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Losing a Job During a Recession

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Losing a Job During a Recession

Abstract
[Excerpt] This issue brief reviews the research on the short- and long-term effects of involuntary job loss for reasons other than poor performance or misconduct on people's future employment and earnings. In light of the recession that began in December 2007 and the Congressional Budget Office's (CBO's) projection that, under current law, the unemployment rate will remain elevated for a number of years, the brief focuses on the effects of involuntary job loss during periods of weak economic activity. The brief also summarizes some of the government programs that help people who have lost their job.

Keywords
recession, unemployment, involuntary job loss, Congressional Budget Office

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Losing a Job During a Recession

Each year, even when the economy is growing, millions of people lose a job for reasons other than poor performance or misconduct. The ability of employers to quickly adjust the size of their workforces in response to changes in demand is generally considered a source of strength for the U.S. economy over the long term, because it prompts a shift of labor resources toward areas of higher productivity. Some people, however, bear substantial costs from employers’ flexibility—particularly during recessions, when many people lose jobs and new opportunities are relatively scarce.

This issue brief reviews the research on the short- and long-term effects of involuntary job loss for reasons other than poor performance or misconduct on people’s future employment and earnings. In light of the recession that began in December 2007 and the Congressional Budget Office’s (CBO’s) projection that, under current law, the unemployment rate will remain elevated for a number of years, the brief focuses on the effects of involuntary job loss during periods of weak economic activity. The brief also summarizes some of the government programs that help people who have lost their job.

Many people who lose a job involuntarily find a new job, some quite quickly (within a month or so) and others after more time. Loss of a job often means a loss of health insurance for the worker and perhaps for his or her family, though the recently enacted health care legislation will enhance the opportunities for people to purchase health insurance. Some people who lose a job involuntarily do not find a new job. Some of those people may decide not to look for a new job, while others may look for a job but be unsuccessful in their search. Even among workers who find a new job, many end up with lower earnings, not only in the short term but also over a period of many years.

Several points warrant attention at the outset. First, outcomes for people who lose their job “for cause”—that is, because of their poor performance on the job—may differ significantly from those examined in this brief. Second, the best information on the consequences of job loss during recessions necessarily comes from past recessions, because data regarding job loss during the most recent recession are generally not yet available. But no two recessions are alike: The most recent recession is associated with a specific set of challenging circumstances, so the labor market downturn has been especially severe, and output is expected to grow fairly slowly during this recovery. Third, many of the results presented in this brief represent what might be expected to happen, on average, to people who lose a job during a recession. The array of actual outcomes is quite broad, however. Some people who lose a job during a recession will recover quickly, while others will suffer worse effects than the average person who lost a job. Fourth, job loss has many potential consequences that are not discussed here. For example, people who lose a job tend to have more health problems later in life, their family life can suffer, and entire communities may struggle, especially if job loss is concentrated in particular geographic areas.

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1. Hereafter, in this brief, the term “involuntary job loss” excludes job loss for poor performance or misconduct.

2. Recessions examined here include those from November 1973 to March 1975; January 1980 to July 1980; July 1981 to November 1982; July 1990 to March 1991; March 2001 to November 2001; and December 2007 to June 2009. All of those dates but the last one were identified by the National Bureau of Economic Research (NBER); the NBER has not officially determined the end of the last recession, but CBO estimates that it occurred last June.


**Figure 1.**

Selected Categories of Unemployed People, as a Percentage of the Labor Force

(Percent)

Source: Congressional Budget Office based on data from the Bureau of Labor Statistics (BLS).

Notes: The percentage of people who have lost a job comes from the data series titled “Lost Job, BLS Definition.” That series includes unemployed people who involuntarily lost their last job, including people fired for poor performance, and those who completed a temporary job. It only includes people available and looking for work and excludes people on temporary layoff.

Long-term unemployed people are those who have been unemployed for at least 27 consecutive weeks.

