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Bringing Together Policymakers, Researchers, and Practitioners to Discuss Job Loss

Abstract

[Excerpt] On November 18–19, 2004, the Federal Reserve Bank of Chicago and the Joyce Foundation cosponsored a conference at the Chicago Fed, “Job Loss: Causes, Consequences, and Policy Responses,” to bring together researchers, policymakers, and practitioners to discuss job loss from the perspective of both firms and workers. The first day focused on new research findings, with discussion and comment from participants with backgrounds in policy, practice, and research. The second day featured an address by Michael Moskow, president of the Federal Reserve Bank of Chicago, and panel discussions on layoff procedures from the point of view of firms and the post-layoff experience of workers. The balance of this special issue of *Economic Perspectives* presents papers by our keynote speakers, Lisa Lynch of Tufts University and Henry Farber of Princeton University, and the second-day panel participants. To begin, however, we provide an overview of the research results and discussion from the first day of the conference. This day was organized into three separate sessions. The first focused on the impact of job loss on workers. The second was devoted to the intersection of regulation and job loss. The final session focused on the impacts of job loss on firms. We discuss each of these in turn and then give a brief overview of the contributions of the keynote speakers and second-day participants that are included in this volume. We conclude with an overview of some of the recurring themes of the conference.

Keywords

job loss, layoffs, policymakers, researchers, practitioners

Disciplines

Economic Policy | Human Resources Management | Other Public Affairs, Public Policy and Public Administration | Social Policy

Comments

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Bringing together policymakers, researchers, and practitioners to discuss job loss

Kristin F. Butcher and Kevin F. Hallock

Introduction

The most recent *Displaced Workers Survey*¹ (DWS) finds that 5.3 million workers were displaced between January 2001 and December 2003 from jobs that they had held for three or more years. These workers are of particular interest for several reasons. First, due to the design of the DWS, we know that they are workers who likely lost their jobs through no fault of their own. Second, they have proven through their long association with their employers that they are good employees. Third, research has demonstrated that they are unlikely to get new jobs that are similar to their old jobs—particularly if they lost their old jobs because of technological change or international trade. Fourth, research has also shown that these workers are likely to suffer long-term earnings losses due to their job loss. This is particularly true in cases where the workers had built up skills that were specific to a particular job and where they are unlikely to be reemployed in a similar job. (See Jacobson, LaLonde, and Sullivan, 1993; and Farber, in this volume).

Many economists and policymakers would agree that the United States enjoys a higher standard of living than many other countries, thanks, in part, to our openness to competition and technological change. Many point to improved technology and enhanced competition as driving forces behind high productivity growth over the past decade. However, technological change, competition, and even regulations that are meant to protect our citizens (environmental, health, and so on) may result in worker displacement. As with any change, the benefits and costs are likely to be unevenly distributed. However, by definition, if a change is for the better, the winners must win more than the losers lose. Thus, there is scope to compensate those who bear the cost of the change.

The preceding is a moral argument for why it is important to compensate displaced workers. They are

those whose jobs are lost due to technological changes, for example, that help provide cheaper goods for the benefit of all consumers: Through their sacrifice, broader society benefits. However, there are reasons, beyond moral arguments, for paying close attention to displaced workers.

Industries and firms within industries often have idiosyncrasies that are tied to creating their product. It is important that their workers learn the skills that allow them to be effective at production within that idiosyncratic environment. Thus, it is important to firms that workers acquire some “specific human capital,” and those skills may be specific to the firm or the industry.² However, for workers, this may entail risks. If they are incompletely compensated by the firm for learning something that will only be useful within that particular job, then they are at risk if technology changes and that job goes away. It is hard to predict which skills will be enduringly useful and which will turn out, from the worker’s perspective, to have been a bad investment. To the extent that it is beneficial to the economy overall to have workers who are willing to invest in job-, firm-, or industry-specific skills, there may be a need to insure workers against the risk of investing in skills that may become obsolete.

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In recent years, rates of job displacement have been relatively high—as high as in earlier periods when the unemployment rate was much higher (see Farber, this issue). This suggests that the pace of change in the economy has increased the risk that workers' skills will become obsolete. It also means that a higher fraction of unemployed workers are those who have been displaced, who often take longer to find new employment. This may help explain the relatively high fraction of long-term unemployment in recent years.

