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**RECONNECTING TO WORK**

**INTRODUCTION\***

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## **Reconnecting to Work**

### **Introduction**

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The Great Recession, the worst economic downturn since the Great Depression was like none other in most of our lifetimes. No other recession in recent history has had comparable job losses. The recession of 1981-1982 (the worst recession since the Great Depression other than the Great Recession) saw a drop of 2.8 million jobs or 3.1% of payroll employment. By comparison, job losses from the Great Recession reached 8.1 million jobs or 5.9% of payroll employment from the start of the recession in December 2007 until jobs started to consistently increase in October 2010. As recently as October 2011, an additional 8.9 million people found themselves in part-time jobs when they actually wanted to be working full-time, either because their hours had been cut, or because there were no full-time positions available. At the recession's peak, the unemployment rate in the country was 10.1% and over 25 million people were either unemployed, working part-time for economic reasons, wanted a job, but had stopped looking for work because of a personal reason (e.g., school or family responsibility), or had become too discouraged to continue searching for a job (Bureau of Labor Statistics 2011a, 2011b, 2011c).

After nearly two years of recession, the United States economy entered a period of slow recovery in the third quarter of 2009. However, despite nine quarters of GDP growth, jobs have just barely started to recover. The average job growth for the six months prior to and including October 2011 was only about 90,000 jobs per month and even looking at just the past three

months (August to October 2011), in which the economy did perform better, average job growth was only 114,000 jobs per month (at the time of this writing; Bureau of Labor Statistics 2011a). Whether we look at the past six months or just the past three, the rate of job growth is barely enough to keep up with the current growth in the working age population. Furthermore real GDP, which grew at a rate of 3% in 2010, has slowed down in 2011. GDP grew at annual rate of 2.5% or less during the first three quarters of 2011 according to the Bureau of Economic Analysis (BEA 2011a, 2011b, 2011c). In order to make a dent in the jobs deficit and to decrease the unemployment rate, the economy needs to gain about 300,000 jobs each month, and GDP needs to grow at a rate of 5-6% annually until the labor market recovers. As a result of the anemic job growth experienced since the official end of the recession, the unemployment rate in the U.S. which fell to 8.9% in February 2011 (the first time in nearly two years that it dropped below 9%) was back up to 9% by April and has hovered at or about that rate since (Bureau of Labor Statistics 2011b). In October, 13.9 million people still remained unemployed, 2.6 million remained only marginally attached to the labor force,<sup>1</sup> and as noted above, 8.9 million people were working part-time for economic reasons (Bureau of Labor Statistics 2011c).

Most notably, and unusual for the U.S., long-term unemployment has become a significant problem. As of October 2011, among the officially unemployed, 5.9 million or 42.4% had been out of work for six months or more and over one-third had been unemployed for a year or more; the average time to find a job had reached more than nine months (Bureau of Labor Statistics 2011c, 2011d). Furthermore, by October of 2011, the working age population of the United States had grown by about 7.1 million people from the start of the recession, but the labor force shrunk by 262,000 people during this same time period (Bureau of Labor Statistics 2011b). Since the labor force usually grows with the growth in the working age population, this is a

remarkable development. Certainly, some people are looking at the poor economic climate and choosing not to enter the labor force, having decided instead, to do something else such as going back to or staying in school. However, there are doubtless many others who – having had no luck in finding a job for six months, a year, or two years or more – have simply given up and left the labor force. This exodus of working age people from the labor force suggests that the current unemployment rate understates the extent of joblessness, and that the unemployment rate may remain high even after jobs begin to be created as many of these discouraged workers reenter the labor force.