The shaded vertical bars indicate the duration of recessions. The National Bureau of Economic Research establishes the dates on which recessions begin and end but has not yet done so for the end of the most recent recession, which is shown as having ended in the second quarter of 2009.

**Finding a New Job**

Some people who lose their job in an unfavorable labor market find work relatively quickly, but others take a long time. Among people who were displaced from their job in 2003—when the unemployment rate peaked at 6 percent—and were reemployed by January 2006, CBO found that 10 percent were reemployed within a week. Another 25 percent found a job within a month. In contrast, 25 percent were jobless (although not necessarily searching for work) for six months or more. In 2009, the fraction of the labor force consisting of unemployed people who lost their last job (including those who were fired for poor performance) and the fraction that had been unemployed for 27 weeks or more (the so-called long-term unemployed) were well above their previous peaks, which occurred after the back-to-back recessions of the early 1980s (see Figure 1). In March 2010, 44 percent of unemployed people (a subset of the entire labor force) had been jobless for 27 weeks or more.

A shift away from temporary layoffs and toward permanent layoffs has contributed to the increased duration of unemployment in recent decades. Temporary layoffs, from which a person can reasonably expect to be called back to work, were more common in the recessions of the 1970s and 1980s—when union membership and manufacturing jobs were more prevalent—than in the recessions of the 1990s and 2000s. If a worker’s position is completely eliminated in a permanent layoff, that person must search for and find a new job, probably with a new firm, before heading back to work. That process can take

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5. Congressional Budget Office, *Long-Term Unemployment* (October 2007), Box 2, p. 11. Those estimates are based on survey responses from January 2006 regarding jobs lost in 2003. Some survey participants will probably not recall (and therefore will not report) all jobs lost two years before the survey. And respondents are probably more likely to forget job losses associated with little or no hardship. That is, respondents may be less likely to report job losses associated with relatively short periods of unemployment. See Congressional Budget Office, *Displaced Workers: Trends in the 1980s and Implications for the Future* (February 1993), Figure A-1, p. 44.


much longer than simply returning to work with a former employer once demand rebounds.

Finding a job may require substantial effort and flexibility, especially when openings are scarce. Some people do not know how to search for a new job effectively. Some find that they need to acquire new skills more suited to the job opportunities available to them or relocate to an area with better prospects. One analysis of data from 1978 to 1990 found that in some states with high rates of unemployment, the unemployment rate decreased only when many of the unemployed people moved to a different state. Even before the most recent recession, a declining share of the population was moving; now, when a significant share of homeowners owe more on their mortgage than their house is worth, many people may not be able to sell their house for enough money to enable them to relocate. Still other people may need to consider alternative employment arrangements, including part-time work or self-employment. People who lost a full-time job during the recessions of the early 1980s, early 1990s, and early 2000s were more likely to be subsequently employed in a part-time job than those who lost their job during periods of stronger economic growth. Finally, many people may need to adjust their expectations regarding the pay they are willing to accept in a new job.

The need to shift from one industry to another to gain a new job is partly responsible for workers' prolonged unemployment. Recessions often accelerate the demise or shrinkage of less efficient and less profitable firms, especially those in declining industries. For example, the steel industry in Pennsylvania suffered substantial cutbacks during the recessions of the early 1980s, as the industry adjusted to a long-term reduction in demand for steel in the United States coupled with a reduction in demand associated with the recession. Many workers who had acquired experience and skills specific to the steel industry were hard-pressed to find jobs in other industries. Similarly, if the renewable energy sector expanded over time, some workers in traditional energy sectors (such as coal) would have to retool their skills and perhaps change industries to pursue a job. For those who live in an area in which traditional sources of energy have historically been a primary source of jobs, that transition to a new job in a new industry would probably be especially difficult.

The need to shift from one occupation to another is also partly responsible for prolonged unemployment. Demand for workers performing tasks that can be routinized, such as recordkeeping or repetitive assembly, declined between 1970 and 1998 relative to the demand for workers performing other tasks that are more difficult to routinize, such as legal writing or janitorial services. As a result, some workers in the former set of jobs needed to pursue ways to obtain jobs of the latter type.