In addition to implications for specific labor market policies, the rate of job displacement may have implications for macroeconomic and monetary policy more broadly. From the perspective of monetary policy, the implications of displacement are complicated, because an increase in job displacement may have two offsetting effects. For one thing, the current unemployment rate may overstate the amount of slack in labor resource utilization if a higher proportion of the unemployed are likely to take a long time to find a new job. If a higher fraction of the unemployed lack the skills necessary for current vacancies, shortages may arise that would put upward pressure on labor costs. Then again, if job displacement is relatively common, that may make workers reluctant to press for wage increases, restraining labor costs. Although the implications of greater job displacement for monetary policy are ambiguous, it is clear that we need to monitor changes in the composition of unemployed workers and how that may affect the relationship between our usual measures of labor resource utilization and labor costs.

In sum, from a macroeconomic point of view, it is important to monitor how displacement rates may affect our interpretation of the typical measures of labor market slackness. For the displaced individual, displacement is likely to be very costly. For society, the loss of these workers' substantial productive capacity is costly. Furthermore, if workers who stand to lose out due to technological change or competition were to try to block these changes, that might lead to worse outcomes overall. Thus, it is important to develop appropriate labor market policies to address displacement.

On November 18–19, 2004, the Federal Reserve Bank of Chicago and the Joyce Foundation cosponsored a conference at the Chicago Fed, “Job Loss: Causes, Consequences, and Policy Responses,” to bring together researchers, policymakers, and practitioners to discuss job loss from the perspective of both firms and workers. The first day focused on new research findings, with discussion and comment from participants with backgrounds in policy, practice, and research. The second day featured an address by Michael Moskow, president of the Federal Reserve Bank of Chicago,³

and panel discussions on layoff procedures from the point of view of firms and the post-layoff experience of workers. The balance of this special issue of *Economic Perspectives* presents papers by our keynote speakers, Lisa Lynch of Tufts University and Henry Farber of Princeton University, and the second-day panel participants. To begin, however, we provide an overview of the research results and discussion from the first day of the conference. This day was organized into three separate sessions. The first focused on the impact of job loss on workers. The second was devoted to the intersection of regulation and job loss. The final session focused on the impacts of job loss on firms. We discuss each of these in turn and then give a brief overview of the contributions of the keynote speakers and second-day participants that are included in this volume. We conclude with an overview of some of the recurring themes of the conference.

The impact of job loss on workers

The conference included three papers on displacement from the perspective of workers. It is important to understand what types of individuals are likely to suffer most or least in the event that they are displaced. This is important from the perspective of targeting policies after a layoff has occurred, but it may also be important for workers themselves as they consider what types of skills to invest in early in their careers.

Peter Kuhn and Arthur Sweetman's paper⁴ examines whether workers with “multiple skills” suffer, on average, smaller earnings losses than other workers after a displacement occurs. Using data sources such as the *Quality of Employment Survey* and the *Dictionary of Occupational Titles*, the authors assign multi-skill levels to jobs based on statements such as “My job requires that I keep learning new things,” “I get to do a number of different things on my job,” and evaluations of job characteristics of “adaptability to performing a variety of duties, often changing from one task to another of a different nature without loss of efficiency or composure.” Kuhn and Sweetman find that workers in jobs that require multiple skills earn more than other workers. Furthermore, workers who are displaced from these jobs have higher earnings in jobs they find after displacement. However, part of the return to multiple skills appears to be due to the fact that these workers received more training. After the authors control for the time it takes to train for the job, multi-skilled individuals have lower earnings than individuals who do not describe themselves as multi-skilled, in both the pre-displacement and the post-displacement jobs. However, earnings loss associated with job loss is smaller for those with multiple skills.

Currently, the authors point out that their results cannot be interpreted as “causal,” in other words, as proving that acquiring multiple skills protects one from earnings losses associated with displacement, since it is possible (even likely) that workers who are more adaptable simply sort themselves into jobs requiring multiple skills in the first place. These workers might be expected to suffer smaller earnings losses, even if they were not multi-skilled as defined here. A particularly fruitful area for future work would be to analyze the causal effects of acquiring multiple skills in order to understand the policy implications of this provocative finding.

