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978-1-107-00467-2 - Downsizing: Is Less Still More?

Edited by Cary L. Cooper, Alankrita Pandey and James Campbell Quick

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PART I

*Overview*

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# 1 *Job loss and effects on firms and workers*

KEVIN F. HALLOCK, MICHAEL R. STRAIN,  
AND DOUGLAS WEBBER\*

Job loss is painful. There are thousands of individual stories of workers who lose their jobs each year from all parts of the world.<sup>1</sup> A great deal of work across the social sciences examines the causes and consequences of job loss. This chapter addresses a small part of that work and specifically focuses on the effects of job loss on workers (including the effects on subsequent wages and on health) and on the effects of job loss on companies (including short- and longer-run corporate performance). Other questions are also considered, such as whether firms are less committed to workers and workers less committed to firms than they were in the recent past. A variety of data sources are accessed for research on job loss, and consideration is given to the alternatives to job loss and the various public policies adopted in the United States and throughout the world.

To begin, it should be noted that this chapter will not focus on other important issues related to job loss. It will not examine, in significant detail, the effects of international trade or tariffs. The chapter is also not about labor turnover that is initiated by the worker. Voluntary quits and separations are not discussed, nor are firings for cause or strictly for performance.

The chapter examines instances where companies layoff employees (temporarily or permanently, although the focus is on the latter). It examines changes in the displacement of workers over time, reasons for the changes, and the effects on workers and companies. There is also a focus on policies, consideration being given as to whether there can be improvements to what is known and done about job loss, and a discussion of how other countries handle reductions in the demand for labor.

## **Introduction, data sources, and roadmap**

This section outlines various important data sources for the study of job loss in the United States. It also provides an outline of the rest of the chapter.

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[More information](#)*Description of some of the data on job loss*

A wide variety of data sets has been used to examine the causes, consequences, and characteristics of layoffs, some of which are summarized in Table 1.1. One of the most popular data sources is the Current Population Survey (CPS), administered by the Bureau of Labor Statistics (BLS), which is a common source for many labor market statistics. In addition to the survey questions relating to worker displacement in the standard monthly CPS, the BLS also makes available a Displaced Worker Supplement of the CPS, which contains detailed questions specifically tailored to worker displacement. The Displaced Workers Supplement (DWS) of the Current Population Survey (CPS) began in 1984 and is conducted every two years. Examples of the clever use of the survey include Farber (1999, 2005, and 2011).

Another commonly used data set is the Survey of Income and Program Participation (SIPP). Unlike the CPS, the SIPP contains short panels on respondents. For researchers interested in the health-related consequences of layoffs, the Health and Retirement Study (HRS) contains among the most detailed health questions of any data set. Additionally, many of the responses are verified by a doctor to avoid self-reporting bias.

For many questions related to layoffs, it is desirable to have long panels (repeated sampling of the same individuals over many years). One of the most commonly used panel data sets, the National Longitudinal Survey of Youth (NLSY), has two cohorts (beginning in 1979 and 1997) for which there are detailed surveys every other year. Another popular source, the Panel Study of Income Dynamics (PSID), currently follows about 9,000 families. Panel data sources are necessary to answer questions about the long-term impact of layoffs, since they allow repeated questions with respect to job loss, job holding, and income for the same individuals over time. Additionally, they provide researchers with additional statistical modeling choices, such as fixed-effects specifications.

This chapter also discusses some studies conducted using individually collected data. For example, data from Billger and Hallock (2005), Hallock (2009), and Farber and Hallock (2009) include all job loss announcements published in the *Wall Street Journal* for any company ever in the *Fortune* 500 covering the years 1970–2007.

Data sources, which could provide key insights into the long-term consequences of layoffs for both firms and individuals, are linked employer–employee data. In the United States, the Longitudinal Employer Household

Table 1.1 *Data sources on job loss*

Source	Sample size	Panel	Details
Current Population Survey	~60,000 households	Short (1 year)	Monthly survey (March is the most commonly used month because it asks respondents about income). The standard source of US labor market data (e.g., unemployment rate). A supplement to the CPS given every two years.
Displaced Worker Survey	~60,000 households (All CPS households are given the survey)	Short (1 year)	Displacement is defined as follows (via CPS website): "Persons 20 years of age and older who lost or left jobs because their plant or company closed or moved, there was insufficient work for them to do, or their position or shift was abolished."
Health and Retirement Survey	~22,000 individuals	None	Main focus is on health outcomes for persons age 50 and over. Health status verified by doctor.
Survey of Income and Program Participation	~14,000–37,000 households	Medium (2.5–4 years)	Main focus is on federal/state/local income transfer programs.
Panel Study of Income Dynamics	~9,000 households	Long (1968–present)	Began in 1968 with 4,000 families. All descendants of the originally surveyed families are added to the sample. Detailed demographic, human capital, and work history information.
National Longitudinal Survey of Youth (1979)	~13,000 individuals	Long (1979–present)	Respondents were 14–22 in 1979. Detailed demographic, human capital, and work history information.

