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By Ariel Kalil

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Unemployment and job displacement: The impact on families and children

Job loss has a devastating impact on families and children, especially when the search for another job becomes prolonged and fruitless. Unfortunately, few public programs -- and coping mechanisms - are available. This author has some practical suggestions that can reduce the stress of prolonged job loss on those who suffer most, children and families.

By Ariel Kalil

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The better part of the 1990s has been characterized as the "age of affluence," with a flourishing economy and extremely tight labor markets. In the United States, the 1990s saw real wage rates rise for workers at all wage levels. Income levels rose, poverty rates fell, and the value of the stock market soared. Annual seasonal unemployment bottomed out at 3.9% in April 2000, down from 5.6% in 1995. These economic improvements were attributed to several factors, including the rise in productivity made possible by new technology. The unusual trend of low inflation and low unemployment gave rise to hopes of a "new economy" in which the old business cycle-high inflation followed by high unemployment-would be conquered. The economic bust that followed (2000-2003) can best be understood in contrast to the 1990s boom.

The tech boom is considered to have reached its apex on March 10, 2000, when the NASDAQ Composite Index, an index heavily weighted towards technology stocks, peaked at 5,048.62. This was

more than double its value the year before and more than double its value five years later (NASDAQ). After March 10, the index declined gradually for several weeks before suffering a sharp drop of 355 points (9.67%) on April 14, 2000 due to news that March consumer prices had risen at twice the rate analysts had predicted. This one-day loss was part of a week in which the index suffered a 25.3% decline. The Dow Jones Industrial Average and S&P 500 indices also plummeted on the news, losing 5.66% and 5.78% of their respective values (Walsh, 2000).

The recession did not technically start until nearly a year later (March 2001) and its official end was November 2001, according to the National Bureau of Economic Research in Cambridge, MA. After November 2001, the GDP began to expand, but unemployment rates continued to climb, giving rise to talk of a "jobless recovery." While the seasonally adjusted unemployment rate was 5.6% at the end of the recession in November 2001, it climbed to a peak of 6.3% in June 2003 (BLS).

Millions of workers were adversely affected by these economic shifts. Importantly, workers at all levels have been affected and those in many white-collar industries experienced higher-than-average increases in unemployment rates. Among adult workers, the non-seasonally-adjusted annual unemployment rate bottomed out at 4.0% in 2000 but rose to 6.0% in 2003; dropping slightly to 5.5% by 2004. Among experienced workers in financial services, unadjusted annual unemployment climbed from a low of 2.4% in 2000 to 3.5% in 2003 and 3.6% in 2004. Experienced workers in information industries saw their annual unemployment rates rise

from 3.2% in 2000 to 6.9% in 2002 and 6.8% in 2003. By 2004, unemployment rates in the sector had dropped to 5.7%. Among workers in professional and business service industries, the annual unemployment rate rose from a low of 4.8% in 2000 to 8.2% in 2003 among experienced workers;

jobs because their plant or company closed or moved, there was insufficient work for them to do, or their position or shift was abolished." From January 2001 to December 2003, 11.4 million total workers were displaced, 5.3 million of whom had held their jobs for three years or more (long-tenured

Table 1: Annual unemployment rates

	2000	2001	2002	2003	2004	% increase 2000-2003	% increase 2000-2004
General unemployment ¹	3.9%	5.7%	6.0%	5.7%	5.4%	46.2%	38.5%
General unemployment ²	4.0%	4.7%	5.8%	6.0%	5.5%	50.0%	37.5%
Financial activities ³	2.4%	2.9%	3.5%	3.5%	3.6%	45.8%	50.0%
Information ⁴	3.2%	4.9%	6.9%	6.8%	5.7%	112.5%	78.1%
Professional and business services ⁴	4.8%	6.1%	7.9%	8.2%	6.8%	70.8%	41.7%

although again by 2004, the industry unemployment rate had declined somewhat to 6.8% (BLS).

At the same time, the duration of unemployment rose. The percentage of unemployed workers who had been out of work for six months or more (long-term unemployed) climbed to 22.1% in 2003 from 11.4% in 2000 (Allegretto, 2004). Moreover, college-educated and more experienced workers represented disproportionate shares of the long-term unemployed relative to their shares of unemployed workers in 2003. College-educated workers represented 15.3% of the unemployed population but 19.1% of long-term unemployed workers. Workers aged 45 and older made up 25.7% of the total unemployed population, but 35.4% of long-term unemployed workers (Allegretto, 2004). The two industries that experienced the largest growth in long-term unemployed workers between 2000 and 2003 were information (354% growth) and professional and business services (285% growth) (Mishel et al, 2005).