Clearly, the effects of job loss may be different for workers with different characteristics; understanding more about these differences across workers is important for designing effective policy. In particular, as the work force ages, it is critical for policymakers to understand whether and how the effects of displacement differ for older and younger workers. The research presented by Todd Elder⁵ examines the reemployment patterns of older workers using a dynamic structural job search model. The main source of data is the *Health and Retirement Study* (HRS), a panel dataset that started in 1992 with respondents between the ages of 51 and 62.

Previous work on employment and retirement behavior has largely ignored the issue of job displacement. Elder documents that job displacement affects older workers differently. He finds that there has been an increase in involuntary job loss due to the elimination of a position for workers over age 50 in the past two decades. He also finds that workers over 50 have longer spells of unemployment and greater earnings losses than their younger counterparts. Older workers also suffer greater earnings losses, per period, on their subsequent job. However, younger workers may suffer larger earnings losses over their working lives, because they will receive the lower post-displacement wage over a longer period.

Elder’s work has implications for policy. For example, his findings are consistent with the idea that the need for health insurance drives the employment decisions of older workers, making them particularly willing to accept a full-time job with benefits, even if the earnings associated with that job are low. Thus, changes in health insurance policies are likely to affect the labor supply of workers over the age of 50.

Finally, it is important to understand the best policies for helping displaced workers to find new jobs. One possibility is to re-train workers so they can qualify for jobs in new areas. However, little is known about the value of providing training to displaced workers. Many of the previous studies of the value of government

subsidized (post-high-school) training were conducted for young workers with few skills. Displaced workers tend to be older, since they have substantial work experience, with many, albeit perhaps outdated, skills. The paper by Jacobson, LaLonde, and Sullivan⁶ (also see their review of this literature included in this volume) presents new research on the value of training for displaced workers. They use a unique administrative dataset from the state of Washington to examine whether displaced workers who enrolled in community college courses for retraining had better subsequent outcomes than otherwise similar workers who did not. They also evaluate community college training as an investment. The research presented by Jacobson, LaLonde, and Sullivan has a number of interesting findings. We point out four here. First, older displaced workers use community colleges less than younger displaced workers. Second, the increase in per-period earnings for each credit earned is similar for older workers and younger workers. Third, because younger workers have more of their working lives remaining, training younger workers appears to be a better investment than training older workers. Nonetheless, the benefits of training outweigh the costs even for older workers. However, the amount by which the benefits outweigh the costs depends on the assumptions one makes about the opportunity costs associated with attending school while unemployed. Finally, the returns to some courses are much higher than to others. Technical courses like nursing are much more likely to be good investments than nontechnical courses like history. There may be a role for policy to ensure that students get good advice about the courses that are most likely to lead to better paying jobs.

As pointed out by the discussants for this session,⁷ we have much more to learn about these issues. For example, should workers be encouraged to acquire multiple skills? At what age should this begin? Should it only be after formal schooling? What, if anything, should government do for older workers? What are the implications for pensions and health insurance? Should we re-train more workers? Should we have a system of vouchers or reemployment bonus accounts⁸ that could be used for employment services or retraining? We hope the work presented at the conference will stimulate more research in this important area.

Regulation and job loss

The second session focused on regulations that may affect whether job displacement takes place and its aftermath. There are countless regulations that might affect the probability and repercussions of displacement. With limited time, we chose three aspects of

regulation and job loss. The paper by Stephen Woodbury⁹ examines the impact of experience-rating unemployment insurance on the temporary layoff behavior of firms.¹⁰ At first glance, this paper is something of a departure from the other papers included in the conference because the focus is on temporary layoffs. However, the unemployment insurance (UI) system is the main source of support for workers who have experienced a layoff, whether that layoff is expected to be temporary or permanent.

