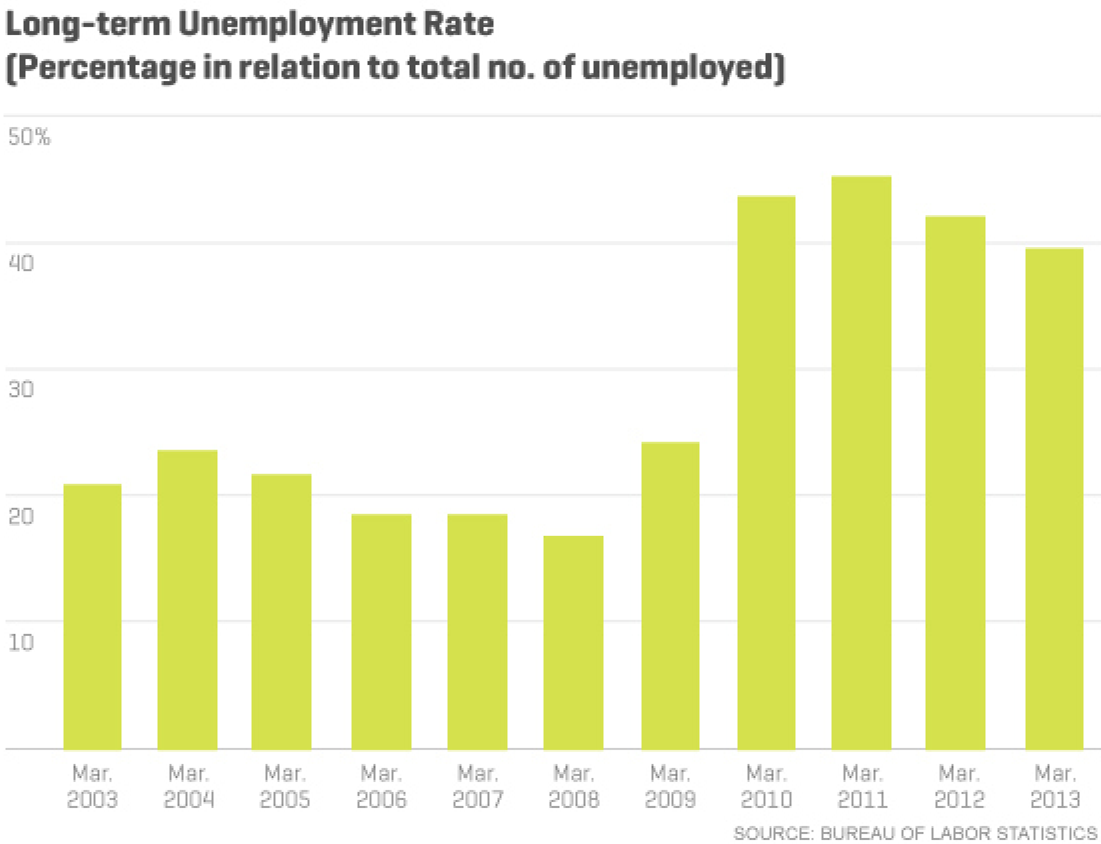
Why the Fed can't help the long-term unemployed

By Nin-Hai Tseng, Writer April 5, 2013: 10:52 AM ET



FORTUNE – If anyone is baffled by why the Federal Reserve hasn't shut off its money spigot, even as the U.S. economy seems brighter, take a look at today's report on the state of the jobs market. It underscores the frustrating ups and downs we'll likely continue seeing for months, perhaps even years.

In March, the economy added a measly 88,000 jobs. That's markedly less than the 268,000 jobs created in February. It's also less than the average 187,000 jobs a month the economy added from September through February, a pace similar to the last period when times were good between 2004 through 2006.

True, the job market today is normalizing for those who've been out of work for only a short time, but things are far from normal for those jobless for sixth months or longer. As of March, they made up 39.6%, or 4.6 million of the unemployed, a figure that's little changed from the 40.2% the previous month and 41.7% a year earlier.

The question is what will happen to the long-term unemployed?

Sadly enough, many will likely give up their job search altogether. It's a serious problem. Employers assume the longer people are out of work, the more they forget, and the more out-of-date their skills become. This may or may not be true, but there's a stigma against folks unemployed for that long, unfair as that may be.

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The plight of the long-term unemployed partly explains why the jobless rate has fallen. In March, unemployment ticked down to 7.6% from 7.7% the previous month. This was because more people gave up their job hunt, not because they found work. The labor force participation rate fell to 63.3% in March, its lowest level since 1979 when women were less likely to be working.

All this partly reflects why the Fed has been cautious about the good jobs reports since the start of the year. Officials were far too optimistic in the past. And in trying not to make the same mistakes again, the central bank last year promised to hold short-term interest rates near zero so long as the unemployment rate remained above 6.5%. It also said it would buy $85 billion per month in bonds to accelerate the decline.

The Fed can only do so much, however. While its policies might have spurred home sales and jobs growth, it's unlikely going to get employers to look at the long-term unemployed differently. They'll be left behind unless something else changes.

http://finance.fortune.cnn.com/2013/04/05/march-jobs-report-fed/?iid=Lead