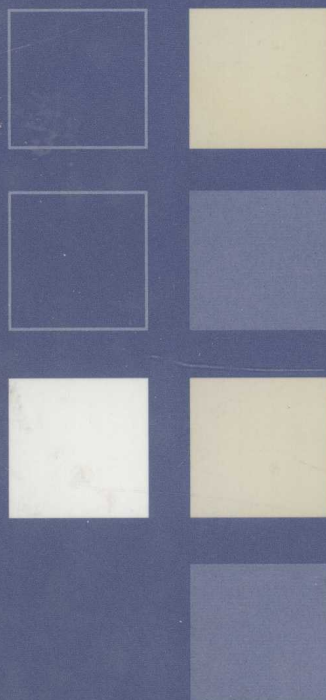


DAVID DOOLEY
JOANN PRAUSE

The Social Costs of Underemployment

Inadequate Employment as
Disguised Unemployment



CAMBRIDGE

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Disguised Unemployment*

DAVID DOOLEY

University of California, Irvine

JOANN PRAUSE

University of California, Irvine



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The Social Costs of Underemployment

Inadequate Employment as Disguised Unemployment

Going beyond the usual focus on unemployment, this research explores the health effects of other kinds of underemployment, including such forms of inadequate employment as involuntary part-time and poverty-wage work. Using the National Longitudinal Survey of Youth, this study compares falling into unemployment versus inadequate employment relative to remaining adequately employed. Outcomes include low self-esteem, alcohol abuse, depression, and low-birthweight babies. The panel data permit study of the plausible reverse causation hypothesis of selection. Because the sample is national and was followed over two decades, the study explores cross-level effects (individual change and community economic climate) and developmental transitions. Special attention is given to school leavers and welfare mothers, and, in cross-generational analysis, the effect of mothers' employment on babies' birthweight. There emerges a new way of conceptualizing employment status as a continuum, ranging from good jobs to bad jobs to unemployment, with implications for public policy on issues related to work and health.

David Dooley is Professor of Psychology and Social Behavior, Department of Psychology and Social Behavior, University of California, Irvine.

JoAnn Prause is Lecturer and Research Specialist, Department of Psychology and Social Behavior, University of California, Irvine.

Preface

This book reports a decade of research on underemployment. Our present approach grew out of an earlier program of research that focused narrowly on job loss and its psychological and physical health costs. A century of unemployment studies had corroborated the conventional wisdom that job loss could harm well-being, particularly the mental health of dislocated workers and their immediate family members. But the suspicion remained that some forms of employment might also carry social costs that were being ignored.

Our initial efforts to study the consequences of various forms of underemployment were frankly exploratory. But positive findings from the study of one outcome stimulated further research on other outcomes. Findings of the adverse effects of underemployment on self-esteem among school leavers invited follow-up analyses of alcohol abuse, depression, and birth-weight. Parallel findings for these different indicators appeared across different survey years, representing different life stages of the respondents and different economic environments in which they worked or sought jobs. The data seemed to insist that not only unemployment but also inadequate employment had a strong and pervasive connection to all of the outcome measures that were available for our study.

Those of us who conduct research on employment status have had to recognize the importance of the prevailing economic climate. It defines the opportunity structure that determines the risks of individual job change, both good and bad. It also provides the environment for comparison and self-assessment in which individuals judge their relative well-being and future prospects. So it comes as no surprise that the economic climate, by setting a context in which to choose study topics and interpret research findings, influences researchers.

Although the data reflect varying conditions beginning in the early 1980s, we conducted the present analyses largely during the 1990s, in the midst of the longest economic expansion in American economic history.

Unemployment levels fell year after year, while the stock market was multiplying millionaires as fast as new companies could be created. This was an era in which unemployment seemed to be disappearing as a social problem. At the same time, however, a closer look at the labor market revealed massive job churning, along with flat or falling real wages for middle- and lower-income workers. This historical moment demanded that we give attention to the economically inadequate jobs that were being eclipsed in the public eye by the falling unemployment rates.

This book begins with an introduction to the problem of underemployment as it has emerged in the changing labor market (Chapter 1) and locates our approach in the long tradition of research on unemployment (Chapter 2). The program of studies described in this book could not have been mounted without the extraordinary data provided by the National Longitudinal Survey of Youth (NLSY), gathered and maintained by the Center for Human Resource Research (CHRR) at The Ohio State University and sponsored by the Bureau of Labor Statistics, U.S. Department of Labor. We describe this panel survey and our approach to analyzing it in Chapter 3.