Currently, the UI system is tailored to the needs of those who suffer short bouts of unemployment. It is not structured to meet the needs of those suffering permanent job loss. However, we need a better understanding of how the UI system affects temporary layoffs for a number of reasons. First, temporary layoffs are costly for workers. In addition, if there were fewer temporary layoffs, we might be able to structure the UI system better to meet the needs of displaced workers, for whom job loss is most costly in terms of earnings loss.

Woodbury's paper asks "To what extent does incomplete experience rating of the UI payroll tax influence the layoff behavior of employers in the United States?" His research uses unique panel data on employers from the states of Missouri, Washington, and Pennsylvania, with several special features. First, the unit of observation is not the employee but the employer. Second, Woodbury uses UI administrative data, allowing explicit observation of the tax rates and incentives to layoff for each employer. Finally, he has a long panel, so he can control for unobserved employer effects. The paper goes through several sets of careful empirical tests for robustness. In the end, Woodbury finds that increased experience rating significantly reduces layoffs.

International trade and outsourcing receive a disproportionate share of the attention surrounding job displacement. In Lori Kletzer's paper, included later in this volume, she provides an overview of how many of the jobs lost in manufacturing and services may be linked to trade. The paper she presented in this session, coauthored with Howard Rosen, provides an overview of the assistance the government provides to workers who have lost their jobs through trade.¹¹

Kletzer and Rosen (2004) find that the labor market in the United States is very flexible and that most of the "burden of this flexibility is borne by U.S. workers, their families, and communities." They also suggest that there is increased anxiety over trade liberalization and potential growth of services outsourcing. They say that the current system of assistance to unemployed workers—a "modest" UI system, some training for all workers through the Workforce Investment Act programs, and additional assistance to workers whose

jobs are lost to imports or a shift in production—is "no longer adequate." Kletzer and Rosen point out that Trade Adjustment Assistance is the area in which policymakers have been more willing to reform and expand assistance to displaced workers.

The final paper in the second session on regulation also had an international focus. This paper, presented by Maia Guell and coauthored with Jose E. Galdon-Sanchez,¹² examines the relationship between firing costs and dismissal conflicts in the U.S. and several European countries. When critics of the U.S. economy point to the costs borne by workers due to the flexible nature of the U.S. labor market, its defenders point to Europe's perennially high unemployment rates. Some have suggested that the high costs of firing workers in Europe may limit firms' ability to hire in the first place. Although firing costs have been studied in the past, previous research often assumes that the costs of firing can be captured as a constant transfer from firms to workers. In actuality, what firms frequently complain about is the complexity and uncertainty associated with firing costs if a conflict goes to court. This paper models those court outcomes as a function of each country's particular institutional features. The authors argue that true dismissal costs are better captured by actual court outcomes than by typical measures of the "strictness" of Europe's employment protection legislation.

Guell and Galdon-Sanchez outline a model of dismissal conflicts in the U.S., Italy, France, Spain, and the United Kingdom that helps to explain three facts. The first is that the court outcomes of dismissal conflicts are extremely stable in each of the five countries over time. The second is that in Europe there are two possible outcomes: a) either the worker wins most cases or b) the firm and worker win half each. Third, in the United States, the unemployment insurance conflicts that go to court are mostly won by the firm. Their model suggests that the "gap" between severance pay for "fair" and "unfair" dismissals is an essential criterion for determination of outcomes in court. In countries where the gap is small, workers are more likely to win in court; conversely, where the gap is large, workers are less likely to win. The cost of firing is higher in countries with a lower gap. The authors conclude that "costly dismissals and rigid employment protection legislation are not necessarily synonymous. In particular, Italy and the UK, which are the most and least regulated countries in terms of firing costs, are closer to each other in terms of court outcomes, and therefore cost of dismissal, than to other countries with similar employment protection legislation strictness."

This session also generated interesting discussion from the panel and the floor.¹³ From a policy perspective, it was noted that when it comes to displaced workers, labor market policy and trade policy are closely linked. Many asked whether it makes sense to make a distinction between the case where one loses a job because someone overseas does something “better” than her company versus the case where someone in another state in the U.S. does something better than her company. The consequences for the worker may be the same. There is more public assistance available to workers who are displaced from manufacturing jobs due to trade than from other industries, even though the causes and the consequences for workers may be similar.