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[More information](#)Table 1.1 (*cont.*)

Source	Sample size	Panel	Details
National Longitudinal Survey of Youth (1997)	~9,000 individuals	Long (1997–present)	Respondents were 12–16 in 1997. Detailed demographic, human capital, and work history information.
Longitudinal Employer Household Dynamics	98% of private, non-farm employment	Long (1990–present)	Linked employer–employee data. Quarterly observations of earnings and job status. Only basic demographic information is available on workers.

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Dynamics (LEHD) data cover nearly all (98 percent) private US non-farm employment, and allows researchers to follow the employment behavior of workers and firms over time. Some work on mass layoffs has already been conducted using these data (e.g., Abowd, McKinney, and Vilhuber 2009).

### *Definitions of job loss*

One complicating factor in the job loss literature is the degree of subjectivity with which job loss can be defined. From the point of view of the worker, the broadest definition of job loss is any involuntary separation from a job. This rules out voluntary quits, but includes all other job separations. Because workers who are fired for cause are often quite different from the rest of the workforce, the definition of job loss is typically restricted to layoffs.

Other important points are status (full-time/part-time) and how long the worker held the job before being laid off. For instance the DWS distinguishes between workers who are long-tenured (three or more years at the same employer) or short-tenured (less than three years).

The reason for the layoff is also of interest. Many studies restrict their sample to layoffs which result from a plant closure in an attempt to avoid potential selection bias arising from the weakest workers being the first laid off. However, this definition could also suffer from selection bias if the plant closed because the average worker quality was lower than at other plants.

From the perspective of the firm, the definition of a layoff is similarly complicated. The researcher must choose a threshold by which to define a layoff event. This can be done in absolute terms (100 workers laid off) or percentage terms (15 percent of a firm's labor force).

### *Roadmap for the chapter*

This chapter is neither intended to be an exhaustive literature review of all that is known regarding job loss nor an exhaustive literature review of the subset of topics that we choose to discuss. It is intended to be a short description of a few areas, and discussion of some work related to the effects of job loss on workers and on companies over the past several decades. The next section is an overview of job stability in the United States, including an examination of changes in job stability over time

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and a consideration of whether it may be the case that firms are less committed to workers and workers are less committed to firms than they were in the not-too-distant past. Reasons for and alternatives to layoffs are then discussed in the third section. Work-sharing is extensively examined in the fourth section. The fifth section begins with an examination of the timing of job loss announcements and then goes on to discuss the effects of job loss on workers' subsequent employment and wages as well as the long-term health outcomes. The results, on average, are not good news for workers who lose their jobs. The effects of job loss on companies are discussed in the penultimate section. This includes an analysis of the link between job loss announcements and CEO (chief executive officer) pay and CEO turnover and the short- and longer-run relationships between job loss and organizational performance. Concluding comments and some additional issues are discussed in the final section.

### Job stability in the United States

Is the average worker in the United States with the same employer for fewer years than in the past? An important first issue is whether job stability has actually changed in the United States. If it has, for whom and why? This section will briefly examine this literature with significant emphasis on results from the DWS.

#### *Changes in job stability over time*

Henry Farber has written a series of very important papers (including Farber, 2005, 2007, 2008, 2010, and 2011) which clearly and carefully document changes in job stability over time. Some of this work considers whether one can use the DWS to actually identify all relevant job displacement (e.g., Farber, 2010), some examines general trends in job loss in the United States (Farber, 2005) and some investigates the change in long-term worker-firm attachment (Farber, 2007, 2008).

Farber (2005) examines the DWS from 1984 to 2004 and has several important findings. First, more than one-third of job losers are not employed at the next survey date (two years later). Second, about 13 percent of those who lost a full-time job are subsequently holding part-time jobs. Third, on average, those who lose full-time jobs earn about 13 percent less on their new jobs, relative to the previous one. Fourth, he

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estimates that including the foregone earnings increases experienced by those who did not lose their jobs, those who lose full-time jobs earn on the order of 17 percent less on their new jobs than they would have, had they not been displaced.