**Leaving the Labor Force**

Most people who lose a job for reasons other than poor performance or misconduct eventually find a new job, but others simply leave the labor force altogether (that is, stop looking for work). Between 1981 and 2003, during recessions as well as periods of economic growth, about 10 percent of people who lost their job left the labor force. Some of those people left only after an extended job search.

Among those who lost a job involuntarily between 1981 and 2003, three groups of workers—women, older people, and less-educated people—were more likely to leave the labor force than were others who lost a job. Particularly for second earners in a household (frequently, married women), spending more time caring for family members or participating in volunteer activities may be preferable alternatives to returning to the paid workforce. People with health problems that make it difficult to work may decide to apply for disability benefits instead.

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14. See Farber, "What Do We Know About Job Loss in the United States?"

15. Ibid.
And some older people who lose a job may find retirement to be an affordable alternative to looking for work.

**Earnings After Involuntary Job Loss**

In both the short and the long term, people who lose a job for reasons other than poor performance or misconduct and then find a new job see their earnings decline, on average. Short-term declines in earnings—those in the first few years after a job loss—tend to be larger for people who lose a job during or shortly after a recession. People who lost and then found full-time jobs between 1981 and 1983, 1989 and 1993, and 2001 and 2003 (three periods of subpar economic activity) all experienced relatively large initial declines in earnings as compared with people who lost jobs during periods of stronger economic activity between 1984 and 2000. Those who lost jobs from 2001 through 2003 experienced the largest average decline in earnings—14 percent. The average decline in earnings associated with a job loss in periods of stronger economic activity between 1984 and 2000 varied. For people who lost and then found full-time jobs in the late 1990s, for instance, declines in earnings were relatively small, between zero and 2 percent. During the other nonrecession years, earnings declines were typically 5 percent to 8 percent.16

For people who have acquired a substantial amount of firm-specific knowledge, the loss of a job can be associated with a relatively large decline in earnings in the short term. For people who lost and then found a full-time job between 1981 and 2003, initial declines in earnings were larger in percentage terms for those with longer tenure on the job than for those with shorter tenure.17 Among men who lost their jobs in a mass layoff during the 1982 recession, older workers (those ages 50 to 55) experienced earnings declines in the year following their job loss that were more than 40 percent higher than the earnings declines of men in their 20s and 30s.18

Initial declines in earnings associated with losing a job during a recession may persist for many years. The new job might have both lower earnings and less potential for earnings growth in the future than the lost job.19 Among the men who lost their job in a mass layoff during the 1982 recession, for example, earnings 15 to 20 years later were about 20 percent lower than those of similar men who did not lose their job. For those who lost their job, earnings declined by about one-third, on average, in the shorter term (a year after job loss).20 Those estimates include earnings losses for men who did not find a new job (that is, those with no earnings), as well as those who worked full or part time. If the analysis is restricted to men who found a new job after being laid off, the initial and the long-term declines in earnings are smaller but still significant. The long-term losses in earnings for women—at slightly less than 20 percent—were similar to the declines for men. However, women’s earnings declined by about 40 percent one year after losing their job in a mass layoff, a larger decline (in percentage terms) than that for men.

Evidence suggests that the long-term decline in earnings associated with a layoff during periods of relatively strong economic growth tended to be smaller than for layoffs during recessions. For men who lost jobs in layoffs at the peak of the late-1980s recovery, the 10-year loss in earnings was about three-fifths as large as for men who lost jobs during the early 1980s recession.21

**Health Insurance Coverage After Involuntary Job Loss**

Loss of a job often means a loss of health insurance for the worker and perhaps for his or her family. In 2007, before the most recent recession began, over 160 million people under the age of 65—or more than three out of every five nonelderly Americans—had health insurance that was employment based.22