It would make sense to design labor market policies that address displacement, regardless of the industry in which the individual worked and regardless of whether she lost her job due to technological change or international trade. However, it may be difficult to identify which workers are “displaced” versus those who simply lost their jobs for other reasons. For example, the papers on firing costs suggested that firms may be reluctant to reveal their true reasons for dismissing a worker, to avoid paying the costs associated with layoffs. On the other hand, workers may have an incentive to claim that they are in the “displaced” group, if that group receives more generous treatment. Some of the discussion focused on how we might design policies that would effectively encourage firms and workers to reveal the true circumstances of job loss.

The impact of layoffs on firms

The first two sessions on the first day of the conference focused either on the effects of job loss on firms or on the potential effects of regulation. The final session of the first day turned attention to the potential effects of job loss on firms.¹⁴ One of the papers, by Henry S. Farber and Kevin F. Hallock, concentrated on the very short-term (three-day) stock price reaction to job loss announcements. The second paper, by Edward N. Wolff, examined longer-term issues of downsizing and focused exclusively on manufacturing firms.

Hallock presented “The changing relationship between job loss announcements and stock prices: 1970–99.”¹⁵ This paper focused on documenting the short-term relationship between job loss announcements and stock prices using a very large sample of all job loss announcements in all firms ever in the Fortune 500 in any year between 1970 and 1999. While the effect of job loss on workers is clearly negative, there have been suggestions in the business press and by policy groups that business owners profit handsomely from large layoffs as stock prices increase in the wake

of such announcements. Because chief executive officers (CEOs) (and other top executives) usually hold stock or stock options in their companies, they benefit when the stock price increases. If large layoffs are viewed by the market as evidence that management is aggressive about cutting costs and increasing profits, then the CEO and others may benefit from decisions that hurt workers. On the other hand, the market may view layoffs as an indication that the executives have information about bad times ahead and the stock price may fall. This paper is an attempt to understand how the stock price reacts to such announcements and how and why that reaction has changed over time.

The authors presented four main findings. First, the number of job loss announcements follows the business cycle quite closely. Second, the overall stock price reaction to job loss announcements was most negative early in the sample period and has become less negative over time. Third, “clean” announcements (that is, temporally separate from other announcements that might also affect stock prices) have larger negative effects than others. Fourth, although the authors tried many avenues for explaining the change in the share price reaction over time (such as a change in the types of reasons for layoffs or a change in the industrial composition of layoffs), they are, as yet, unable to explain this changing trend. Although the effects of layoff announcements are less negative than in the past, the authors find no evidence that *on average*, firm owners are profiting from large increases in stock prices by laying off workers. However, the stock price reactions vary, so some owners gain and some lose stock value after their layoff decisions.

In “Sources and consequences of downsizing in U.S. manufacturing,”¹⁶ Wolff uses data from 1967 to 1997 to investigate the causes and consequences of job loss in manufacturing. Like Farber and Hallock, Wolff examines the effects on firms. His measure of downsizing is change in average establishment size within 20 (two-digit SIC [standard industrial classification] code) industries. He measures the change in size at five-year intervals. Wolff finds that the average establishment size has declined. He regresses the percentage change in mean number of employees per establishment on contemporaneous measures of research and development spending in the industry, change in a measure of exports to gross output, change in a measure of imports to gross output, unionization rates, computer usage per worker, and a lagged measure of industry profits. He finds, first, that average establishment size shrank more in industries with more exports and more imports. Second, unionization rates are also related to larger decreases in establishment size. Third, there

seems to be little relationship between measures of productivity and changes in establishment size. However, decreases in average establishment size are correlated with increased profits and lower wages and total compensation.

As pointed out by Wolff in his paper and in the discussion at the conference, there may be problems with interpreting these results as causal—for example, assuming that the change in average establishment size in an industry caused profits in that industry to increase. Many of the relationships he examines, like that between investment in IT, number of employees, and profitability, may be simultaneously determined, which makes it very difficult to discern which change caused another.

These two papers are part of a rather small literature on the likely effects on firms of laying off workers. There was general agreement among conference participants that a better understanding of firms' decisions and the consequences of those decisions for business owners and workers represents a fruitful area for future research; these papers are an important first step.

