Labor Market Networks and Recovery from Mass Layoffs

Before and During the Great Recession*

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September 2014

Abstract

During the Great Recession and its immediate aftermath, the U.S. labor market experienced massive job losses not seen in at least three decades. Our research to date suggests that labor market networks – specifically labor market networks that are defined by residential neighborhoods – play an important role in matching workers to employers (Hellerstein et al., 2011), and lead to higher tenure and wages for workers who are employed with their neighbors (Hellerstein et al., 2014). This prior research leads to the key hypothesis we test in the proposed research: that the labor market networks formed by residential neighbors can help displaced workers return to work more quickly, and to do so in better job matches entailing higher earnings. Moreover, we focus on differences in the effects of networks on the employment and earnings recovery of displaced workers in the period prior to and during the Great Recession. We provide the first evidence of which we are aware on earnings losses during the Great Recession and the subsequent trajectories of employment and earnings. Not surprisingly, we find both bigger losses and slower recovery for those displaced during the Great Recession. We find that some of the measures of residence-based labor market networks intended to capture the flows of information between workers and firms to which a person's neighbors are linked are associated with more rapid re-employment and recovery of earnings. This is true, in particular, for what we term our "deep" network measure, which captures potential network connections to employers in which neighbors are highly concentrated. However, it appears that these types of network connections are valuable in earnings and employment recovery prior to but not during the Great Recession.

Note

This paper will be made available following Census approval. Please send an email to dneumark@uci.edu to receive a copy.

*We thank seminar participants at the Institute of Poverty Research and the Israel Real Estate and Urban Economics Symposium, and Bob Edelstein, for helpful comments. Any opinions and conclusions expressed herein are those of the authors and do not necessarily represent the views of the U.S. Census Bureau. All results have been reviewed to ensure that no confidential information is disclosed.