Contributing to the rise in unemployment rates was an increase in displaced workers. The Bureau of Labor Statistics defines displaced workers as "persons 20 years of age or older who lost or left

workers) (BLS, 2004b), representing the greatest sustained job loss since the Great Depression (Economic Policy Institute, 2004).

Displacement and disappointment

Thirty-two percent of long-tenured workers displaced between January 2001 and December 2003 had lost jobs in managerial, professional, or related occupations. As of January 2004, 66.8% of these workers were reemployed, 19.7% were unemployed, and 13.4% were no longer in the labor force. There was substantial heterogeneity between industries in workers' ability to land jobs with salaries similar to what they previously had earned, assuming that they were reemployed in full-time, wage- or salary-paying jobs. For instance, while approximately half of reemployed workers who lost jobs in the industries of financial activities and professional and business services commanded salaries that were equal to or better than their previous salaries (50.7% and 48.1% respectively), only 25.8% of workers in information industries were able to achieve their former salary level. Indeed, among those workers in the information industry reemployed in full-time, wage- or salary-paying jobs, over half were reemployed at salaries that were at least 20% lower than they had

previously earned (BLS, 2004b).

The diminished employment opportunities and slack wage rates of the early 2000s took their toll

child relationships.

Job loss has both immediate and long-term economic effects. Farber (1998) estimates that displaced workers have a 35 percentage point

Table 2: New salaries levels of displaced workers who lost full-time wage and salary jobs and were reemployed by January 2004 in full-time wage and salary jobs, compared to old salary levels

	20% or more below	Below, but within 20%	Equal or above, but within 20%	20% or more above	Total
All private nonagricultural wage and salary workers	733 34.8%	484 23.0%	544 25.8%	347 16.5%	2108 100%
Financial activities	32 22.9%	37 26.4%	49 35.0%	22 15.7%	140 100%
Information	63 50.8%	29 23.4%	15 12.1%	17 13.7%	124 100%
Professional and business services	78 27.4%	70 24.6%	96 33.7%	41 14.4%	285 100%

Source of raw numbers: BLS, 2004b

on income levels. Married couples with children who earned income in the middle fifth of the earnings distribution saw their pre-tax income fall 3.1% and their after-tax income fall 0.2% between 2000 and 2003. Post-tax and post-health-care-spending income fell 1.3% as well (Mishel, Ettlinger, & Gould, 2004).

How will families and children be affected?

The effects of parental unemployment and job displacement on the well-being of families and children have rarely been more relevant than in the current economic climate. Research suggests that job loss can have wide-ranging negative impacts. It can negatively affect families' economic security (see, e.g., Farber, 1993; Jacobson, LaLonde, & Sullivan, 1993; Stevens, 1997). This is reflected in families' reducing their food expenditures, moving, and relying on public assistance. Job loss also negatively affects adults' physical and mental health and marital relationships and increases the likelihood of divorce. Children's well-being diminishes, in part via effects on these family factors and perturbations in parent-

probability of being unemployed following a displacement, are five percentage points more likely to work part-time than they were prior to the displacement, and earn 13% less upon reemployment. Ruhm (1991) finds that displaced workers display increased unemployment and decreased wages up to four years following displacement. Jacobson et al. (1993) also find that high tenure workers who suffer a job loss have earnings that are 25% lower five years following the job loss. Multiple job losses for a given worker are common and play an important role in persistent earnings and wage losses (Stevens, 1997).

What are the implications of these economic setbacks for family processes and child development? On one hand, unstable or insufficient work limits families' economic resources, in particular the income necessary to purchase the resources and goods (e.g., schools, housing, food, safe and cognitively enriched learning environments) that are critical for successful development (Duncan & Brooks-Gunn, 1997). In addition to the level of income, the source of income also appears to matter.

A decline in families' work hours and income is associated with increased reliance on public assistance and greater receipt of welfare income is associated with children's lower academic achievement, perhaps due to stigma (Morris, Duncan, & Rodriguez, 2004). On the other hand, unstable work and unemployment is psychologically stressful for parents, which in turn inhibits parents' emotional warmth and increases parents' erratic or disengaged behaviors. Ineffective parenting can lead to poorer adjustment in the children. Research suggests that economic investments tend to link income (level and stability) to measures of children's cognitive achievement, while parenting behaviors more often account for linkages between economic conditions and children's emotional adjustment.