Extended periods of high joblessness have been shown to have detrimental economic and financial impacts on workers and the economy that continue long after jobs have recovered. Such economic scarring has been demonstrated in previous recessions and is bound to be more severe and longer-lasting now, as a result of the Great Recession, given the nearly unprecedented levels of unemployment, underemployment, and long-term unemployment facing workers in the United States. Indeed, a recent study of people who lost a job between 2008 and 2009 found that only seven percent had recovered or surpassed their previous financial status and maintained their lifestyles. Over one-third (36%) of survey respondents were classified as currently being devastated or wrecked. That is, they were either in fair or poor financial shape and felt that their lifestyle had faced a major change. Twenty-one percent of respondents believed that this major change in their lifestyle was permanent (Irons 2011; Zukin, Van Horn, and Stone 2011).

Several areas that are negatively affected during recessions, in particular education, opportunity, and poverty influence the extent to which an economic downturn will have a long-term economic effect. Unemployment can lead to decreased educational achievement among both children and adults. Children in families with an unemployed or underemployed parent may

be faced with poor nutrition and the loss of a supportive learning environment. These children are less likely to excel in school. Young adults as well as returning students are finding it difficult to achieve their educational goals because of reduced family incomes due to unemployment and underemployment. Since children and their parents have highly correlated levels of educational attainment, the abandonment of educational goals among young adults today is likely to have a negative impact on their children's education levels in the future. This loss in educational achievement is likely to continue to negatively impact the economy, as wages increase with educational success (Hertz et al. 2007; Irons 2011).

Researchers have found that people entering the workforce during an economic downturn fare worse than do workers who enter the workforce when the economy is healthy. As the unemployment rate rises, the impact on wages also increases. One study found a decrease in wages of 6 to 7% for each percentage-point increase in the unemployment rate at the time of entry into the workforce. For workers who have not graduated from college, the extent to which unemployment depresses wages is even more severe. In addition, these effects are long-term – lasting as many as 15-20 years (Kahn 2009; von Wachter, Song, and Manchester 2007).

Furthermore, lower wages result in fewer opportunities and decreased economic success, not only for the workers themselves, but for their children as well. Research has found that while we would expect job loss to result in reduced family incomes in the present, surprisingly, this decline in wages is passed down to the next generation. The children of male job losers have been found to earn 9% less than do their peers whose fathers did not lose a job (Oreopoulos et al. 2005). Given the millions of people who have lost a job during the recent economic downturn and continuing jobs crisis, wages and family incomes are likely to remain depressed for decades.

Not surprisingly, the current poverty rate in the United States is higher than it has been in nearly 30 years. At 15.1% in 2010, the poverty rate is just below its 1982 peak of 15.2%. Furthermore, the poverty rate is generally recognized as an outdated measure of poverty. In 2010, over one-third of Americans had an income that was below 200% of the poverty line, which is generally recognized as what it actually takes to get by (Fremstad 2011). Poverty in childhood has been correlated with future problems, such as criminal activity, poor health, and low earnings. Thus, the increase in poverty in the U.S. following the economic crisis is likely to be a drain on the economy into the next generation (Irons 2011).

These effects of unemployment do not tell the whole story however. A substantial number of studies have found that unemployment has a negative effect on a large number of outcomes ranging from the physical to the social to the psychological. Decades of research have demonstrated a relationship between unemployment and poor overall health, increases in deaths due to cardiovascular problems, cirrhosis, and suicide, decreases in well-being, increases in depression, anxiety, and mental hospital admissions, and increases in alcohol abuse, violence, and arrests. A Rutgers University survey fielded in the summer of 2009 found that about two-thirds of unemployed respondents felt anxious, helpless, or depressed and over three-quarters felt stressed. Furthermore, the length of unemployment makes a difference – a study of both blue and white collar workers found that psychological symptoms were greater after four months of unemployment than after one month (Blakely, Collings, and Atkinson 2003; Brenner 1967, 1979; Burgard, Brand, and House 2007; Catalano 1991; Catalano et al. 1993a; Catalano et al. 1993b; Catalano, Novaco, and McConnell 1997, 2002; Dooley, Catalano, and Rook 1988; Dooley, Catalano, and Wilson 1994; Dooley, Fielding, and Levi 1996; Eliason and Storrie 2009; Hagen 1983; Hamalainen et al. 2005; Iversen and Sabroe 1988; Kessler, Turner, and House

1988, 1989; Kposowa 2001; Liem and Liem 1988; Liem and Rayman 1982; Linn, Sandifer, and Stein 1985; Payne, Warr, and Hartley 1984; Rutgers University 2009; Smart 1979; von Wachter 2010; Warr, Jackson, and Banks 1988).