16. Ibid.

17. Ibid.


19. Farber, “What Do We Know About Job Loss in the United States?”


21. Ibid.

During the 1990s, in areas with relatively high unemployment rates, working-age men, whether employed or unemployed, were less likely to have health insurance, but there was no difference in health insurance coverage for working-age women and children.\footnote{John Cawley and Kosali I. Simon, “Health Insurance Coverage and the Macroeconomy,” \textit{Journal of Health Economics}, vol. 24 (2005), pp. 299–315.} For men under the age of 65, an increase of 1 percentage point in a state’s unemployment rate was associated with a decrease of 0.7 percentage points in the probability of having health insurance coverage. No statistically significant relationship between unemployment rates and insurance coverage existed for women and children during that period, in part because Medicaid and, in the late 1990s, the Children’s Health Insurance Program provided coverage to families—mostly women and their children—if their income was below certain limits.

No exact counts of the number of people who lost health insurance during the recession that began in December 2007 are available yet. The decline is expected to be substantial, however, because the unemployment rate topped 10 percent in late 2009, and many unemployed people lack health insurance. In the first half of 2009, 33 percent of unemployed adults had been uninsured for more than one year, and an additional 28 percent had been uninsured for at least part of the previous year. As a point of reference, 15 percent of all adults (including unemployed adults) had been uninsured for more than one year, and an additional 10 percent had been uninsured for at least part of the previous year.\footnote{Michael E. Martinez and Robin A. Cohen, “Health Insurance Coverage: Early Release of Estimates from the National Health Interview Survey, January–June 2009” (National Center for Health Statistics, December 2009), available at www.cdc.gov/nchs/data/nhis/earlyrelease/insur200912.pdf.}

### Programs That Assist People Who Lose Jobs

A number of government programs are available to help people who have lost their job, such as unemployment insurance (UI) and the Supplemental Nutrition Assistance Program. Disability Insurance (DI) and Supplemental Security Income (SSI) are also available to some people who are unable to work because of a severe health problem. Training and education programs as well as provisions of the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA)—which makes possible the continuation of health coverage at group rates for individuals—are also helpful to some people.

Some of the programs are available only to people who have lost their job involuntarily, and others are designed to help people, with or without jobs, who are experiencing misfortune (especially financial distress) for various reasons. The income support or other assistance provided by those programs eases the difficulties often associated with the loss of a job. For some people, however, the availability of support will delay their return to work.\footnote{For instance, the availability and size of UI benefits may somewhat discourage recipients from accepting less desirable jobs. The effect is probably less pronounced when work is especially hard to find. See Congressional Budget Office, \textit{Options for Responding to Short-Term Economic Weakness} (January 2008), p. 17.} A brief description of some of the existing programs appears below, but it is beyond the scope of this brief to elaborate on each program’s effectiveness or discuss all relevant programs.

#### Unemployment Insurance

The UI program targets unemployed people who lose a job for reasons other than poor performance or misconduct. The program is intended to ease labor-market transitions by providing temporary income support to people with sufficient work history who lose their job and are looking for work. Of the 16 million people unemployed in March 2010, 11 million (or about 70 percent) were receiving UI benefits.\footnote{Bureau of Labor Statistics, “The Employment Situation—March 2010,” Table A-14; and Department of Labor, “Unemployment Insurance Weekly Claims Report” (April 8, 2010).} Because the program temporarily replaces a portion of people’s lost earnings, the affected job seekers have less incentive to accept a job offer than they would have otherwise.

The federal government pays states to administer the program, funds benefits for certain groups of unemployed workers, and provides general guidelines and some restrictions on how states may operate their UI programs.\footnote{The federal government funds benefits for unemployed federal workers.} Each state sets its own eligibility requirements, determines the duration and amount of regular benefits, and specifies the payroll taxes that fund those programs. In every state, eligibility and benefits are based in part on workers’ past earnings, usually from the first four of the
The permanent program for extended benefits provides an additional 13 to 20 weeks of benefits beyond the standard 26 weeks, depending on each state’s laws and unemployment rate. That program is usually jointly funded by the federal and state governments, but it is funded completely by the federal government from February 2009 through June 2, 2010 (initially as part of the American Recovery and Reinvestment Act of 2009, or ARRA, and most recently as part of the Continuing Extension Act of 2010). In the week ending March 20, 2010, approximately 200,000 people received benefits through the extended benefits program.29