The general discussion in this session, and in the second session as well, highlighted the diversity of points of view in the audience. As we stated in the introduction, many economists agree that changes like technological progress and increased competition, while imposing costs on some, bring benefits for the majority, and that those benefits are greater than the costs. However, the discussion in these two sessions made it clear that not everyone shares that view. Additionally, even if one accepts that these changes generate benefits that are so large that those who benefit *can* compensate those who bear the costs, it does not automatically follow that such compensation actually happens.

Papers included in this volume

The two keynote speeches and the second-day panel discussions focused on facts about job displacement and the policies and practices that affect workers and firms. We asked the keynote speakers and panel participants to allow us to include a written version of their presentations in this volume. Here, we give a brief overview of these papers.

The paper by Henry Farber, professor of economics at Princeton University, sets out the main facts about job loss in the United States. By analyzing many years of *Displaced Worker Survey* data, Farber documents the changes over time in the characteristics of displaced workers, reemployment rates for displaced workers, and the impact of displacement on earnings.

In her paper, Lisa Lynch, professor of economics at Tufts University, draws on her experience as the

chief economist at the United States Department of Labor during the Clinton Administration. Here, she provides evidence on how policy changes have affected the supply of public money for training, for example. She also has suggestions for how researchers can make their work more useful to policymakers.

The effect of trade on job loss is a particularly contentious issue. In her paper, Lori Kletzer, professor of economics at the University of California Santa Cruz, examines the evidence for the impact of trade on job loss, both in manufacturing and services, and describes some of the programs available to ameliorate the effects of trade-related displacement.

The paper by Louis Jacobson, Center for Naval Analysis, Robert LaLonde, University of Chicago, and Daniel Sullivan, Federal Reserve Bank of Chicago, provides an overview of the literature on the effect of training on displaced workers' future labor market outcomes. Most of the labor market studies on the impact of (post-schooling) government-subsidized training focus on low-skilled populations. Thus, much less is known about the effectiveness of training for displaced workers, many of whom have substantial skills. This paper also summarized the authors' work on the impact of voluntary retraining through community colleges on the subsequent earnings of displaced workers.

Although the main focus of the conference was on displaced workers—those with substantial job histories with a particular employer who lose a job through no fault of their own—we thought it was important to keep in mind that many job losers are much less advantaged and less skilled than this group. We asked Steven Redfield, executive vice president of programs for STRIVE National, an organization that provides employment services and training to hard-to-employ populations, to describe some of the challenges that face workers with little tenure and few skills when they lose a job.

In order to better understand how public programs that serve displaced workers function, we asked Randall Eberts, executive director of the Upjohn Institute for Employment Research to draw on his experience. Eberts is uniquely positioned to bridge the gaps between research, policy, and practice, because the Upjohn Institute is responsible for some of the most influential evaluations of public labor market programs and provides employment services and training to displaced workers.

As mentioned above, one goal of the conference was to analyze job loss from the point of view of firms as well as workers. The paper included here by John Challenger, of the outplacement firm Challenger, Gray, and Christmas, describes how outplacement services

can improve the outcomes of laid-off employees, remaining employees, and the firm overall after a reduction in force (RIF).¹⁷

Kenneth Schwartz, of the law firm Duvin, Cahn, and Hutton, provides an insider's guide to the RIF process by drawing on his expertise in employment law and his experience as an attorney for many firms contemplating laying off workers.

Finally, Peter Cappelli, professor of human resource management at the Wharton School at the University of Pennsylvania, discusses some overarching issues affecting firms, workers, and the economy overall. For example, he notes that at the same time that many firms are contemplating a reduction in force, they also complain that one of their main challenges is in retaining qualified workers. He argues that the unfettered flexibility that firms currently have to lay off unneeded workers has an unintended consequence. In particular, if the risk of layoff permeates the firm–employee relationship, then the relationship will be inherently unstable. This may lead to increased costs for the firm, for example, in training of new employees. Cappelli suggests that under some circumstances, firms, workers, and the economy overall might be better off if firms gave up some of their flexibility. However, it is not clear how to design policies to address this issue.