The middle chapters describe a series of hypothesis tests on the relationship between various forms of underemployment and various psychological, behavioral, and health outcomes. Chapter 4 considers the rival hypothesis of reverse causation – that preexisting dysfunction causes people to become underemployed. The remaining chapters test the social causation hypothesis – that adverse employment change predicts decreased well-being (or that favorable employment change predicts increased well-being). Chapters 5 through 7 deal with different mental health outcomes during different life stages: effects on self-esteem, alcohol abuse, and depression. Chapter 8 extends the logic of our approach by considering welfare transitions as special cases of employment transitions. Chapter 9 extends our approach across generations by measuring the connections between a mother's employment experience and her child's well-being, indexed by birthweight. The final two chapters summarize the overall nature of our findings (Chapter 10) and consider their implications for the next steps in research and policy (Chapter 11).

This research program required the help of many people. We are grateful for the generous financial support provided by grants from the W. T. Grant Foundation, the California Wellness Foundation, and, in recent years, the Robert Wood Johnson Foundation's Substance Abuse Policy Research Program. We appreciate the long friendship and intellectual stimulation of Ralph Catalano, who collaborated on the early unemployment studies that provide a methodological foundation for this research. We acknowledge the assistance provided by Steve McClaskie at the CHRR, who has been extremely helpful over the past decade in answering our many questions about the NLSY data. Over the years we have benefited from the encouragement and stimulation provided by many colleagues and students in

the School of Social Ecology at the University of California at Irvine, and we thank them all for their support. We thank one of our students, in particular, for helping us to polish this manuscript as well as for collaborating with us on some of the research analyses: Kathleen A. Ham-Rowbottom. We especially thank our spouses, Braddie Dooley and George Prause, for their understanding and encouragement.

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Disguised Unemployment and Changing Forms of Work

Since there can be little doubt that some types of jobs under some modern conditions are psychologically destructive, a controversy has arisen over the question of whether current indicators of social pathology are better explained by prevailing employment conditions or by rates of unemployment.

Jahoda, 1982, p. 43

... a transition is occurring in industrial society from a uniform system of lifelong full-time work organized in a single industrial location, with the radical alternative of unemployment, to a risk-fraught system of flexible, pluralized, decentralized underemployment, which however, will possibly no longer raise the problem of unemployment in the sense of being completely without a paid job.

Beck, 1992, p. 143

INTRODUCTION

The Paradox

A funny thing happened on the way to economic utopia. At the turn of the millennium, Americans were enjoying an economic expansion of record length that had begun in 1993. But a shadow hovered over the celebration of rising stock prices and falling unemployment rates. It was not the obvious fear that the next economic bust was lurking around the corner. Of course, there was a contraction in 2001, even before the September 11 terror attacks. But along with the threat of recession, there was a rising suspicion that even the best of economic times are somehow flawed. The conventional wisdom assumes that an economy that minimizes unemployment must be good. But during the late twentieth century, signs appeared that the postindustrial, downsized, restructured, and globalized economy had not banished the old unemployment but had only replaced it with an inadequate type of employment – a kind of disguised unemployment.

Over a century of research has explored both the effects on individual health and the societal effects of unemployment, providing a departure point of theory and method from which we can begin to study other adverse employment statuses. But researchers who investigate unemployment and health have seldom extended their work in this direction. Similarly, economists have devoted considerable attention to measuring aggregate unemployment and explaining its role in the overall economy, while leaving the study of its human costs to others. Governments routinely publish official unemployment rates, and politicians and news commentators just as routinely discuss their meaning for the chances of incumbents' reelection. But these analysts pay little attention to inadequate types of employment, and even less to their health consequences for individuals. This book fills a gap in the literature by measuring the social costs of such inadequate employment.

Low Unemployment

The economy of the United States, as usually measured, provided little reason for concern during the last decade of the twentieth century. On the contrary, its remarkable expansion during the late 1990s set records for length. The unemployment rate in the last recession peaked in 1992 at 7.5% and declined every year thereafter, reaching 4.2% in 1999, and it continued falling into early 2000 (United States Department of Labor, 2000). To find such a low unemployment rate, one has to go back a generation to the 1960s. As the Dow and the NASDAQ repeatedly hit new highs, new millionaires emerged as fast as new initial public offerings (IPOs) could be released. While the Fed chairman worried that a "wealth effect" could create a bubble economy, some mental health professionals identified a new disorder – "sudden wealth syndrome."

