Downsized & Out?

Job Security and American Workers

By Charles L. Schultze

Two decades ago, workers entering new jobs in established firms could look about and see that most of their older and more tenured fellow workers had climbed a fairly steep wage ladder and appeared to enjoy a relatively high degree of job security. Over the past 20 years intense media attention and some dramatic downsizing among large companies have created a widespread perception that corporate layoffs among senior workers, at all skill levels, have seriously eroded the prospects for job security as a reward for long service.

How accurate is this perception? Has job stability significantly worsened for the average American worker? What is the cost of layoffs to workers with substantial job tenure, and have these costs been rising?

Much of the media reporting on job security has consisted of anecdotes and dramatic examples, most often involving large manufacturing companies. In the search for statistical evidence about job security, researchers have spent much time and ingenuity teasing out reliable evidence from available survey data. Careful balancing of that evidence does suggest that job attachment has fallen. Moreover, for any given level of unemployment, the risk of job loss facing tenured workers has drifted up, but much less than often depicted by the media. Wage losses suffered by reemployed displaced workers with substantial tenure in their old jobs are, however, quite large.

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And the sharp slowdown in the growth of real wages that occurred after 1973 made it harder for such workers to recoup their earlier living standards.

Media Hype

For more than a decade, the media have reported major downsizings and permanent layoffs in such familiar U.S. corporate giants as AT&T, GM, and Boeing. Newspapers have heralded the demise of "lifetime" jobs and a sea change in the relationship of corporations and their long-service employees. Yet the nation's economy has been booming. Employment and output have been rising sharply and unemployment has hit record lows. How can this be?

At least some of the apparent paradox can, in fact, be explained. As overall employment has been growing rapidly, employment in manufacturing has been falling, especially in the largest, most visible, firms. Even within nonmanufacturing industries, where employment has grown on average, it has shrunk in a number of the largest firms. And large firms, especially in manufacturing, often have above-average wages. Workers from such firms who lose jobs often suffer especially large wage losses even when reemployed, because many of them do not find new jobs in firms paying similar wages. Downsizings in large premium-wage firms have thus drawn media attention and public notice, even as employment has expanded strongly elsewhere.

In short, the incidence of job losses over the past decade seems to have been disproportionately large precisely where the job losses would receive the most attention: among a relatively few large firms paying premium wages. That public perceptions about rising job insecurity and layoffs may have been exaggerated, however, does not itself mean that the phenomenon doesn't exist.

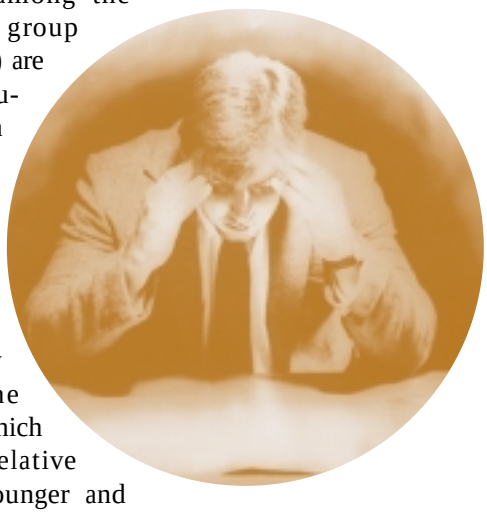
Job Tenure

The Census Bureau periodically asks households participating in its monthly Current Population Survey (CPS) how long each worker in the household has been with the same employer. Changes in average job tenure among American workers do not themselves permit conclusions about job security. A decline in average tenure could reflect an increase in the frequency and extent to which workers voluntarily quit their jobs. Nevertheless, observing what has happened to job tenure can be a useful first step in an inquiry about job security.

