



The Human Downsides of Job Loss in Good Times and Bad

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The Great Recession and on-going attempts to deal with the costs of adjustment to economic shocks highlight the need to understand the human costs of job displacements. Job loss, also called worker displacement, is inevitable in a market-based economy, where changes in production technologies and in the origin of goods mean that some industries and companies are always shrinking as others grow. Workers often have to make unexpected and costly transitions – from one employer, occupation, or industry to others, and often from one place of residence to another. Understanding the costs people experience in such transitions can inform the search for effective policies to help displaced workers.

Job Loss is Widespread and Recurrent

Recent research shows that, during any three-year stretch, some 13 to 16 percent of workers experience job loss during recessionary periods, and eight to ten percent experience such loss even in years when the national economy is strong. Job losses result from business closings or relocations, insufficient work, or the elimination of particular positions or shifts. Overall, in an average three-year period, approximately 12 percent of the labor force, or about 18 million U.S. workers, will lose their jobs for reasons unrelated to their own personal performance.

When workers lose jobs, they must find productive matches with new employers. Often, however, displaced workers can have trouble finding equivalent jobs, or lose posts they immediately find. Initial job loss is often followed by additional, voluntary or involuntary job losses.

Job Loss Hurts Earnings and Personal Wealth

Rigorous studies of job loss over the past several decades have found that the earnings of displaced workers' fall by 30 to 60 percent in the year immediately after a job loss. Five or more years later, the earnings of displaced workers remain depressed by 13 to 32 percent.

Especially large effects on earnings have been found for workers who had been with their employers for six years or more and who lost jobs as part of mass layoffs or firm closings during the major recessions of the 1980s. Yet large and persistent losses have also been documented for workers who are displaced after less time was spent with their employer and who are not displaced in mass layoffs. Such workers face initial earnings reductions of 30 percent or more and long-term earnings reductions of nine to 12 percent.

Another indicator of the very long-term impact of job loss focuses on wealth holdings. Given that displaced workers often experience reduced earnings, it is not surprising that they also lose wealth –such as home equity. A study of U.S. workers approaching retirement finds that those who experience job loss in the two

prior decades have eight percent lower wealth than comparable workers who did not experience job loss.

We can be sure about these findings because studies of the consequences of job loss do not just compare people who are unemployed, out of the labor force, or report leaving a job to those who remain employed. Researchers looking specifically at the effects of involuntary job loss take care to set aside workers who might have been fired from jobs for poor performance.

The Human Costs Go Beyond Monetary Losses

Various studies document that workers who experience job loss have to deal with problems well beyond reductions in income:

- Middle-aged long-employed workers who lose their jobs in mass layoffs experience death rates in the following few years that are 50 to 100% higher than similar workers who are not displaced. Even ten to twenty years later, the mortality rates of once-displaced workers are up to 15% higher than the rates for comparable workers who kept their jobs.
- Displaced workers report increased stress and anxiety and worse mental health in the years after job loss. Displaced workers with chronic health conditions prior to the job loss end up going to the doctor less often and spending less on medications.
- In the years just after employment disruption for a family breadwinner, children are more likely to repeat a grade, an important indicator of academic difficulties. More broadly, average test scores fall in schools within communities experiencing large mass layoffs.
- Research in other countries shows that job loss for parents may have intergenerational consequences. A study of Canadian children whose fathers lost a job when they were ages 11 to 14 found they had nine percent lower earnings as young adults than peers whose parents were not displaced.

Lessons to Learn

Every year, job loss imposes substantial and persistent costs on a sizable subset of American workers and their families and communities. Job losses accelerate during recessions, but they also happen every year across many places and industries. Displacement is, in many ways, the inevitable result of a market-driven system that encourages innovation and competition across firms and industries. Even in periods of strong growth, a dynamic market economy produces a constant stream of winners and losers, including workers who lose by no personal fault.

Although the benefits of a dynamic economy are likely to be spread out and difficult to measure, the human costs are not – because job losses hit particular people and places especially hard. America needs policies to support economic growth and innovation, but policymakers also need to support and compensate people who are displaced, in order to minimize long-term harms.

Read more in Philip Oreopoulos, Marianne Page, and Ann H. Stevens, [“The Intergenerational Effects of Worker Displacement”](#) in *Journal of Labor Economics* 26, no. 3, (2008): 455-483; Jessamyn Schaller and Ann H. Stevens, [“Short-run Effects of Job Loss on Health Conditions, Health Insurance, and Health Care](#)

Utilization” in *Journal of Health Economics* 43 (2015):190-203; Ann H. Stevens and Jessamyn Schaller, “**Short-run Effects of Parental Job Loss on Children's Academic Achievement**” *Economics of Education Review* 30, no. 2 (2011): 289-299; Ann H. Stevens, “**Persistent Effects of Job Displacement: The Importance of Multiple Job Losses**” *Journal of Labor Economics* 15, no. 1 (1997): 165-188; Henry S. Farber, “**Employment, Hours, and Earnings Consequences of Job Loss: US Evidence from the Displaced Workers Survey**” *Journal of Labor Economics* 35, no. 1 (2017): 235-272; Louis S. Jacobson, Robert J. LaLonde, and Daniel G. Sullivan, “**Earnings Losses of Displaced Workers**” *The American Economic Review* 83, no. 4 (1993): 685-709; and Daniel Sullivan and Till Von Wachter, “**Job Displacement and Mortality: An Analysis Using Administrative Data**” *The Quarterly Journal of Economics* 124, no. 3 (2009) 1265-1306.