THE SOCIAL AND ECONOMIC CONTEXT OF WORKER DISPLACEMENT*

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ABSTRACT

Job displacement is an involuntary disruptive life event with a far-reaching impact on workers’ life trajectories. Research suggests that displacement is associated with subsequent unemployment, long-term earnings losses, and lower job quality; declines in psychological and physical well-being; loss of psychosocial assets; and social withdrawal. Contexts of widespread unemployment, although typically associated with larger economic losses, may lessen the social-psychological impact of job loss. Using data from the National Longitudinal Survey of Youth (NLSY), I consider how the economic and social-psychological effects of worker displacement differ depending upon the social and economic context, and accordingly how displacement effect estimates are impacted by the interference between units.
INTRODUCTION

Work occupies a fundamental social role, providing a source of identity, self-concept, and social relations. The evidence that worker displacement (i.e., involuntary job loss) matters, that the range of consequences is wide, and that the effects persist long-term, is persuasive (Brand 2015). The increasing incidence of displacement among growing segments of the workforce, alongside the recent era of economic upheaval, furthers attention to the far-reaching impact of job loss on life chances. Worker displacement is associated with significant economic costs, including a period of unemployment, reduced income, lower job quality, loss of health and pension benefits, and interruption of asset accrual. The average displaced worker experiences a long period of unemployment (Farber 2005), but the duration has a high degree of variance. Displaced workers suffer substantial earnings losses, which are generally more persistent than unemployment effects (Couch, Jolly, and Placzek 2011; Couch and Placzek 2010; Davis and von Wachter 2012). Displaced workers may also find, when reemployed, that their jobs are of lower quality (Brand 2006). Workers also withstand greater job instability for at least a decade following a displacement event (von Wachter 2010). While economic losses occur for displaced workers across demographic categories, across industries and throughout the skill distribution, there is nevertheless effect variation by worker characteristics. Workers with higher pre-displacement tenure, those who change industries, and those who experience multiple job losses experience greater earnings losses (von Wachter 2010). Losses are typically more pronounced for less-skilled and less-educated workers (Farber 2005). Still, as the incidence of displacement for more educated workers has increased, the transition difficulties for such workers have increased as well.

Displacement is not limited to economic effects. It is also associated with lower levels of self-acceptance, goal and meaning in life, and morale; higher levels of depressive symptoms and poor health; loss of social support and personal reassessment in relation to societal norms and unemployment stigmatization; and restriction of socially-supportive relationships and disruption of social and family ties. Loss of a job carries societal stigma, creating a sense of anxiety, insecurity, and shame. The disruption presents a source of acute stress associated with the immediate change to a major social role, as well as chronic stress resulting from continuing economic and social and psychological burden. Research suggests that displaced workers report higher levels of depressive symptoms, somatization, and anxiety and the loss of psychosocial assets (Burgard, Brand and House 2007; Catalano et al. 2011).
Employment and career stability have long been considered important factors for social involvement (Durkheim 1933; Jahoda, Lazarsfeld, and Zeisel 1933 [1971]; Rotolo and Wilson 2003; Wilensky 1961). Brand and Burgard (2008) find that displaced workers have significant and long-term lower probabilities of involvement in various modes of social participation. The strain of insecure employment, displacement events, periods of unemployment, reemployment in jobs with lower earnings and quality, psychological distress, geographic mobility, and diminished social trust and the erosion of commitment to social reciprocity contribute to decreased levels of social involvement among displaced workers (Putnam 2000; Wilson 2000).

As is true with the economic consequences of job loss, the effects of job loss on social-psychological well-being vary by a range of factors, including demographic characteristics, and socio-emotional skills and social support. While more disadvantaged workers may be more vulnerable to financial shocks, such economic adversity is a comparatively normative experience; by contrast, job displacement and socioeconomic decline may instigate an acute sense of deprivation among more advantaged families whose peers tend to be likewise advantaged and for whom displacement is a considerable shock (Brand and Simon Thomas 2014). That is, judgments of disruptive events depend on the experience of similar situations in the past, and higher levels of past adversity may lessen the impact of current adversity. If the difficulties posed by job loss and unemployment are primarily financial, then reemployment has the potential to remove much of the stress, particularly if the income is comparable to what the worker had been earning. If job loss profoundly alters one’s self-concept and place in society, however, the extent to which reemployment will reverse these effects is unclear. If significant effects of reemployment have been documented among blue-collar workers, professionals and upper-level, white-collar workers do not seem to recover as readily. In contrast to the literature on the economic effects, attention has also been paid to variation in the effects of job loss by socio-emotional skills and social support. For example, worker response to displacement varies by individual work-role centrality, or employment commitment, where workers who place more importance on the work role to their sense of self suffer more from job loss.

