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**How Do Families and Unattached Individuals
Respond to Layoffs? Evidence from Canada**

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How Do Families and Unattached Individuals Respond to Layoffs? Evidence from Canada

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Abstract

Using data from a large Canadian longitudinal dataset, we examine whether earnings of wives and teenagers increase in response to layoffs experienced by husbands. We find virtually no evidence of an “added worker effect” for the earnings of teenagers. However, we find that among families with no children of working age, wives’ earnings offset about one-fifth of the earnings losses experienced by husbands five years after the layoff.

We also contrast the long-term earnings losses experienced by husbands and unattached males. Even though the former group might be less mobile geographically than the latter, we find that both groups experience roughly the same earnings losses in the long run. Furthermore, the income losses (before tax and after tax) of both groups are also very similar. However, because unattached males have much lower pre-layoff income, they experience much greater *relative* income shocks than (families of) laid-off husbands.

JEL classification: J31, J63

Keywords: Job Loss; Layoffs; Income instability; Labour supply; Earnings disruption; Employment Insurance benefits; Tax system

Executive summary

Do individuals respond to the occurrence of a layoff in the family by increasing their employment income? If so, what is the magnitude of their response? Since what happens at the family level is a key determinant of individuals' well-being, identifying the degree to which family members stabilize family income in the event of a layoff is critical for a thorough understanding of the welfare consequences of earnings shocks. Yet, even though a large body of empirical evidence has shown that worker displacement leads to long-term earnings losses at the individual level relatively few studies have examined these questions.

The goal of this paper is twofold. First, we wish to provide recent evidence on whether earnings of wives and teenagers increase in response to husbands' layoffs. To do so, we use a large longitudinal Canadian data set that covers the 1987-2001 period. Our data set is based on tax records and thus, contains fairly accurate information about the annual earnings of husbands, wives and teenagers. It also contains accurate information on Employment Insurance (EI) benefits and income tax paid by family members, thereby allowing us to assess whether earnings of wives and teenagers stabilize family income to a greater extent than EI benefits and the tax system do, in the event of husbands' layoffs.

Second, we wish to contrast the long-term earnings losses experienced by laid-off husbands to those of unattached individuals, thereby providing estimates of the consequences of layoffs for an increasingly important type of household who cannot rely on the presence of a second earner. When doing so, we compare the magnitude of the income losses (before tax and after tax) experienced by families of laid-off husbands, on the one hand, and unattached males, on the other. As a result, we can quantify the magnitude of the relative income shocks experienced in the long term by both groups.

Our main findings can be summarized as follows. First, we find virtually no evidence that earnings of youth increase in response to fathers' layoffs. We also find no evidence of an "added worker effect" for Canadian wives in the aggregate. However, we do find evidence that, among families with no children of working age, earnings of wives increased during the 1990s following husbands' layoffs. Our estimates for this group of families imply that, five years after husbands' layoff, increases in wives' earnings compensated for roughly 22% of the earnings losses experienced by husbands.

Second, we show that laid-off husbands and unattached men experience roughly the same earnings losses in the long run. We also find that families of laid-off husbands incur similar income losses before tax and after tax, compared to unattached males. However, because unattached males have much lower pre-layoff after-tax income, they end up experiencing much greater *relative* income shocks than families of laid-off husbands. This in turn suggests that layoffs among adult male earners increase income instability much more for unattached males than they do for families of laid-off husbands.