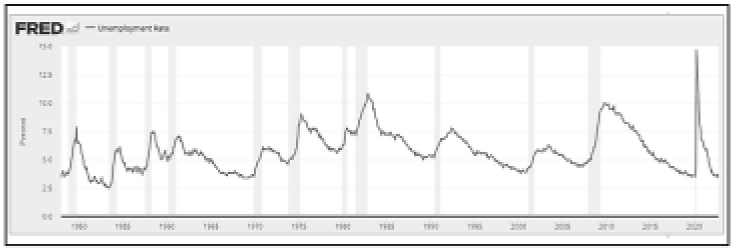
Recessions and the unemployment rate

In the run up to the last election, Democrats and Republicans debated whether the economy was in a recession. To be fair, economists use more than one definition to describe a recession, so there is room for disagreement. By one definition, a recession is two consecutive quarters of negative GDP growth. By the other definition, it is a period of time that exhibits a significant slowdown in economic activity, as determined by a panel of experts at the National Bureau of Economic Research.

Joe McGarrity

Despite the competing definitions, at first glance, it may seem puzzling that politicians cared so much about the definition of a word. But a closer, more-detailed look will explain why politicians got into this debate.

The detailed examination will reveal that recessions hurt voters in various ways. First, during a recession, the value of a nation's output declines or grows more slowly than normal. With fewer goods and services available, a country's citizens will see a drop in their standard of living. Second, during a recession, the unemployment rate is higher than normal. This happens because firms need fewer workers to make the reduced levels of output, so companies fire some of their employees. Politicians, quite obviously, worry that if voters believe the economy is in a recession, these voters will vote some of the incumbent



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To see the link between recessions and unemployment rates, consider this graph, which depicts recessions with a shaded area. The recessions in this graph were identified by the panel of experts.

for their poor stewardship in managing the economy.

A high unemployment rate inflicts two types of economic pain on the populace that could affect how they vote. First, an unusually large number of people cannot find jobs. Second, those with jobs will feel a heightened risk that they might become unemployed – since, after all, many firms lay off some of their workers during a recession.

To see the link between recessions and unemployment rates, consider the accompanying graph, which depicts recessions with a shaded area. The recessions in this graph were identified by the panel of experts that I previously mentioned. As you can see, there were 12 recessions since January 1948. In every case, the unemployment rate began to dramatically increase after the recession began and either continued to increase or remain high, even after the recession ended.

The last two recessions led to huge increases in the unemployment rates.

April 2008 to October 2009, going from 5 percent to 10 percent. It more than tripled from March 2020 to April 2020, going from 4.4 percent to 14.7 percent. These two recessions increased the unemployment rate by more than the other ten recessions did, so they are unlikely to represent what a new recession would look like. But, these two recessions are the ones that people will remember best – since they occurred most recently.

The old adage, a picture is worth a thousand words, certainly applies to the relationship between recessions and unemployment rates. A quick glance at the graph in this column makes it clear that recessions lead to increases in the unemployment rate. Given how consistently recessions have increased the unemployment rates since 1948 and how dramatically recessions have increased the unemployment rates recently, it is understandable why Republicans wanted to claim that Biden's stewardship of the economy led to a recession.

Joe McGarrity is a Professor of Economics at