**The Context of Worker Displacement**

A frequently considered topic is the degree to which displaced workers’ economic losses differ across economic recessions and expansions. The evidence suggests that economic losses are cyclical (Couch, Jolly, and Placzek 2011; Davis and von Wachter 2012; Farber 2005; von Wachter 2010). As few firms hire during economic contractions, displaced workers seeking reemployment are in a poorer negotiating position than during economic expansions. The alternative hypothesis would be that greater discretionary dismissal of employees acts as a signal of below average productivity, stigmatizing laid-off workers. Resulting in countercyclical economics losses. Although the evidence suggests cyclical economic costs, it is unclear the degree to which the social and psychological effects follow the same pattern.
As contexts of widespread unemployment lessen the internalization of blame and social stigma associated with job loss (Brand, Levy, and Gallo 2008; Clark 2003, 2010; Miller and Hoppe 1994), displaced workers may benefit from a “social norm effect.” That is, as aggregate unemployment increases, one’s own unemployment represents a smaller deviation from the social norm (Clark 2010), and thus displacement effects on social-psychological well-being may be less in contexts of mass layoffs. Turner (1995) shows a three-way interaction, indicating that unemployment effects on psychological well-being are strongest in low unemployment areas, particularly among individuals with a college-level education. While economic burden is greater among workers with lower socioeconomic status and those displaced in higher unemployment contexts, personal attribution is greater among higher status victims of job loss and those displaced in low unemployment contexts (Pearlin et al. 1981; Turner 1995). These interactions highlight that results are sensitive to the social and economic context. Another indicator of the social network in which workers are likely embedded is their own characteristics. Economic adversity is a comparatively normative experience for disadvantaged workers and their peers, while socioeconomic decline may be a greater shock and incite a stronger sense of relative deprivation among more advantaged workers, and consequently have a greater impact upon psychological well-being and social interactions.

If displacement is affected by the social context, important interactions may exist between one displacement and another one nearby, between one displaced worker and another competing for a job in the same market. Such interference, or dependency, violates the “stable unit treatment value assumption” in the estimation of worker displacement effects, i.e. that the observation on one unit is unaffected by the assignment of treatments to other units (Morgan and Winship 2014). Research to date has focused, understandably, on individuals. In this study, I explicitly consider the impact of spillover effects.

DATA AND METHODS

I use data from the National Longitudinal Survey of Youth (NLSY). The NLSY is a nationally representative sample of 12,686 respondents who were 14 to 22 years old when first surveyed in 1979; these individuals were interviewed annually through 1994 and biennially thereafter. The NLSY is an underutilized resource for the study of job displacement. In addition to extensive information on individual characteristics, NLSY data allow distinction between layoffs and firings, which stands in contrast to many surveys used to study displacement. It also has a short recall period for reporting job losses for a panel survey, from one (in 1984-1994) to two (in 1996-2010) years, an important component for retrospective reports of unemployment. I define displacement as termination from the respondent’s main job between each interview period as a result of layoff or plant closing; in other words, I consider respondents who quit jobs or were fired as non-displaced.

In future, work I will include regional datasets to establish effects across neighborhood context, including data from the Los Angeles Neighborhood and Family Study (LAFANS) and Project on Human Development in Chicago Neighborhoods (PHDCN).
These two studies recently conducted complementary follow-ups to explore the effects of the recent recession.

For unit \(i\), the effect of displacement is defined as the difference between the two potential outcomes in the treated and untreated states \((d=1,0)\):

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\delta_i = y_{i}^{d=1} - y_{i}^{d=0}.
\]

That is, I ask whether respondents who were displaced from jobs have different outcomes than they otherwise would have had if they had not been displaced. Although displacement is more of an exogenous shock than other types of job mobility, the possibility of omitted variable bias nevertheless threatens the validity of results associating job loss to subsequent outcomes. I study variation in effects of displacement on economic and social-psychological outcomes by considering displacement that occurred in contexts of more or less concentrated unemployment. That is, I examine separately the effects for respondents who were displaced during recessionary (i.e., 1990-1992, 2001-2002, 2008-2010) and non-recessionary periods (i.e., 1984-1989, 1993-2000, 2003-2007, 2012). Additionally, using private geocode data from the NLSY, I separate respondents displaced in labor market areas (LMAs) (i.e., metropolitan or micropolitan areas or the computed balance of the state unemployment rate) with high and “non-high” unemployment, where high unemployment is defined as at least 9 percent unemployed. The untreated groups in both cases include respondents were not displaced. These indicators test the degree to which displacement effects on economic and social-psychological outcomes are more sensitive to economic adversity, generally greater in high unemployment contexts, or social stigma and relative deprivation [i.e., the evaluation of relative standing vis-à-vis reference peers, generally greater in lower unemployment contexts. However, the macroeconomic context may involve less social salience for individual experiences than the regional context if reference comparisons are situated at more proximate levels of aggregation (Clark 2003). This study will also address estimates of displacement effects in the presence of interference, and relax the “no-interference” assumption in order to gain substantive knowledge of the way in which the context of displacement impacts worker outcomes (VanderWeele 2015).

**Expected Results**

I expect this analysis to yield differences across economic and social-psychological effects of worker displacement depending upon the context in which the displacement occurs. That is, I expect larger effects on economic outcomes in areas with higher levels of unemployment, but larger effects on social and psychological effects in areas with lower levels of unemployment. These findings speak to the way in which context matters for socioeconomic shocks, and how economic and social-psychological responses do not invariably coincide.
REFERENCES