According to data collected every four or five years by the CPS supplement, median job tenure for men fell quite substantially from 1963 to 1981—from 5.7 years to 4.0 years. Much of that decline, however, was due to the baby boomers' entry into the labor force. Sharp growth in the share of young workers—who change jobs much more often than do older workers—pushed down the median tenure for the workforce as a whole. When the influence of demographic change is taken into account, tenure fell much less. It fell moderately for the 25–54 year age group as a whole and was roughly stable for other age groups.

Because the wording of the tenure question in the CPS was changed in 1983, we don't know what happened to average tenure between 1981 and 1983. But we can trace the changes thereafter. From 1983 to 1998, median job tenure for men as a whole fell just a little, from 4.1 years to 3.8 years. But broken down by age, the picture is different. While the median tenure of the two youngest age groups fell only slightly, the tenure of older men fell substantially. Some of the decline in the 55–64 group—from 15.3 years to 11.2 years—undoubtedly reflects the continuing trend to earlier retirement, but the reductions in average tenure among the 35–44 year age group (from 7.3 years to 5.5 years) and among the 45–54 year age group (12.8 to 9.4 years) are quite large. The situation here is a reversal of that before 1981: the widespread decline in average male tenure between 1983 and 1998 is masked by the aging of the baby boomers, which decreased the relative importance of younger and low-tenured age groups. When that demographic change is taken into account, tenure fell rather sharply. Middle-aged and older men, for whatever reason, are not staying as long with their employers as they once did.

Since the early 1980s, the rate of displacement for white-collar workers



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Worker Displacement

Based on responses collected in another special supplement to the CPS, the Bureau of Labor Statistics periodically publishes data on the number of "displaced workers"—workers who have been involuntarily and permanently laid off from their jobs at any time over the past three years because of plant closings, downsizing, or insufficient work.

Figure 1 graphs the BLS tabulations of displacement among long-tenured workers (those with tenure of three or more years) age 20 and up. Because some workers who report being "permanently" displaced during the year just before the survey are later rehired by the same firm, the figure includes only those workers who report being displaced during the second and third years before the survey. The rate of worker displacement equals the total number of long-tenured workers dis-

placed during those two years as a percentage of the average number of long-tenured workers who were employed over the same period. (The annual rate of displacement can be calculated by dividing the numbers by 2.)

Even though the displacement rate data in figure 1 do not include temporary layoffs, the incidence of plant closings and downsizing clearly rises and falls with swings in the overall economy. The raw, *unadjusted*, displacement rate peaked sharply during the recessions of 1981–82 and 1991 and fell in the subsequent recoveries. But notice that the displacement rate in the 1991–92 period was as high as it was in 1981–82, even though unemployment was lower (7.2 percent vs. 8.7 percent), and the recent decline in the rate didn't bring it fully down to its level in 1987–88.

We need to remove the effects on displacement rates coming from swings in overall economic conditions to judge whether structural changes in employer-employee relationships have been producing changes in job security for tenured workers. Because we have seen large changes in the behavior of the labor market in recent years, it is not a straightforward matter to estimate the effect of business cycles on the rate of job loss. Alternative ways of estimating cyclical effects can produce different conclusions about whether there has been a long-term rise in displacements. The adjustment shown in figure 1, which measures cyclical changes by swings in the overall unemployment rate in an equation allowing for the presence of a time trend, seems the most preferable of the alternatives. That adjusted rate is an estimate of what the displacement rate would have been had unemployment remained constant at 6 percent. (Because we have only eight periods of data, the cyclical adjustment is necessarily a rough approximation.) The adjusted rate rose during the period—for any given level of unemployment, job loss became higher than it used to be. But by 1995–96 economic prosperity and the drop in unemployment pulled the actual displacement rate in the latest survey down below the adjusted rate, to a point still above the 1987–88 actual rate but below any others since the surveys began.

has risen relative to that for blue-collar workers.

