



# The Cost of Job Loss in the Great Recession: How Bad Has it Been?

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It is now two years after the “official” end of the Great Recession, and the labor market has yet to show strong signs of recovery. The unemployment rate remains stubbornly high (8.6 percent in November 2011) and unemployment durations remain unprecedentedly long (mean 40.9 weeks and median 21.6 weeks in November 2011). How did the experience of job losers in the Great Recession compare to the experience of job losers in earlier recessions? In what follows I use data from the Displaced Workers Survey (DWS) since 1984 to investigate this question.<sup>1</sup>

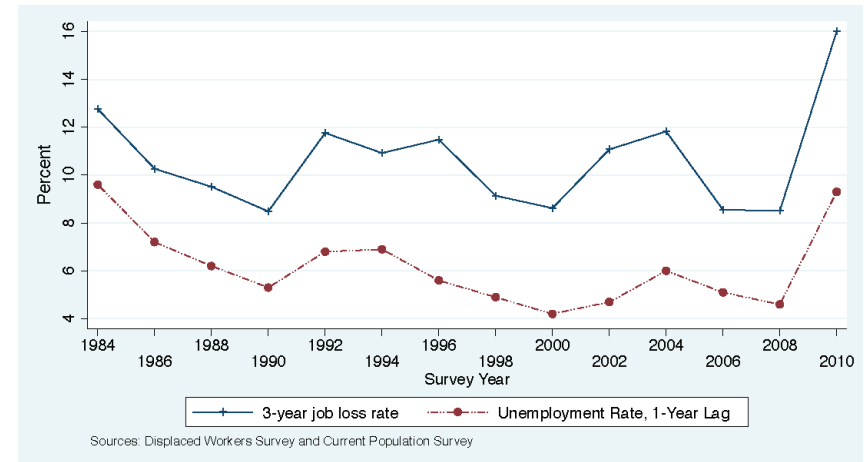
Figure 1 contains plots of adjusted three-year job loss rates computed from each of the

14 DWS's from 1984–2010, along with the civilian unemployment rate computed from the Current Population Survey (CPS) for the year preceding each DWS.<sup>2</sup> The unemployment and job-loss rates move together, increasing in recessions and decreasing in expansions. Both unemployment and job-loss rates were very high in the two most serious recessionary periods (1981–83 and 2007–09, the 1984 and 2010 survey years respectively). While the unemployment rates were comparable in 1983 and 2009 (9.6 percent vs. 9.3 percent), the job loss rate was much higher in the

2007–2009 period than in the 1981–83 period (16.0 percent vs. 12.8 percent).<sup>3</sup>

The consequences of job loss as they impact earnings can be crudely separated into

**Figure 1**  
Unemployment and Job Loss Rates, by Survey Year



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DOI: 10.1515/1553-3832.1886

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two dimensions. First, there is time spent without employment subsequent to losing a job. Second, there is a reduction in earnings even after a new job is obtained. The earnings reduction among the re-employed comes from two factors: 1) lower earnings due to reduced hours (a move from full-time to part-time employment) and 2) lower earnings due to a reduction in weekly pay even for workers making a full-time to full-time transition.

Unfortunately, job losers have been hit doubly hard. Post-displacement employment rates for job losers are lower than in any earlier period, and reemployed full-time job losers are more likely to be employed part-time than in any earlier period. Each, by itself, would cause substantial earnings losses. For those job losers who are able to find a full-time job, earnings declines are comparable to earlier periods.

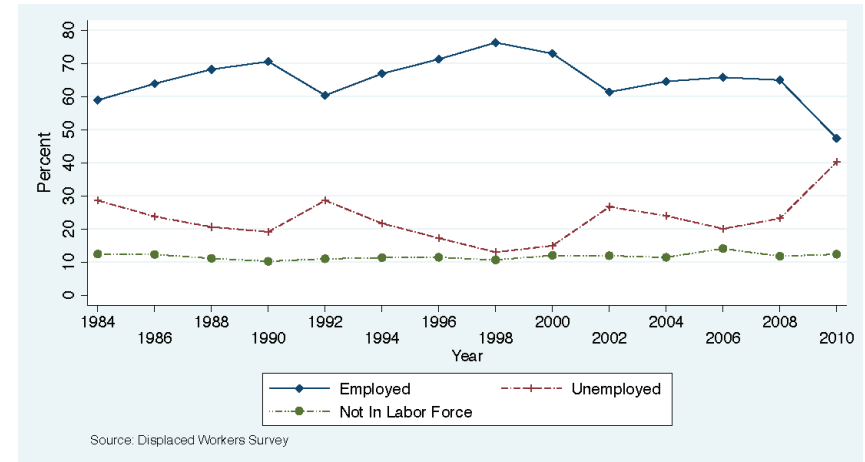
#### POST-JOB-LOSS (SURVEY DATE) LABOR FORCE STATUS

Figure 2 contains plots over time of the fraction of job losers who are employed, unemployed, and not in the labor force. The post-displacement employment rate is pro-cyclical,

with relatively low rates in surveys covering the slack labor markets 1984, 1992, 2002, and 2010. The most striking feature of this plot is that the post-displacement employment rate is substantially lower, less than 50 percent, in the 2010 survey (covering job loss in the 2007–2009 period of the Great Recession) than in any earlier period.