Temporary additional benefits, known as emergency unemployment compensation, are also available in this recession. The current program was established in June 2008 and was most recently extended in April 2010.30 The program now provides as many as 53 additional weeks of benefits to people who exhaust their other benefits before June 2, 2010. Benefits under the emergency unemployment compensation program are provided in four separate tiers; the first two tiers, of 20 and 14 weeks, are available to people in all states who exhaust their other benefits before June 2, 2010. Benefits for additional tiers of 13 and 6 weeks also may be paid out to people who exhaust the first two tiers, depending on when they exhaust the benefits available to them and whether the unemployment rate in their state reaches certain specified levels.31 In the week ending March 20, 2010, 5.6 million people received emergency unemployment compensation.32 Under current law, the program will be closed to new beneficiaries beginning June 2, 2010, and


30. The Supplemental Appropriations Act of 2008 (P.L. 110-252), signed on June 30, 2008, established the program. The most recent extension was part of the Continuing Extension Act of 2010 (P.L. 111-157). States differ in the order in which benefits are taken. In some states, a person must exhaust both his or her regular and extended benefits before receiving emergency benefits. In other states, a person moves from receiving regular benefits to receiving emergency benefits to receiving extended benefits.

31. The maximum number of weeks a person can possibly receive unemployment benefits is 99. That would include 26 weeks of regular benefits, 20 weeks of extended benefits, and all tiers (20 + 14 + 13 + 6 weeks) of emergency unemployment compensation.

individuals will not be able to qualify for a subsequent tier of benefits after that date.

ARRA (and subsequent extensions) boosted the amount of unemployment benefits that people receive by $25 per week. People who receive any form of unemployment benefits before June 2, 2010, will receive the additional federal compensation. After that date, those beneficiaries will continue to receive the $25 payment until they exhaust whatever form of unemployment compensation they are receiving (regular benefits, extended benefits, or emergency unemployment compensation).

The outlays and revenues of the federal and state programs are recorded in the federal budget. In fiscal year 2009, outlays for UI benefits totaled $119 billion; about $75 billion of that amount was paid to unemployed workers for benefits under the regular program. Those amounts represent substantial increases over spending for UI in 2007, which totaled $33 billion. Under current law, outlays for UI benefits will total about $156 billion in fiscal year 2010, CBO estimates, of which about $81 billion will be paid to unemployed workers for benefits under the regular program, $7 billion will be used to provide extended benefits, $55 billion will be used to provide emergency unemployment compensation, and $13 billion will cover the added $25 per week in federal compensation. About 15 million workers will begin receiving regular UI benefits in 2010, in CBO’s estimation, and they will receive $300 per week for 18 weeks, on average.33

Lawmakers are considering legislation that would extend selected UI provisions—emergency unemployment compensation, the full federal funding of extended benefits, and the additional federal compensation—through December 31, 2010.

**Supplemental Nutrition Assistance Program**

The Supplemental Nutrition Assistance Program, formerly known as the Food Stamp program, provides food assistance to low-income people, including those who have lost a job. Outlays for the program totaled $56 billion in fiscal year 2009. In December 2009, 39 million people living in 18 million households received more than $5 billion in benefits through the program. (During that month, nearly one in eight Americans received benefits.) The average monthly benefit was about $135 per person, or $293 per household. Although the number of participants grew by about 23 percent between December 2008 and December 2009, total costs increased by roughly 44 percent. Costs have increased disproportionately in part because of a boost in benefits included in ARRA. (As a result of that legislation, for example, a household of four receives $80 more per month.)