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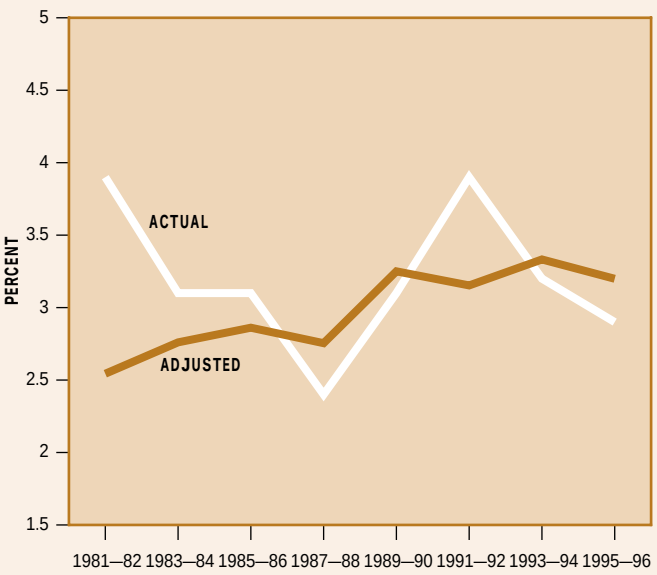
FIGURE 1.
Displacement Rates for Workers, 1981–82 to 1995–96



Note: Displacement rates are for workers age 20 and up with three or more years tenure. The rate is the ratio of the total number displaced during the second and third years before the survey to the average employment for the relevant age and tenure group for those years.

Some people have suggested that increased worker fears about job insecurity in the 1990s have helped hold down wage growth and inflation. But the rise in the adjusted annual rate of displacement from the 1980s to the 1990s does not seem at all large enough to have been a major contributor to the wage moderation.

More White-collar Displacement

Since 1981 the cyclically adjusted displacement rate has increased for white-collar workers but not for blue-collar workers. During 1981–82 the adjusted rate for white-collar workers was 33 percent of the blue-collar rate. Thereafter the white-collar rate rose while the blue-collar rate edged down, until in 1991–92 the white-collar rate was 80 percent of the blue-collar rate. Since then the ratio has remained at about that level, far above what it was at the beginning of the 1980s. This fact may help explain the vivid public perceptions and media publicity about layoffs in recent years.

How Large Are the Wage Losses from Layoffs?

To the extent that workers gradually acquire general skills that are widely applicable in many firms and industries, their productivity and their wage will tend to rise with experience, whether in one firm or many. If laid off through no fault of their own, they will be able to transfer their skills to

other employers and command commensurate wages. But some components of the wages paid to employees with long tenure at a firm—those arising, for example, from firm-specific skills such as familiarity with the procedures and technological characteristics of a firm—cannot be transferred: laid-off workers will thus suffer a wage loss compared with their earning in prior employment. Some previously full-time workers also suffer additional losses because, at least initially, they find reemployment only at part-time jobs.

Table 1, drawn from the 1996 and 1998 CPS displaced worker surveys, shows the loss in weekly earnings suffered by workers (age 20 to 64) displaced from full-time wage and salary jobs in private nonfarm industry, who had found work by the time of the survey. (As in figure 1, only data for layoffs reported for the first two years covered by each survey are included.) For comparability, all earnings levels were adjusted by an economywide index of wages and salaries to the date of the 1998 survey (February 1998). Because the earnings of workers in troubled firms that experience large-scale layoffs often do not keep pace with wages elsewhere in the economy, the losses shown in the table should be seen as those suffered by reemployed displaced workers relative to the earnings of similar workers at firms elsewhere in the economy. This measure does not count losses during periods of unemployment (or any seniority increments forgone because of layoff).

As the table shows, earnings losses for reemployed workers with long-tenure jobs were quite substantial. Some 17 percent of the previously full-time wage and salary workers were reemployed in part-time or self-employment jobs. Not surprisingly, their earnings losses were very much larger than were the losses of those who found full-time regular jobs.