The survey-date unemployment rate among job losers moves counter-cyclically, with peak unemployment rates at the 1984, 1992, 2002, and 2010 survey dates. The most striking feature of this plot is that the post-displacement unemployment rate hit 40 percent in 2010, substantially higher than in any earlier period. The survey-date fraction of job losers not in the labor force is remarkably constant across all years, at about 10 percent. Interestingly, there is no evidence that job losers are disproportionately discouraged from seeking new jobs in recessions, including the most recent

**Figure 2**  
Labor Force Status of Those Who Lost Jobs in Preceding Three Years



recession, leading to withdrawal from the labor force.

While not presented here, I have examined post-displacement labor force status broken down by education. As expected, the likelihood of post-job-loss employment is higher for the more educated and the likelihood of post-job-loss unemployment is higher for the less educated, but the same patterns evident in figure 2 exist for all education groups. Reemployment probabilities for every education group are lower and unemployment

probabilities are higher for every education group in the most recent period than in any earlier period.

### POST-DISPLACEMENT FULL-TIME / PART-TIME STATUS

Full-time workers lose jobs at a higher rate than do part-time workers. Typically, about 20 percent of workers are employed part-time (somewhat higher in recessions) while only about 10 percent of job losers report that they lost a part-time job (somewhat lower in recessions). I focus in what follows on the experience of the 90 percent of job losers who lost full-time jobs.

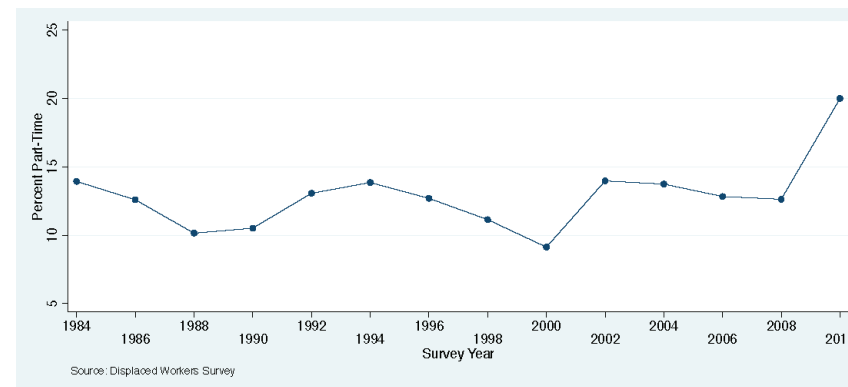
Many full-time job losers are employed part time subsequent to job loss. In addition to having lower weekly earnings, part-time workers have substantially lower hourly wage rates and less access to fringe benefits like health insurance and pensions than do full-time workers. Figure 3 contains a plot of the fraction of reemployed full-time job losers who are employed part-time at each survey date. There is a cyclical pattern, with about 10 percent part-time in stronger labor markets and 15 percent part-time in recessions prior to the recent period. The

part-time rate among full-time job losers increased substantially to 20 percent in 2010. Between the low rate of reemployment of full-time job losers in 2010 (48.5 percent) and the high rate of part-time employment among reemployed full-time job losers (20 percent), only 37.6 percent of workers who lost full-time jobs in the 2007–2009 period were employed full-time in January 2010. To put this in historical perspective, 48.8 percent of workers who lost full-time jobs in the 1981–83 period were employed full-time in January 1984. This inability to obtain full-time employment implies substantial earnings losses for a much larger fraction of full-time job losers in the Great Recession than in earlier recessions.

### THE REDUCTION IN WEEKLY EARNINGS DUE TO DISPLACEMENT

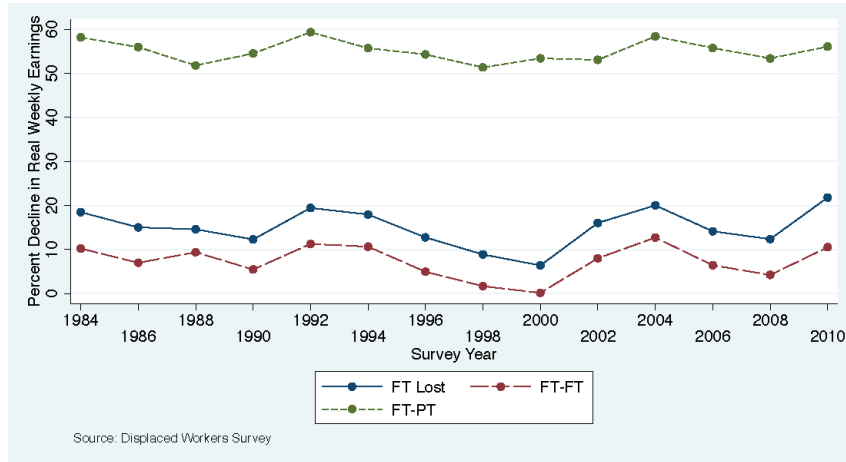
The earnings loss from displacement is not just from the period of unemployment.

