

The logo for the Schubert Center for Child Studies features a dark, abstract background with light-colored, flowing lines. The word "schubert" is written in a white, lowercase, sans-serif font, with the "s" and "h" overlapping. Below it, the words "center for" are written in a smaller, white, lowercase, sans-serif font, and "child studies" is written in a larger, white, lowercase, sans-serif font.

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Schubert Conversation Series 2011-2012
Child Well-Being in Challenging Times

Parental Job Loss and the Implications for Children

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How Economists think about job loss

- Job loss is endemic feature of market economies
 - represent the (negative side) of the process through which market innovations contribute to economic growth and increased welfare
 - Josef Schumpeter's notion of "creative destruction"
 - in response to productive innovations, resources (including labor) gets "reallocated" to more productive uses
- Example: labor saving machinery and textile workers in 19th century England...
- What about the downside?

What we know about job loss for the affect workers?

- Justin Wolphers summary of findings:
 - “Losing your job sucks”
- Job loss is economically painful
 - average income loss of 30-40% in the year you lose your job
- The pain persists
 - remains nearly 20% lower (on average) 20 years after your job loss
- It is particularly painful during recessions:
 - expected loss of future earnings (PDV) is almost twice as large if job loss occurs during a recession

What we know about job loss for the affect workers?

- The averages mask important heterogeneity
 - the amount that workers are able to “bounce back” varies greatly
 - particularly bad for older workers, those with less “transferrable” skills
- The pain exhibits itself in ways beyond future earnings and employment
 - Health/mortality effects
 - Increased rates of disability entry
 - Increased rates of crime

How do we “know” it

- Empirical work in this area is challenging
 - cannot simply compare the outcomes of the laid off workers to those who are not laid off
 - likely differ from one another in unobserved ways
- Common empirical strategies
 - Plant closures/downsizing
 - Mass layoffs
- Virtue of such strategies is that they provide a natural way of testing for bias
- Downside: heavy data demands

Negative spillovers for kids

- Given depth and breadth of the effects of job loss on parents, reasonable to believe that parents would be unable to fully shield children from negative consequences
- Plausible mechanisms
 - Economic factors → lost income
 - Psychological mechanisms → is parent “damaged” in a way that reduces their skill as caregiver?
 - Marital conflict and divorce
 - Roles and aspirations → observing parental job loss (or reliance on support) could reduce child’s self-efficacy

Negative spillovers for kids

- These concerns have given rise to a growing literature that looks at intergenerational effects of job loss
 - Much of the existing literature suffers from questionable empirical methods
- Three papers I will focus on:
 - Oreopoulos, Page, Stevens (2008), *Canada*
 - Rege, Telle, Votruba (2011), *Norway*
 - Rege, Telle, Votruba (2010wp), *Norway*

Oreopoulos, Page, Stevens (2008)

- Uses Canadian longitudinal database that contains record on matched father-son pairs
 - sons born 1966-1970
 - sample followed 1978-1999
- Critical for them: contains firm IDs
 - allows for matching to firm-level longitudinal dataset
 - can be used to identify firm closures
- Basic strategy → compare outcomes where father did (did not) experience a firm closure (1980-82)
 - father/family characteristics similar across groups

Oreopoulos, Page, Stevens (2008)

- Summary of findings:
 - Children of displaced fathers had 9% lower earnings as young adults
 - Less stable employment (20% more likely to have received UI)
 - 25% more likely to have received welfare benefits
 - should be view as lower-bound estimates
- Negative effect concentrated among children of lower earning/educated fathers
 - leads them to suspect “economic factors” as the mechanism behind the child detriments, though hard to rule out role of other mechanisms

Rege, Telle, Votruba

- Have a series of job loss papers, drawing on rich administrative data (since 1993) allowing us to match every person in Norway to plants/firms of employment (since 1995)
 - can match everyone to their family members (and to their neighborhood)
 - can observe earnings, education, social benefit use over time
- In some cases, have augmented with data from other administrative sources
 - child grades, crime, etc.

Rege, Telle, Votruba (2011)

- Similar strategy as Oreopoulos et al. (2008), but comparisons are a bit cleaner
 - compare children of fathers (mothers) displaced due to plant closure 1-3 years prior to graduation year to children of fathers (mothers) in stable/growing plants
 - main outcome: graduation year (10th grade) school GPA

Rege, Telle, Votruba (2011)

- Main findings, paternal job loss:
 - overall effect suggests exposure modestly reduces academic achievement (6-7% of a standard deviation)
 - finding similar if we look at earlier exposure (3-5 years prior to graduation)
 - interestingly, little change we exclude cases where father fails to “bounce back” (regain employment, earnings)
 - some evidence of increased crime (>30%)
 - negative GPA effects are larger in areas with weak job markets (“non-booming”), lower educated/earnings fathers, high-tenure fathers, girls
 - some sign of mothers compensating (w/ more work)

Rege, Telle, Votruba (2011)

- Main finding, maternal job loss:
 - much smaller sample
 - no evidence of negative GPA effect (estimate is *positive* but statistically insignificant)

Rege, Telle, Votruba (2011)

Our conclusions:

- Negative GPA effect could potentially help explain Oreopoulos et al. (2008) findings
- Doesn't provide support for economic mechanism
 - both fathers *or* mothers job loss causes family income loss, but negative findings specific to fathers
 - effect was not related to whether the father “bounced back” or not
- Alternative possibilities: this is about psychological effects (plausible “role theory” explanations)

Rege, Telle, Votruba (2010)

- Married couples, father (mother) originally employed in 1995, exposed to plant closure by 2000
- Father's job loss → 11% increase in prob of divorce
 - much larger when father is primary breadwinner
 - again, effect does not seem to relate to whether father “bounces back” or not
- Mother's job loss → insignificant *negative* effect on probability of divorce
 - negative effect is *significant* when we restrict to (small fraction of) cases where mother primary breadwinner

Summary

- Job loss – at least *paternal* job loss – sucks for both the worker and his children
- The heterogeneity we see in the effects tends to reflect the patterns we see for worker effects
 - importance of parents education, tenure, local labor market conditions, etc.
- However, the negative effects don't seem to be driven by the “economic” effects of job loss
 - maybe this is an artifact of Norway context
- The divergent results we see for father's/mother's job loss suggests (to us) that sociological factors might be at work (role theory)

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Respondents:

Amy Hanauer, Founding Executive Director, Policy Matters Ohio

Dave Megenhardt, Executive Director, United Labor Agency