As for the interesting question of whether long-term employment has changed in the past decades, Farber (2007, 2008) uses data from the Current Population Survey (CPS) from 1973 to 2006 by birth cohort to examine changes in the length of employment relationships. He finds that both (a) mean tenure and (b) the fraction of workers working at least ten or at least 20 years at the same employer have each fallen,<sup>2</sup> particularly among male workers (as a result of growing commitment of women to the labor force and the fact that longer-term worker–firm relationships among women has, in fact, increased slightly during this period) (see Figures 1.1a and 1.1b). He also finds more of what he calls “churning,” or short-term jobs, defined as the fraction of workers whose job seniority is less than one year. He concludes that younger workers are much less likely than older workers to have a long-term job with the same employer.

The growing instability of employment relationships appears to have affected employees at various organization levels, and across industries.<sup>3</sup>

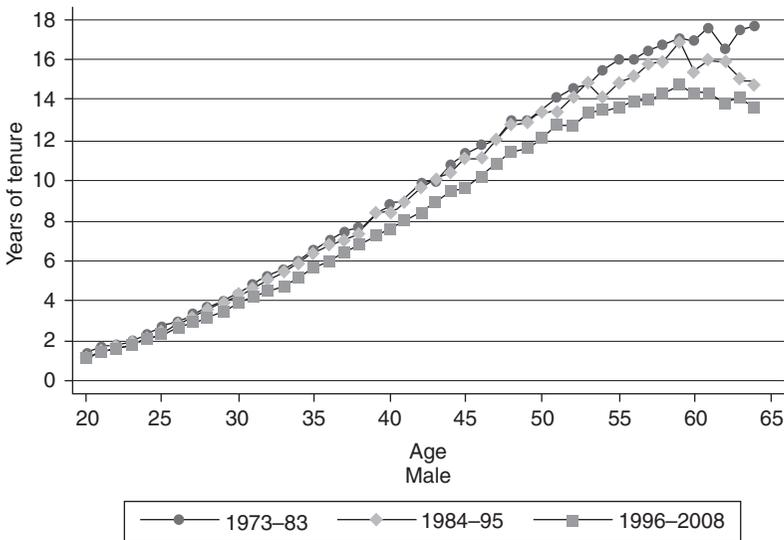


Figure 1.1a Mean job tenure by age and year cohort: men

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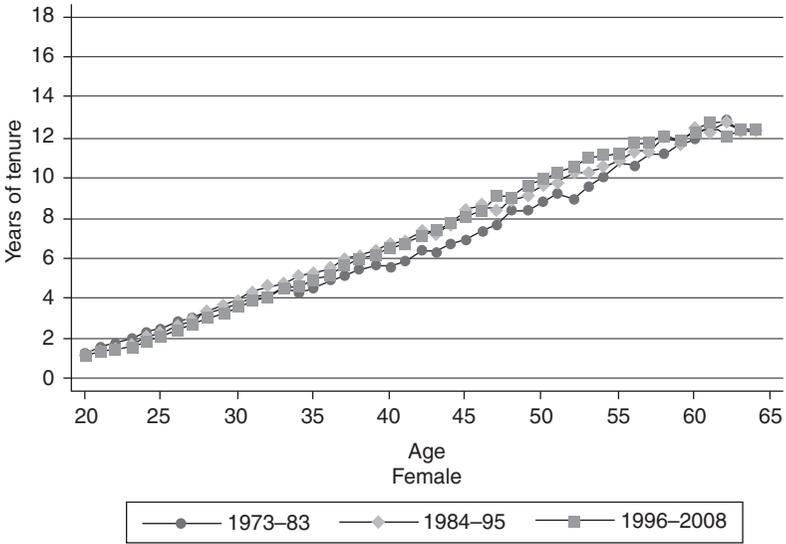
*K. Hallock, M. R. Strain, and D. Webber*

Figure 1.1b Mean job tenure by age and year cohort: women

For example, Cappelli (1992) studies managerial displacement. Using the DWS, he finds that, at least during the 1980s, “managers were actually more vulnerable to displacement than were other employees, suffering proportionately greater job loss from efforts to streamline and downsize organizations and from plant closings” (p. 203). Chan and Stevens (2001) consider job loss among older workers. Using the Health and Retirement Study (HRS), they find that, for workers who lose jobs after age 55, the employment rate is 20 percentage points lower than the employment rate of similar workers who were not displaced. Elder (2004) studies this area with the same data sources and provides structural estimates of a dynamic search model. He finds that “simulations indicate that both market opportunities and age-related preferences for leisure are responsible for the observed unemployment durations, but that older workers would still have relatively long post-displacement jobless spells if preferences for leisure did not vary with age.”

Given Farber’s clear and convincing work, job stability in the United States has clearly changed in recent decades. Long job spells are clearly much less frequent than in the previous generation, although there is some variability by gender. The next section considers reasons for and potential alternatives to layoffs.