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# Jobless now, sick later? Investigating the long-term consequences of involuntary job loss on health

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## ABSTRACT

In the light of the current economic crises which in many countries lead to business closures and mass lay-offs, the consequences of job loss are important on various dimensions. They have to be investigated not only in consideration of a few years, but with a long-term perspective as well, because early life course events may prove important for later life outcomes. This paper uses data from SHARELIFE to shed light on the long-term consequences of involuntary job loss on health.

The paper distinguishes between two different reasons for involuntary job loss: plant closures, which in the literature are considered to be exogenous to the individual, and lay-offs, where the causal direction of health and unemployment is ambiguous. These groups are separately compared to those who never experienced a job loss. The paper uses eleven different measures of health to assess long-term health consequences of job loss, which has to have occurred at least 25 years before the current interview. As panel data cannot be employed, a large body of variables, including childhood health and socio-economic conditions, is used to control for the initial conditions.

The findings suggest that individuals with an exogenous job loss suffer in the long run: men are significantly more likely to be depressed and they have more trouble knowing the current date. Women report poorer general health and more chronic conditions and are also affected in their physical health: they are more likely to be obese or overweight, and to have any limitations in their (instrumental) activities of daily living. In the comparison group of laid-off individuals, controlling for the initial conditions reduces the effects of job loss on health – proving that controlling for childhood conditions is important.

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## 1. Introduction

Involuntary job loss can reduce a person's wellbeing on various dimensions. The most obvious effect is the reduction in earnings, but areas such as family life or health can be affected by direct or indirect means of a job loss. The effects also vary in terms of their persistence: for example, [Ruhm \(1991\)](#) and [Jacobson, LaLonde, and Sullivan \(1993\)](#) show that earnings from subsequent jobs after an involuntary job change remain significantly lower in comparison to a group without job loss. Other long

lasting effects of involuntary job loss appear in the realm of the family, where significant increases in divorce probability have been found ([Charles & Stephens, 2004](#)) or fertility decisions are affected as children are being born later or not at all ([del Bono, Weber, & Winter-Ebmer, 2008](#)).

The effects of involuntary job loss on an individual's health have been studied at least since [Jahoda, Lazarsfeld, and Zeisel \(1933\)](#), who investigated the socio-psychological effects of unemployment in the Great Depression. Many studies have contributed to this literature since, where the basic relationship hinges on the assumption that both direct (e.g. higher anxiety and stress levels caused by unemployment) and indirect effects (e.g. lower investments in health due to lower income) may cause health to deteriorate (see [Björklund, 1985](#)). In a review, [Bartley,](#)

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Ferrie, and Montgomery (2006) report three reasons that relate involuntary job loss and subsequent unemployment to health deterioration: the first is poverty, where low levels of a variety of wealth measures are always associated with worse health. The second is that unemployment itself is stressful, as individuals lose self-esteem, important net-working possibilities, and a time structure to their days. Thirdly, unemployed individuals show more self-destructive behavior, from increased levels of smoking and drinking to self-destructive behavior like (attempted) suicide.

In the relationship of job loss and any outcome variable the direction of causation is a point of debate (e.g. Björklund, 1985; Eliason & Storrie, 2009; Smith, 1999). For example, being less productive leads to a higher likelihood of being laid off and at the same time leads to lower wages compared to those people who are more productive and not laid off. Similarly, bad health may lead to job loss and then unemployment: *ceteris paribus*, individuals in worse health are likely to be less productive, which increases the likelihood of a job loss. While the following unemployment period may perpetuate or even amplify the deterioration of health, it is not causal to it. This issue of endogeneity is solved in the literature by using a category of job loss which is (arguably) exogenous to individual characteristics: plant closures. When a large business is closed, the individual's performance does not matter enough to have caused the closure. The following "displacement" is then interpreted to be causal for changes in the outcome variable of interest. This approach still has drawbacks: firms can be too small, or more productive individuals could leave the "sinking ship" before the plant is actually shut down. However, for investigating the consequences of job loss it is clearly superior to using all individuals who lost their jobs without differentiating for the reason.

Ruhm (1991) and Jacobson et al. (1993) used job loss due to plant closures when investigating the effects of involuntary job loss on wages, finding that there are long-term reductions in earnings for those who had lost their job. Sullivan and von Wachter (2009) transferred the approach to investigate the health consequences of displacement. They report mortality rates for the displaced workers which are 50–100% higher than for the non-displaced in the first year after displacement. Strully (2009) elicits how different job loss categories affect health, distinguishing between *no-fault*, *fired or laid off*, *voluntary*, and *other* types of job loss. She finds substantial and significant short-term effects of a *no-fault* job loss on health, even though they are stronger for *fired* individuals. In a study based on the Health and Retirement Study (HRS), Gallo, Brand, Teng, Leo-Summers, and Byers (2009) report gender specific influences of lay-offs and plant closures: while displaced married women were not affected negatively, displaced unmarried women and displaced men in general had higher scores on a disability index.

Some studies, also using plant closures to identify exogenous job loss, do not find any significant effects of job loss on health. Salm (2009) considers several subjective and objective health measures in his study of individuals in the HRS. Using a difference-in-differences approach, he

does not find any significant effects of plant closure (or of being laid off) on health. Browning, Moller Dano, and Heinesen (2006) use a 10% random sample of the Danish male population to investigate how job loss is associated with medical stress indicators. They apply different definitions of displacement to the administrative business and hospital records they use and find that displacement does not lead to hospitalization for stress-related illnesses. In comparison to results reported from the United States, they speculate that the generous welfare scheme in Denmark may have offset any negative effects of displacement on health. However, a different study using administrative data from Sweden reports a higher mortality of those who are displaced (Gerdtham & Johannesson, 2003) and thus finds significant effects for a country more similar to Denmark than to the US.

This brief review shows that there is no consensus in the literature on whether there is an effect of job loss on health. There are some methodological concerns: Gallo et al. (2009), for example, use a panel study, but do not consider a fixed effects approach to control for unobserved heterogeneity. Salm (2009) considers health effects that emerge within a two-year window, which could attenuate effects appearing only later. The study by Sullivan and von Wachter (2009) may suffer from sample selectivity, as only workers in Pennsylvania were taken into account. In addition, the various ways to measure health may lead to differences in results. Administrative health records provide good data quality, but can also suffer from selectivity if some individuals do not go to the doctor or hospital when they are ill. Self-reported health measures are always subjective, and may suffer from response style differences (Jürges, 2007) or recall bias (e.g. reporting doctor visits, Means, Nigam, Zarrow, Loftus, & Donaldson, 1989). Except for mortality, which is hard to come by in regular survey data, it seems likely that using a wide range of health measures provides a broader picture of health consequences than concentrating on just one specific outcome.

Especially in the light of the current economic crises which in many countries lead to business closures and mass lay-offs, the consequences of job loss are important. But they have to be investigated not only in consideration of a few years, but with a long-term perspective as well, shedding light on the links between relatively early life-course events and later life outcomes. A short time horizon, e.g. two years as in Salm (2009), may understate the effects, which also may not necessarily be extrapolated to the long-run. In addition, some health consequences may not even be measurable in a short period. If there are long-term consequences of job loss on health, avoiding these could increase a country's productivity and reduce health care expenditures for the elderly. Due to lack of suitable data, long-term effects of involuntary job loss on health have not yet been investigated very often. Sullivan and von Wachter (2009) were able to look at mortality rates 20 years after the job loss, showing that they are still 10–15% higher compared to those without a job loss. In earlier related work, Schröder (2011a) found negative effects of job loss on long-term health, but focused more on the differences in the country-specific welfare state

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