



# The Consequences of Job Displacement for Health: Moderating Influences of Economic Conditions and Educational Attainment



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## ABSTRACT

This paper examines the impact of worker displacement on health in the United States from 1975–2004, especially the extent to which the impact of displacement on health varies according to the economic conditions in the year of displacement and the education level of the displaced worker. Findings from ordered probit and fixed effects models suggest that the negative impact of displacement on health is exacerbated by a higher unemployment rate at the time of displacement and for displaced workers with a college degree.

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## 1. Introduction

Over the past several decades, and especially during the past few years, the phenomena of job loss and the subsequent consequences for individuals and families have become topics of frequent debate among academics, policy makers and the media. While much of the discussion focuses on the economic and financial consequences of job loss, more recently attention has also been paid to the consequences that job loss can have for physical health. This paper furthers this discussion by exploring the manner in which the health consequences of job loss are moderated by the educational attainment of the displaced worker as well as the larger macro-economic context in which the job loss occurs. The moderating effect of macro-economic conditions is of particular relevance given the current long-term period of continual high unemployment in the United States.

## 2. Background

### 2.1. Recessions and job loss

Economic recessions typically result in large numbers of involuntary job losses among individuals who in more prosperous times experience long term stable employment (Davis and von Wachter, 2011). A wide body of research has shown that individuals who are laid off from their jobs (often referred to as displaced workers) frequently experience a prolonged period of unemployment after which they are forced to accept positions that offer lower pay than their prior job, have less job security and promotion potential, and frequently do not provide benefits (Brand, 2006; Farber, 2003; Fallick, 1996; Keltzer, 1998).

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Recent macro-economic trends have contributed to the issues facing displaced workers in the United States. In early 2009, the United States unemployment rate rose above 8.5% for the first time in more than 25 years; it has remained over 8% ever since (United States Bureau of Labor Statistics). Not surprisingly, macro-economic conditions are inextricably intertwined with the labor market outcomes for displaced workers. Individuals who lose their jobs during periods of high unemployment are more likely to remain unemployed for a longer period of time and are less likely to recover their pre-displacement wages (Von Wachter et al., 2009; Davis and von Wachter, 2011).

## 2.2. Job loss and health

The potential negative consequences of job loss extend beyond the financial and labor market outcomes discussed above. Recently, researchers have paid particular attention to the consequences that job loss can have on an individual's physical health. The stress of looking for work and the feelings of shame often associated with being out of work can have negative consequences for mental health which may translate into declines in physical health as well (Newman, 1988; Uchitelle, 2006). In addition, many of the long-term economic outcomes that frequently result from job displacement, in particular the decline in earnings, are directly associated with health status (McWilliams et al., 2007; Baker et al., 2001; Benzeval and Judge, 2001; Herd et al., 2007; Berry, 2007).

Recent research has supported the premise that job loss has negative consequences for health that remain even after the individual has found new employment. Using data from 1999 to 2003, Strully (2009), found job loss due to plant/business closures, layoffs, or discharge (firing) during the previous two years was associated with worse self-rated health outcomes relative to the continuously employed, as well as an increased probability of developing at least one of a series of health conditions including heart disease, hypertension, diabetes and arthritis. Burgard et al. (2007) found that individuals who experienced job displacement due to plant/business closures, downsizing and relocations between 1975 and 1993 had slightly lower self-rated health compared to those who did not suffer an involuntary job loss during this period. The long time frame of the study suggests that the health consequences of job loss may be permanent, or at least remain for an extended period of time. In addition, the fact that both Strully (2009) and Burgard et al. (2007) found significant associations using measures of job loss (e.g. plant closings, downsizing, layoffs) that are fairly exogenous to the potential work and health behavior characteristics of the employee, suggests that the relationship between job loss and health is not a spurious one. Research by Gallo et al. (2006), using a wider definition of involuntary job loss but incorporating instrumental variable techniques, also supports the conclusion that the relationship between job loss and health is real and significant.

## 2.3. Macroeconomic conditions and health

In contrast, much of the research on the relationship between macro-level economic conditions and individual or aggregate population level health has suggested that a counter-cyclical relationship exists between the two. Several studies using data from the United States and Germany between 1970 and 2000 have found a counter-cyclical relationship between national unemployment rates and the mortality rate (Ruhm, 2000; Neumayer, 2004) as well as an inverse relationship between state unemployment rates and the likelihood that individuals will have an acute or chronic medical condition (Ruhm, 2003). Several diverse theories have been proposed for these counter cyclical patterns including increased traffic accidents, higher prevalence of smoking and a decrease in time spent exercising in periods of low unemployment (Xu, 2013; Burgard et al., 2013). Research on macro-economic conditions and health are not entirely consistent however. For instance, Gerdtham and Johannesson (2005), and Blomgren and Valkonen (2007) found that in Sweden and Finland, higher job displacement and unemployment rates were associated with an increased probability of mortality.

## 2.4. Moderating influence of macroeconomic conditions on the consequences of job loss for health

To summarize, individual job loss appears to have a negative impact on individual health although paradoxically, when macro-economic conditions worsen, the health of the population may tend to improve, perhaps particularly in the United States. This is in spite of the fact that the impact of individual job loss on wages, unemployment duration and other economic consequences worsen when the job loss occurs in recessionary periods. Given these somewhat conflicting findings, an interesting question is how might macroeconomic conditions *moderate* the impact of job loss on health?

This could work in two ways. First, the counter cyclical effect of macro-economic conditions on health might ameliorate the impact of displacement. Second, given that a) individual economic outcomes following displacement are worse when the displacement occurs when the economy is poor, and b) these economic outcomes are known to influence health, we might expect that displacement during difficult economic times would translate into worse health outcomes. The aforementioned two situations are not mutually exclusive. The first of these possibilities takes into account macro-economic conditions at any time we might assess health following displacement. It is worth remembering that the impact of displacement on health is not necessarily immediate and effects have been shown to last for a long time (Burgard et al., 2007). The second possibility focuses on macro-economic conditions specific to the time of displacement, as this is the point at which an individual must find a new job. This paper will focus on evaluating the second possibility.

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