The share of displaced workers with long tenure is less than proportional to their representation in the workforce. Thus, displaced workers with 11 or more years of tenure made up 24 percent of the workforce but only 15 percent of displaced workers. Moreover, compared with layoffs among other workers, those among workers with long tenure were somewhat more likely to be concentrated in those situations (plant closings) where employers have little discretion about whom to let go. The accumulation of substantial tenure with a firm still appears to carry some degree of job security, at least relative to more junior workers.

So far my focus has been on the immediate loss in annual wages suffered by reemployed displaced workers. Under normal circumstances, however, displaced workers who are reemployed can expect their wage with the new firm to grow as their tenure at the new firm begins to rise. Many, however, remain permanently well below the earnings path of similar workers elsewhere in the economy who are not displaced.

One well-known study collected data from 1974 through 1986 on the earnings of a large group of Pennsylvania workers with six or more years tenure, including a number who had been displaced in plant closings or mass layoffs between 1980 and 1986. The earnings data were available for a number of years before and up to six years after displacement. Extrapolating from these data, the authors, Louis Jacobson, Robert LaLonde, and Daniel Sullivan, estimated that over the years until

The slowdown in productivity and real wage growth since 1973 means that it takes displaced workers longer to recoup their wage losses once they are re-employed.

TABLE 1.

Earnings Loss among Reemployed Displaced Workers by Years of Tenure on Old Jobs, 1993–96

	YEARS OF TENURE ON OLD JOB				AVERAGE	
ALL REEMPLOYED WORKERS	0–5	6–10	11–15	16+	ALL TENURES	6 YEARS OR MORE
Percent wage loss in new job	8	18	29	39	14	27
Percent of displaced workers	71	15	6	8	100	29
Percent due to plant closing	39	46	49	51	42	48
WORKERS REEMPLOYED IN FULL-TIME WAGE AND SALARY JOBS						
Percent wage loss in new job	2	8	21	28	6	17

See text for source.

retirement, this group of reemployed displaced workers would, on average, suffer a large cumulative loss relative to the earnings of nondisplaced workers. Adjusted to reflect mid-1999 wage rates, that loss would amount in present-value terms to approximately $120,000. This estimate was dominated by the experience of workers displaced in the recession years of the early 1980s, a fact that may have led to larger than normal losses during the first few years on the new job. Nevertheless the lifetime earnings losses from displacement for long-tenured workers are clearly very substantial.

Are Wage Losses Growing?

Although I cannot find evidence suggesting that when allowance is made for the level of the unemployment rate, the size of the initial wage losses suffered by the average displaced worker has risen over the past 15 years, it can be asserted with some confidence that the slowdown in aggregate productivity and real wage growth after 1973 worsened the absolute economic losses from displacement.

As reemployed displaced workers accumulate experience and tenure with their new firm, their wages rise and the absolute size of their loss in living standards begins to fall. If real wages are also growing economywide, their wages will rise still more rapidly. Before 1973, economywide productivity and real wage gains averaged a little over 2½ percent a year. A wage loss of, say, 20 percent would be recouped in about nine years from that source alone. (Other workers would also have been getting the benefit of the real wage growth, so the productivity gain would not have improved the relative position of the formerly displaced worker.)

After 1973, productivity growth fell to an average of 1.1 percent a year, and between 1973 and 1996, real wages increased very little. Reemployed workers with regular full-time jobs could still benefit from the accumulation of general and firm-specific human capital in their new jobs, but they recouped their wage losses far more slowly than was possible earlier. Even if the incidence of job loss were no larger than it once was, the consequences for a worker's living standards are far longer-lasting.

Summing Up

The evidence does point to some erosion in job attachment and an updrift in the frequency of permanent layoffs among senior workers at any given overall level of unemployment. But the unfavorable impact of these developments on job security is much less dramatic than media reporting has often suggested. On the other hand, while earnings losses suffered by displaced workers may not have grown over the past several decades, the losses are typically quite large for senior workers, and the post-1973 slowdown in productivity growth and real wage gains substantially reduced their ability to catch up to their earlier living standards. ■

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