**Figure 3**  
Percent of Reemployed Full-Time Job Losers Working Part-Time



Even those job losers who find a new full-time job earn less on their new job than they did previously. The solid line in figure 4 is the average real weekly earnings decline of full-time job losers. This shows a cyclical pattern to the earnings change, with larger earnings declines in the weak labor market periods. The earnings loss is largest in 2010, with full-time job losers in the 2007–2009 period earning an average of 21.8 percent less on the new job relative to the lost job. The average decline did not exceed 20 percent in any earlier period.

**Figure 4**  
Percent Decline in Real Weekly Earnings, Full-Time Job Losers



Next, I separate the sample of full-time job losers into two parts: 1) those who found a full-time job and 2) those who found a part-time job. Naturally, it is the case that those workers making a full-time to part-time transition (represented by the upper dashed line in figure 4) suffered dramatic earnings losses (56 percent in 2010). However, these losses are not unusually large by historical standards. Workers making a full-time to full-time transition (represented by the lower dashed line in figure 4) suffered smaller earnings losses (10.5 percent in

2010). Again, these losses are not unusually large by historical standards. The message here is that the large, by historical standards, decline in real earnings for reemployed full-time job losers is due primarily to the relatively high probability that these workers ended up in part-time jobs, at least as of the date of the survey.

#### CONCLUDING REMARKS

Job loss and worker displacement are facts of life in the U.S. economy, and they are part of an efficient labor allocation process. However, the costs of job loss have been particularly severe in the Great Recession. During this period, I found that

- About 16 percent of people aged 20–64 reported having lost a job.
- Less than 50 percent of job losers are employed in January 2010 (a much lower fraction than in earlier periods).

- About 20 percent reemployed full-time job losers are holding part-time jobs (a much higher fraction than in any earlier period).
- Only 37.6 percent of full-time job losers in the 2007–2009 period are reemployed full-time in January 2010. This is a much lower rate than in any earlier period.
- Full-time job losers who found new jobs earned on average 21.8 percent less on average in real terms on their new jobs than on the lost job. This is a larger earnings decline than in any earlier period, driven by the historically high part-time rate among reemployed full-time job losers. Earnings declines for those who found full-time jobs are comparable to previous recessions.

The measures I focused on likely substantially understate the true economic cost of job-loss. First, time spent unemployed by those workers who are reemployed is not considered. Second, more hinges on employment, particularly full-time employment, in the U.S. than in other developed countries. Health insurance and pensions are closely linked to employment, and many workers do not have alternative access to these important benefits. This makes job loss an expensive and damaging event on average.

To conclude, the consequences of job loss in the Great Recession have been unusually severe. Most importantly, job losers in the Great Recession have been much less successful at finding new jobs (particularly full-time jobs) than in the aftermath of earlier recessions. We do not yet know what the long run consequences of prolonged inability to find work for job losers on their future labor market outcomes will be, but my bet is that the consequences will be substantial.

#### APPENDIX — THE DISPLACED WORKERS SURVEY

The Displaced Workers Survey (DWS) is a bi-annual supplement to the Current Population Survey (CPS) conducted early in even-numbered years. Each individual is asked (often through a proxy respondent) whether they had lost a job in the previous three calendar years.<sup>4</sup> For example, in the January 2010 DWS, information is collected on whether the individual lost a job between January 2007 and December 2009. For workers who report losing a job for one of three reasons (slack work, position or shift abolished, or plant closing), further information is collected on the worker's experience

subsequent to job loss. The 2010 DWS is available at <http://www.census.gov/cps/>.

#### NOTES

1. See the appendix for a short description of the Displaced Workers Survey.
2. I calculate the rate of job loss as the ratio of the number of reported job losers divided by the number of workers who were either employed at the survey date or reported a job loss but were not employed at the survey date.
3. The JOLTS data (Job Openings and Labor Turnover Survey) show a very high rate of layoffs and dismissals in 2009, but these data cover only the period from 2001–2011 and so cannot provide a comparison of the Great Recession to the recession of the early 1980s.
4. In fact, the precise wording of the core job-loss question has varied over time. For example, from 1984–1992, the DWS asked about job loss in the last five years. I present here data that examine only job loss in the three years preceding the interview.

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#### REFERENCES AND FURTHER READING

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