Thirdly, children's observations of their parents' work experiences can shape their own views of their future economic opportunities. This may be associated with their academic performance and attitudes. Parents can also serve as role models for their children's attitudes and behaviors via their own interpretation of job loss and unemployment experiences. Children who witness their parent's job loss may be motivated to stay in school in order to eventually secure better or more stable jobs than the ones parents are able to obtain. But children's pessimistic perceptions of their parents' labor market experiences could diminish motivation and lead to behaviors such as disengagement from school or work (Barling, Dupre, and Hepburn, 1998; Galambos & Silbereisen, 1987). For example, Canadian researchers Barling et al. showed that children's perceptions of their parents' job insecurity were negatively correlated with the children's belief in the Protestant work ethic (i.e., that work is inherently good and fulfilling and that hard work can overcome obstacles to success). As expected, when students had a low Protestant work ethic they were more likely to display low motivation to work. In a related study, Barling, Zacharatos, and Hepburn (1999) hypothesized that watching one's parents' experiencing job insecurity would be experienced as

stressful and would elicit feelings of uncertainty and powerlessness in children. The results showed that undergraduates who perceive their parents to be insecure about their jobs are distracted cognitively and have worse academic performance. Kalil and Ziol-Guest showed that fathers' job losses predict the probability that teenage children will be held back in grade or be suspended from school. The extent to which children's academic performance is negatively affected by parental job loss and unemployment is especially important because educational attainment has a profound impact on future employment and earnings.

The unequal impact of job loss

Not all families are affected equally by the experience of job loss and unemployment. Several strands of research suggest that black workers may be more severely affected by job loss than their white counterparts. First, young black workers are more likely to suffer a job loss than are young white workers (Farber, 1993) and others have found that black families with children are twice as likely as whites to experience both a major income loss and a reduction in work hours (Yeung & Hofferth, 1998). Wilson, Tienda, and Wu (1995) find that among college graduates, blacks are 2.24 times as likely to be dismissed or laid off as whites. In general in the United States, the black unemployment rate runs about twice as high as that for whites (Bureau of Labor Statistics, 2001).

Second, the consequences of job loss appear to be more severe for blacks. Farber (1997) reported that blacks are about 13 percentage points less likely than whites to be employed following a job loss. Farber (1993) also reports that black women in particular suffer larger negative employment effects of job loss than do white women. Spalter-Roth and Deitch (1999) found that displaced blacks are more likely than their white counterparts to fall from professional or managerial to lower level occupations and to move from a job with health insurance

benefits to reemployment without health insurance.

Third, studies show that black families, at all levels of the socioeconomic spectrum, have fewer economic resources with which to buffer the shock of job loss. Whereas the median white family has assets totaling \$72,000, the median net worth of black families is only \$9,800 (Conley, 1999). More than 50% of blacks, compared to just 15% of other households, have no money in either a checking or a savings account (Loury, 1998) and more than 60% of blacks (compared to only 25% of whites) have zero assets (Oliver & Shapiro, 1997). Even when blacks do have assets, their portfolios are less diversified than those of whites'-blacks tend to have equity in homes and automobiles (physical assets) or life insurance whereas whites are far more likely to invest in stocks (Chiteji & Stafford, 1999; Loury, 1998). An important difference between these differential patterns of asset-holding is that financial assets (as opposed to physical assets) are highly liquid and can more easily be converted into cash to meet emergencies. The difference between black and white wealth (i.e., home ownership, savings, assets) far exceeds race differences in income, occupational, and educational levels (Conley, 1999; Oliver & Shapiro, 1997). These differences in savings and assets could affect family and child well-being through parents' diminished ability to purchase material goods in the face of job loss, or it could make the psychological sense of perceived financial strain greater among blacks displaced from jobs, which could negatively affect family processes and adolescent adjustment.

More research is needed on these phenomena so that effective policies and programs can be crafted to help displaced workers and their families. Programs aimed at mitigating the economic shock of job loss might prove fruitful. Such programs could involve direct financial assistance to families such as unemployment insurance programs or they could help to promote parents' job search skills, training for a new occupation, or education in effective money management. Not only might such programs

help families to smooth consumption and minimize declines in child-specific investments, but they could also affect the families' emotional well-being by lessening perceptions of economic strain and concomitant psychological distress. Alternatively, given limited public support for direct financial assistance to families, programs geared to helping families cope with the emotional impact of job loss might be more plausible. Many different facets of families' experience of economic hardship can be targeted for prevention. These could include adolescents' worries about the family's economic situation and the impact that it might have on future options, concerns about parents' well-being and marital relationship, and heightened conflict among family members. For instance, programs could provide referrals or information regarding mental health services. Programs could also teach parents and adolescents to share information about plans to reduce economic stress and to work together to develop constructive strategies to realize these plans. ■