One outcome of the psychological trauma caused by living in a world of economic uncertainty is the impact it has on the decisions we make. For instance, researchers have shown a connection between job loss and marital and family dissolution. While marriage can help to soften the blow of unemployment, unemployment can lead to marital dissatisfaction. When one loses their job, they suffer not only financial hardship, but also a loss of identity and social networks. These losses may create difficulties in personal relationships. This strain may result in decisions to dissolve marriages or postpone getting married. Recent anecdotal evidence supports this research. Polls indicate an increase in the dissatisfaction among married couples and a decrease in the number of marriages in areas particularly hard hit by the recession (Grant and Barling 1994; Liem and Liem 1988; McKee-Ryan et al. 2005; Nasser and Overberg 2011; Peck 2010; Price, Friedland, and Vinokur 1998; Shrieves 2010; Wilcox 2009).

Unemployment creates insecurity and the disruption of plans, both current and future plans. Unemployment may also lead to limited finances, which may constrain personal choices. Furthermore, the time frame for reaching goals and milestones such as buying a home, continuing on in education, becoming financially independent from one's parents, or retirement may be altered by poor economic conditions. There is some evidence that disruptive economic events during the life course can have consequences reaching well into the future (George 1993; Moen 1983; von Wachter, Song, and Manchester 2007).

Polls indicate a recent increase in college applications, but also suggest that people working their way through college have had to leave school. There has been a decline in both the



U.S. fertility and birth rates since the start of the recession. The number of births in the U.S. fell by 2.6% in 2009, at the height of job loss in the U.S. This was despite an increase in the population. We have witnessed an increase of women workers between 30 and 34 years of age since the start of the recession. These women may be delaying having children and thus staying in the workforce. In a 2009 survey, almost half of low- and middle-income women indicated that they planned to delay pregnancy or limit the number of children they have and cited money concerns as the reason (Associated Press 2010; Hamilton, Martin, and Ventura 2010; Norris 2011; Tejada-Vera and Sutton 2010).

The growth in labor force participation since December 2007 among men between the ages of 62 and 64 as well as those above age 65 indicates that people may be delaying retirement and working longer. Furthermore, there was a 7.6% increase in the number of people over 55 with jobs during the three years from the start of the recession in December 2007 to December 2010 and an associated rise in the unemployment rate for this group. And, when asked about retirement, nearly a quarter of the people participating in the 2010 Retirement Confidence Survey indicated that the age at which they plan to retire increased over the previous year (Arenson 2008; Foderaro 2009a, 2009b; Employee Benefit Research Institute 2010; Norris 2011; Public Agenda 2009; Scheiber 2009; Sok 2010).

The decisions made not only by the unemployed, but also by employed workers facing a difficult job market, affect the workers themselves, as well as their families and communities. They could have serious implications for the future health of the U.S. economy – even decades beyond the end of the recession. Given the multitude negative outcomes of job loss, it is critical that the U.S. find a way to recover from the current jobs crisis. It is important to understand both the economic and psychological outcomes of the jobs crisis in order to have a more robust

response to the crisis that embraces, but goes beyond economic stimulus and financial markets reform to address the lingering social and psychological impacts of prolonged weakness in the labor market.

