, of employment funders' grant dollars targeted vulnerable populations.

A majority of grants focused on employment are also regionally or locally focused: 60 percent or \$29.7M of leading funders' grant dollars between 2009 and 2011

went to regionally and locally focused efforts that largely supported program development and delivery. The remaining \$20.1M were allocated to national or field-level efforts, particularly for research and policy advocacy.

Long-term unemployment remains a gap in the landscape, and there is a significant opportunity to adapt existing efforts to help address range of demand, skills, and matchmaking needs hindering the efforts of long-term unemployed job seekers.

## POTENTIAL APPROACHES TO ADDRESS LONG-TERM UNEMPLOYMENT

Given weak labor demand and the many exacerbating factors that hinder reemployment, creating opportunities for the long-term unemployed will require a combination of approaches to address systemic issues of weak labor demand, skills barriers, and challenges within employment processes. Employment advocates, funders, training institutions, and public agencies can build upon and adapt innovative efforts already developed to address broader challenges in the labor market—including subsidized employment, improved training and workforce development, and innovative hiring platforms—to create a comprehensive strategy to stem long-term unemployment.

This comprehensive strategy should:

- Increase employer demand for workers who are vulnerable to long-term unemployment.
- Ensure long-term unemployed workers have the skills and credentials necessary to access and retain middle-wage jobs.
- Improve employment processes to better match long-unemployed job-seekers with open jobs.

### Increasing Demand for Long-Term Unemployed Workers

Public and private programs experimenting with subsidized employment models to stimulate employer demand for long-term unemployed workers are beginning to show promise. Emerging interventions pair subsidized employment with counseling and support services to reduce employers' risk when hiring the long-term unemployed. One such program, Platform to Employment (P2E), has garnered national attention for its success and has brought more attention to the unique needs of the long-term unemployed. P2E has placed 80 percent of program participants in its Connecticut pilot program into work experience programs, and almost 90 percent of those move on to full-time employment. P2E is currently expanding to 10 communities across the country.

A number of states and localities are also experimenting with innovative subsidized employment models and financing mechanisms that show early promise. Congress allocated

\$1.3 billion of stimulus funding in the 2009 American Recovery and Reinvestment Act to support new or existing subsidized employment programs. Thirty-nine states took advantage of the funding, creating over 260,000 jobs. Interest in this approach continues to grow, as President Obama included \$8 billion for subsidized employment of unemployed and low-income adults in his proposed budget for 2014. Another approach—using public subsidies to support wages at companies that would otherwise have to reduce hours (“work sharing”)—has enjoyed success internationally and is gaining traction in the United States. More than two dozen states use federal funding to subsidize lost employment hours, and work sharing efforts have provided \$92.3 million to companies to retain workers in 11 states since September 2012.

Those interested in helping increase demand for long-unemployed people have the opportunity to help scale promising subsidized employment models through policy reform and capacity-building. Potential methods include:

- **Providing states with technical assistance to implement subsidized employment**, including building the capacity of local programs and promoting best practices at the state level.
- **Supporting federal policy efforts to expand subsidized employment** as part of the reauthorization of the Workforce Investment Act, the Temporary Assistance to Needy Families program, and other sources of potential funding (e.g., the president's proposed FY2014 budget).

### Ensuring Long-Term Unemployed Workers Have In-Demand Skills and Credentials

Efforts to create pathways to in-demand jobs for low-skilled youth and adults by equipping them with necessary skills have gained momentum. Low-skilled workers often get lost in the myriad training and work support programs and agencies (e.g., workforce and human services agencies, community organizations, community colleges, etc.) and struggle to determine what expertise they need to find a job. Consequently, more funders, advocates, and public agencies are now taking the career pathways approach to



connect training and education to concrete employment opportunities. This approach aligns disparate education and support systems to boost the skills of low-skilled workers and place them in jobs. Currently, the Alliance for Quality Career Pathways, a 10-state consortium, is working to scale these models by identifying benchmarks for high-quality career pathways and metrics for measuring their success. In addition, the Workforce Data Quality Campaign is advocating for state and federal policies that align education and workforce data systems to guide more-strategic investments in the workforce and provide better information to students and workers about which programs are most likely to help them find jobs.