Conclusion

Avenues for future work

In conclusion, we outline the following topics that threaded through the discussion at the conference:

- Participants agreed that in the United States a great deal rests on having a job. In addition to salary, access to health insurance is generally through one's employer. Thus, job loss may have effects beyond labor market outcomes.
- The current UI system is not optimally designed to meet the needs of displaced workers. In particular, these workers may need longer than the typical 26 weeks to find new employment. In addition, however, they may need incentives to return to the labor market instead of exhausting their UI benefits, because the wages they face on the subsequent job are typically substantially lower than on the job they lost.
- Trade Adjustment Assistance goes further toward addressing the particular needs of those facing a permanent job loss. However, it makes little sense, from the point of view of labor market policy, to make these programs available only to workers who are displaced from manufacturing

jobs due to import competition. Workers who lose service sector jobs due to changes in technology face similar challenges in finding suitable new employment.

- Those who work closely with firms undergoing restructuring and laying off workers suggested that it was both the right thing to do and cost effective to provide high-quality outplacement services to workers who lose their jobs. We know very little about how many workers receive these types of benefits through their employers. It is likely, however, that firms that offer outplacement services and the workers who use these services when offered are different from the average firm and the average worker. Research into whether receiving outplacement services changes the subsequent outcomes of laid-off workers would be very useful in guiding policy.
- Training appears to yield benefits greater than the costs for displaced workers who voluntarily seek retraining through the community college system. In particular, technical and vocational classes, such as nursing, have a high return. There may be an important role for programs that advise displaced workers about which types of training may be most worthwhile.
- Currently, seven states are piloting “reemployment bonus account” programs. These programs would give unemployed workers a sum of money that they could use to obtain training. If they get a job within some specified period of time, they would get to keep any remaining money in the training account as a bonus. This pilot program may be a creative way to encourage retraining of displaced workers using local resources like community colleges. However, as with all such programs, this program needs rigorous evaluation in order to ensure that scarce public resources are used effectively.
- Many participants agreed that the United States enjoys a higher standard of living due, in part, to our willingness to embrace change generated by new technologies and increased competition. However, there will be winners and losers associated with these changes. Many participants also agreed that it is critical to have policies that help compensate those who lose in this equation, since this will help ensure that we continue to have a dynamic economy.

In the short run, this conference may have generated more questions than answers. However, we hope that the conference and this volume will spur more research on this important topic and, even more

important, that they will encourage more mutually beneficial interactions among researchers, policy-makers, and practitioners.

NOTES

¹The DWS is a supplement to the *Current Population Survey* (CPS). It has been administered by the U.S. Bureau of Labor Statistics every two years since 1984.

²There is a large literature in economics on the acquisition of specific versus general human capital. See, for example, Becker (1962) for the classic model of general versus specific training and Neal (1995) for implications of industry-specific human capital.

³The text of this speech is available at www.chicagofed.org/news_and_conferences/speeches/2004_11_19_job_loss.cfm. For the conference agenda, see the appendix to this article. Additional information and conference papers are available at http://www.chicagofed.org/news_and_conferences/conferences_and_events/research_conferences_past.cfm.

⁴www.chicagofed.org/news_and_conferences/conferences_and_events/files/job_loss_paper_kuhn.pdf.

⁵www.chicagofed.org/news_and_conferences/conferences_and_events/files/job_loss_paper_elder.pdf.

⁶www.chicagofed.org/news_and_conferences/conferences_and_events/files/job_loss_paper_sullivan_lalonde_jacobson.pdf.

⁷We thank our chair, Nancy Mills (Working for America Institute), and our discussants, Rich Hobbie (National Association of State Workforce Agencies) and Thomas DeLeire (Michigan State University), for their insightful comments on this session.

⁸Reemployment bonus accounts were proposed in the first term of the Bush Administration. These would consist of a sum of money that long-term unemployed workers could use for training. If the worker found a job within a specified period, he or she could keep any unused funds, which would constitute a “bonus” for reemployment.

⁹www.chicagofed.org/news_and_conferences/conferences_and_events/files/job_loss_paper_woodbury.pdf.