**Programs for People with Disabilities**

People who have lost a job and who have severe disabilities and a sufficient work history may be eligible for benefits from the Disability Insurance program, administered by the Social Security Administration.34 Benefits are based on people’s lifetime earnings. People with relatively low earnings (often less-educated people or people who worked intermittently or part-time) receive a larger percentage of their earnings than other DI recipients. After a two-year waiting period, all people who receive DI benefits—regardless of their age—also qualify for Medicare.

When job opportunities become more scarce, either in the entire economy or in particular localities, people with disabilities who lose their job may be more likely to turn to the DI program for support.35 A study of the 1988–1992 period found that an increase of 1 percentage point in the unemployment rate led to a 4 percent increase in DI applications and, after one year, a 3 percent increase in new benefit awards.36 Coinciding with the recession that began in December 2007, DI applications and awards both increased. In the fourth quarter of 2009, roughly 680,000 people applied to the DI program, 31 percent more than in the fourth quarter of 2007. Over the same period, the number of people awarded DI benefits rose by 20 percent. Almost 8 million people received DI disabled-worker benefits in December 2009; average monthly benefits amounted to nearly $1,100.37

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33. That benefit amount excludes the additional $25 per week.

34. Under the rules of the Social Security Administration (SSA), a person is considered disabled if that individual cannot do the work he or she did before or if he or she cannot adjust to other work because of a medical condition (the SSA makes that determination) and if the disability has lasted or is expected to last for at least a year or result in death.


year 2009, disabled workers on Medicare accounted for 17 percent of the Medicare population and received 16 percent of total benefit payments. The average cost of Medicare services for DI beneficiaries in 2009 was about $9,400 per person.38

Another program administered by the Social Security Administration, Supplemental Security Income, provides financial support to aged, blind, or disabled adults and children who have limited income and assets. Unlike DI, eligibility for SSI does not depend on previous work history. At the end of 2009, more than 5 million adults with disabilities received SSI benefits; about 700,000 new SSI awards went to disabled adults in 2009, an increase of 23 percent over new awards in 2007. The average regular monthly benefit for disabled adults in the SSI program in December 2009 was just over $475. The number of children who receive SSI benefits also swelled during the most recent recession, rising by about 10 percent (from 1.1 million in 2007 to 1.2 million in 2009).

Smaller Programs
Provisions of COBRA are intended to assist people who face the loss of their health insurance when they lose their job. Under COBRA, a person may continue health insurance coverage through the insurance plan at their former job for up to 18 months.39 Involuntary job loss for reasons other than gross misconduct qualifies an individual to participate, and family members may also have the right to continued coverage under the group health insurance plan.

The out-of-pocket cost of health insurance purchased under COBRA tends to be three to five times higher than the cost to workers of employment-based health insurance, because people must pay the share of the premium previously paid by their employers.40 Eligibility for COBRA has been expanded, and premiums have been temporarily reduced, initially as a part of ARRA and most recently as part of the Continuing Extension Act of 2010, by 65 percent for 15 of the 18 months of eligibility for certain qualified individuals. Those lower premiums apply to workers who were involuntarily terminated from their job between September 2008 and May 2010. The federal government is covering the cost of reducing the premiums by providing tax credits to the employers of those workers who choose COBRA coverage. At the time of ARRA’s enactment, the staff of the Joint Committee on Taxation estimated that the program would reduce federal revenues in fiscal years 2009 and 2010 by $14.3 billion and $9.2 billion, respectively.41

The federal government also funds other programs intended to help people make the transition from one job to another. Those programs include job-search assistance, job referrals, training,42 and educational assistance provided through Pell grants and subsidized student loans. Educational assistance is available to, but not specifically targeted at, job seekers. A small fraction of workers who lose their job when international competition leads U.S. firms to close is eligible for benefits under the Trade Adjustment Assistance program. In fiscal year 2009, outlays for that program totaled $440 million.

Other types of assistance have been proposed for people making the transition to new jobs. Examples include proposals to help one-stop career centers place more people in jobs or to supplement the earnings of people who take new jobs with lower pay.43

41. In general, the employer is reimbursed for the portion of the premium not paid by the employee through a credit against its payroll taxes.