In the context of the Great Recession and its aftermath, the Institute for Research on Labor and Employment at UCLA held a day and a half conference on Reconnecting to Work, April 1-2, 2011. Researchers, advocates, and practitioners from across the United States, Canada and Europe came to Los Angeles to participate in the conference. The goal of the conference was to enable a better understanding of the consequences of long-term unemployment and the policies that are needed to address it. Speakers presented research that examined the psychological as well as economic consequences of experiencing a prolonged spell of joblessness. Discussion of policies to increase job creation and get the long-term unemployed back into jobs engaged both researchers and practitioners, and drew lively responses from the audience.

Presentations focused on what it means to be out of work for long periods, and the consequences, both economic and psychological, of this experience. One of the more unusual presentations examined responses of employers to the recession and high unemployment. Speakers discussed policy options for adjusting to declines in demand including reducing hours of work rather than laying off workers. Speakers from Europe and the U.S. addressed these issues both from a U.S. and from an international comparative perspective.

Several major themes arose from the conference presentations and are represented in the chapters of this volume. One recurring theme is that losses experienced as a result of unemployment will be felt for years. Economic losses persist for up to two decades, with measurable negative effects on the health of unemployed individuals and their families. It is not

only physical health that is impaired by long spells of unemployment; unemployment, especially long-term unemployment, causes psychological distress that is not easily overcome. On the policy front, short-time compensation – in which workers are not laid off in a downturn but instead their hours are reduced and they draw partial unemployment benefits for the lost hours – was identified by many speakers as a policy that has proven successful in keeping unemployment from rising. Countries in which this approach for dealing with declines in demand is well developed experienced smaller increases in unemployment in relation to the decline in GDP than occurred in countries in which this policy was not widely utilized.

World renowned economist Richard Freeman gave the keynote address at the Reconnecting to Work conference. His address focused on Wall Street's role in the jobs crisis and the policies needed to return to full employment. A more formal version of Freeman's keynote address forms the preface to this volume. With this provocative presentation, Freeman sets the stage for the substantive chapters of this book. Drawing on the whimsical writings of Dr. Seuss, Freeman makes serious points about the nature of the jobs crisis in the U.S. and focuses attention on what has to change in order to resolve the problems of extreme inequality and high and persistent joblessness.

As a result of the failure of policy makers to recognize the severity of the economic problems facing the country early on and to adopt macroeconomic policies adequate to address them, the U.S. has experienced a period of persistent and long-term unemployment. As noted by von Wachter in the first chapter of the current volume, losing a job has economic repercussions for workers that take 15-20 years to overcome. Von Wachter remarks that although there is variation in degree, these economic losses are felt by all unemployed workers regardless of demographic factors or industry. Furthermore, poor economic outcomes can lead to poor health

outcomes and these negative consequences of job loss are not limited to the workers themselves, but can extend to workers' families. Von Wachter's chapter explores the negative impact of unemployment and policy options for relieving the economic costs of job loss.

In Chapter 2, Schmitt addresses the question of whether steep declines in GDP inevitably lead to sharp increases in unemployment. He examines the role that various labor market institutions play in muting or transmitting demand shocks to jobs. He does this by comparing national labor-market institutions in Denmark, which is noted for the flexibility of its labor market and its use of retraining and job search assistance to match unemployed workers with jobs, with those in Germany, which include a range of measures that facilitate adjustment by firms to demand shocks via changes in hours of work rather than changes in number of employees. Schmitt looks to the example of Germany as the road not taken and argues that the nature of labor market institutions may explain the varying experiences of different countries during the downturn. In particular, Schmitt argues that Denmark, which had the most successful labor market of the 2000s, lacked the ability to adequately respond to periods of slack demand. The German labor market on the other hand, which allowed for a great deal of flexibility in adjusting hours worked, was able to prevent a steep decrease in GDP from resulting in skyrocketing unemployment. Quite to the contrary, Germany's unemployment rate decreased during the economic crisis, despite a decrease in GDP greater than that of the United States.