Employers are also becoming more actively engaged in workforce development, which can help accelerate reemployment of the long-term unemployed through industry-focused training. According to the Center on Education and the Workforce, employers spend \$454 billion on training, while the public workforce system spends just \$16 billion.<sup>15</sup> Industry-based partnerships that align workforce programs with employer needs are becoming widely recognized as an effective model for training. For example, the National Fund for Workforce Solutions (NFWS) seeks to advance a model for training that starts by mapping an industry's needs within a target geography. Operating in 32 communities across the nation, NFWS has provided nearly 30,000 people with career development services and helped over 3,000 employers build recruitment, screening, and training services.<sup>16</sup>

There are opportunities for employment advocates seeking to address long-term unemployment to build on these innovations in workforce development and work support policy, ultimately training and placing low-skilled, long-term unemployed workers in good jobs. Potential methods include:

- **Reforming state and federal workforce policies** to promote promising training approaches.
- **Building capacity of states to implement the career pathways approach**, including mapping employer needs through improved data collection and making this information readily available to public agencies, training providers, and other stakeholders.
- **Conducting additional research** to determine the specific impact of innovative workforce development programs on the long-term unemployed.

## Improving Employment Processes

A number of innovative pilot projects seek to bridge the communications gap between job seekers and employers using social media and new technologies. The New Options Project (funded by the W.K. Kellogg Foundation) is testing new platforms in target cities through which job applicants can market themselves. One program, Workforce.io, is a web-based platform targeting the entry-level employment market that helps applicants develop and market critical skills and helps employers streamline their recruitment efforts by elevating qualified and interested candidates. Another program, WorkKeys, is a skills-assessment and job-matching program being piloted in New Mexico. It is designed to shift employers and applicants to a skills-based hiring model that incorporates objective, tangible, and measureable skills assessments into the hiring process. These platforms can help the long-term unemployed better identify what positions they are qualified for and better market their skills.

There is also growing focus by employment funders, advocates, and employers on developing new systems for signaling skills attainment. Multiple industries and locales are developing "badges" that indicate a worker has attained the requisite skills, even if through unconventional means. Such credentials help employers identify strong candidates among a flood of applications. The Mozilla Foundation is leading an initiative of prominent businesses, universities, and other learning institutions to develop digital badges that are independently verified and backed by a wide array of employers. Similarly, the Manufacturing Institute has helped develop a digital badge system to help veterans translate the skills they developed while in the military to civilian positions in advanced manufacturing.

Those interested in helping to better match long-term unemployed workers with employer needs have an opportunity to support similar efforts. Potential methods include:

- **Piloting innovative programs and platforms** that help the long-term unemployed translate their skills and experiences to the needs of employers.
- **Scaling alternative approaches to hiring and credentialing**, such as digital badges.

## CONCLUSION

Long-term unemployment remains a dire problem with significant consequences both for the economic security of vulnerable populations and for the overall health of the US economy. Labor demand has not increased to levels necessary to significantly reduce long-term unemployment, and the persistence of this problem has created additional challenges. Efforts to support re-hiring of long-unemployed people should focus on mitigating the barriers that exacerbate unemployment, including stigma, lack of in-demand skills, and hiring systems that have not kept up with the demands of the modern labor market. While those hoping to address long-term unemployment can build upon progress being made in these areas, more work is needed to develop innovative solutions to long-term unemployment as a distinct problem. Addressing the lack of demand for long-term unemployed workers, ensuring they have the skills necessary to succeed, and better pairing them with employers will help long-unemployed people find and keep new jobs, strengthening their earning potential and increasing the well-being of these vulnerable people and their families and communities.

## Endnotes

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### ABOUT ARABELLA ADVISORS

Arabella Advisors helps philanthropists and investors find innovative ways to maximize the impact of their resources. Our team provides research, strategies, and management to help clients make a difference in the issues that matter most to them.

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