¹⁰Firms pay a tax into the unemployment insurance system. That tax rate is based on their past layoff experience, thus, it is “experience rated.” However, there is a cap such that once the top tax rate is reached, further layoffs do not increase the tax a firm pays, thus, the unemployment insurance tax is said to be “incompletely” experience rated.

¹¹www.chicagofed.org/news_and_conferences/conferences_and_events/files/job_loss_paper_kletzer.pdf.

¹²www.chicagofed.org/news_and_conferences/conferences_and_events/files/job_loss_paper_guell_sanchez.pdf.

¹³We thank our chair Laura Miller Craig (Illinois Department of Employment Security) and our discussants Larry Mishel (Economic Policy Institute) and Derek Neal (University of Chicago) for stimulating discussion and helping to synthesize the messages from these papers on disparate aspects of regulation and job loss.

¹⁴We thank our chair Lou Jacobson (WESTAT) and our discussants Brad Jensen (Institute for International Economics) and Thea Lee (AFL–CIO) for an informative and thought-provoking discussion on these sometimes contentious issues.

¹⁵www.chicagofed.org/news_and_conferences/conferences_and_events/files/job_loss_paper_hallock.pdf.

¹⁶www.chicagofed.org/news_and_conferences/conferences_and_events/files/job_loss_paper_wolff.pdf.

¹⁷At the conference, Stephen Malia, now the senior vice president of human resources at Owens-Illinois, drew on his experience overseeing human resources at another Fortune 500 company to describe the importance of how layoffs are handled both for employees who lose their jobs and for remaining employees. His talk focused on a case study of the merger between IMC Global (a public company) and Cargill’s Crop Nutrition Business (a privately held firm). Malia argued that treating laid-off workers with dignity is crucial, and severance pay and outplacement services are key elements of this dignified treatment. (This presentation is not available.)

APPENDIX: CONFERENCE AGENDA

Opening Remarks: Charles Evans, Director of Research and Senior Vice President, Federal Reserve Bank of Chicago

Day 1

Session 1: Impacts on Workers

Chair: Nancy Mills, AFL-CIO's Working for America Institute

Presentations by:

Peter Kuhn, University of California at Santa Barbara
Todd Elder, University of Illinois at Urbana-Champaign
Daniel Sullivan, Federal Reserve Bank of Chicago

Discussants:

Thomas DeLeire, Michigan State University
Rich Hobbie, National Association of State Workforce Agencies

Session II: Regulation and Job Loss

Chair: Laura Miller Craig, Strategic Planning, Illinois Department of Employment Security

Presentations by:

Stephen Woodbury, Michigan State University
Lori Kletzer, University of California at Santa Cruz
Maia Guell, Pompeu Fabra University

Discussants:

Lawrence Mishel, Economic Policy Institute
Derek Neal, University of Chicago

Session III: Impacts on Firms

Chair: Louis Jacobson, WESTAT

Presentations by:

Kevin Hallock, University of Illinois at Urbana-Champaign
Edward Wolff, New York University

Discussants:

Brad Jensen, Institute for International Economics
Thea Lee, Public Policy Department, AFL-CIO

Keynote Address: Lisa Lynch, the William L. Clayton Professor of International Economic Affairs, The Fletcher School, Tufts University, and former Chief Economist at the Department of Labor during the Clinton Administration

APPENDIX: CONFERENCE AGENDA (CONTINUED)

Day 2

Welcoming Remarks: Michael Moskow, President, Federal Reserve Bank of Chicago

Panel 1: Process and Policy

Chair: Lori Kletzer, University of California, Santa Cruz

Panelists:

Stephen Malia, Senior VP HR, The Mosaic Company

Kenneth Schwartz, law firm of Duvin, Cahn, and Hutton.

Peter Cappelli, University of Pennsylvania

Panel 2: Post Layoff

Chair: Steven Redfield, Project Strive

Panelists:

Robert LaLonde, University of Chicago

John Challenger, Challenger, Gray and Christmas

Randall Eberts, The Upjohn Institute

Keynote Address: Henry S. Farber, the Hughes-Rogers Professor of Economics, Princeton University

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