Thus far, the U.S. has not followed the German example, and the sharp decline in GDP during the economic crisis led to a doubling of the unemployment rate from 5% in December 2007 to 10.1% in October of 2009. While dropping somewhat, in October 2011, unemployment remained at 9%, despite more than two years of economic recovery. In Chapter 3, Diette, Goldsmith, Hamilton, and Darity examine the psychological footprint of unemployment,

demonstrating a causal link between unemployment and emotional well-being. Using a new method for identifying this causal link, these authors are able to estimate the impact of unemployment on emotional health. Diette and colleagues also explore the way in which particular social characteristics interact with the detrimental effects of experiencing a bout of unemployment. Their research points to differing impacts of long and short-term unemployment. Understanding the relationship between psychological well-being and unemployment is critical, given the unprecedented length of time it currently takes the average unemployed person to find a job.

In view of the failure of job growth to recover in the U.S., different approaches to labor market policies that may increase employment must be explored. The next three chapters of this volume look at varying options for encouraging firms to step up hiring and/or to reduce layoffs – either of which will result in net increases in jobs in the economy.

In Chapter 4, Oldenhuis and Polstra argue that getting employers to cooperate with social service agencies is essential to improving the jobs outlook. Oldenhuis and Polstra determine that different psychological factors are important in predicting whether the people making hiring decisions at small, medium, and large firms will cooperate with social service agencies. The authors argue that these factors must be taken into consideration when attempting to elicit cooperation between firms and social service agencies. Oldenhuis and Polstra conclude that getting firms to cooperate is important for reducing the unemployment rate now and for preventing long-term unemployment as time goes on.

With the German example in mind, two of the chapters examine the implementation of short time compensation programs, such as work sharing – the shortening of workers' hours in order to create work and increase employment by decreasing layoffs (Baker 2011). Through

work sharing employers can save money and resources by reducing the hours of their current employees, while avoiding the costs of hiring and training a new workforce later; employees benefit by keeping their jobs and maintaining their skills while receiving a proportionate amount of their unemployment benefit for the time not worked; and the government spends little or no more than it currently does for unemployment benefits.

Chapters 5 and 6 of this volume demonstrate the importance of labor market institutions and the value of work sharing as a solution to the current jobs crisis. Brusentsev and Vroman discuss the features of short time compensation and examine its use in the United States thus far. They then compare the programs in the U.S. with short time compensation programs in Canada, Germany, and Belgium. Breusentsev and Vroman conclude that the program needs to be expanded in the U.S. in order to have a meaningful impact and they discuss a legislative proposal that could do just that.

Tiraboschi and Spattini examine how different EU Member States have responded to the economic crisis and the impact of different policy choices on the unemployment rate in these countries. The authors conclude that, while there is no one best solution to reducing job loss during a recession, a short time work arrangement is a necessary element for preventing job loss and holding down increases in unemployment. Finally, these authors note that there has been a convergence of systems, such that short time work arrangements as well as active labor market policies such as training that are intended to facilitate reintegration of the unemployed into employment are being utilized in European countries to respond to the crisis.

Recent slow growth is not enough to lead to a significant increase in jobs and reduction in unemployment. The Congressional Budget Office considers 5.2% unemployment to be the current natural rate of unemployment. The CBO estimates that it will take five years for the

unemployment rate to approach the natural rate of unemployment, dropping to 5.3% in 2016 (Congressional Budget Office 2011). Thus, despite nine quarters of GDP growth, the recovery is both tenuous and jobless.

While political leaders in Washington are unable to agree on how to stimulate the economy and create jobs, the authors in this volume present a fresh approach to understanding the nature and causes of the jobs crisis, the economic and psychological consequences of high and persistent unemployment, and the policy approaches that can begin to make a difference even in the current fraught political environment.

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<sup>1</sup> People who are marginally attached to the labor force are out of work and have stopped looking for work either because they are too discouraged or for personal reasons. However, they are available for work and would take a job if offered one.