Surprisingly, the low unemployment rates of the late 1990s were not accompanied by rising inflation. Economic theory suggests that when the supply of labor becomes tight, employers, competing for more workers, will bid up wages and pass along their cost increases to consumers in the form of higher prices. This trade-off between unemployment and inflation has been summarized in the Phillips curve (Phillips, 1958), and it helps to explain the seeming paradox of stock price increases following reports of flat or rising unemployment. Such news is often taken as insurance against rising interest rates and inflation and thus as encouragement for more investment in the stock market. When the unemployment rate threatens to fall to new lows, some people worry that too few people are out of work.

Our history of economic cycles warns against generalizing from either very good or very bad times. The apocalyptic titles of some books on this topic illustrate the danger of overly pessimistic predictions – for example,

The Economic Horror (Forrester, 1999) and *The End of Work* (Rifkin, 1995). These books argue that in the postindustrial, computerized economy, the need for workers will decline or even vanish altogether. In the economic context of the 1990s, these catastrophic predictions seem rather premature. On the other hand, there is ample evidence that not all is well for many workers, even in the boom years, and hyperbolic book titles can also be found to illustrate overly optimistic economic expectations – for example, *The End of Unemployment* (Miller, 1988). Among competing book titles, the one that may come closest to capturing the emerging situation is *The New Insecurity: The End of the Standard Job and Family* (Wallulis, 1998).

Income Inequality and Poverty

One troubling sign is rising income inequality. One measure of income inequality is the ratio of real (inflation-adjusted) wages of those at high levels (say, the seventy-fifth percentile) to those at low levels (the twenty-fifth percentile). For American males, who contribute the majority of earnings to the income of households with prime working-age heads (18–64), this ratio rose from about 1.9 in 1967 to 2.4 in 1997 (Reed, 1999). This could have occurred if everyone had earned more over time (the rising tide lifting all boats), with the “haves” rising more than the “have-nots.” But this was not the case. Only men above the median in 1967 enjoyed rising real wages. Men in the twenty-fifth percentile earned less in real terms in 1997 than their twenty-fifth percentile peers did in 1967. (Note that such data do not describe income changes for the same persons over time, but rather are based on different samples for each year. Thus particular individuals whose earnings were at the twenty-fifth percentile in 1967 might well have risen to a higher percentile by 1997. These findings compare the incomes of different people with the same relative standing in different years).

Efforts to describe and explain rising wage inequality have produced large and expanding literatures in several fields. For example, one study compared two cohorts of young white men, one entering the workforce in the mid-1960s and the other, after the onset of the current economic restructuring, in the early 1980s (Bernhardt et al., 1998). Wages for these young workers were monitored over a period of sixteen years in each cohort to compare intragenerational mobility during these two eras. One finding was that although the two groups started off at similar wage levels, the growth of wages with increasing age was slower during the later than during the earlier period. Another finding was that the natural polarization in wages between high and low earners over time was greater in the later than in the earlier cohort. This pattern of rising wage inequality was only partially explained by such factors as education, job tenure, worker's industry, and hours worked. The authors conclude that a “new generation

is entering a transformed labor market, and especially for those without a college degree, the prospects for a living wage and stable employment are not at all certain" (Bernhardt et al., 1998, p. 21).

To appreciate the seriousness of this economic trend, consider the magnitude of drops in earnings, which were more dramatic in some states than in the nation as a whole. In California, for example, the weekly earnings of men in the twenty-fifth percentile (in 1997 dollars) were \$526 in the business cycle peak year of 1969. They then fell to \$345 in the cycle peak year of 1989 and to a low of \$291 in the cycle trough year of 1993, before making an anemic recovery to \$308 by 1997 (Reed, 1999). This loss of \$218 per week in real earnings represents a 40% drop between 1969 and 1997. In sum, the increase in income inequality does not result from everyone getting richer at different speeds. It derives, rather, from our poorest workers experiencing stagnant wages or, in some places, actual losses in real terms. This pattern has serious implications for poverty.

In 1997, well into the longest economic expansion in U.S. history, 35.6 million Americans (13.3%) lived at or below the poverty line (U.S. Department of Labor, 1999a). This level is defined not for individual earnings but rather in terms of the family unit and is adjusted for the number of family members (e.g., \$16,400 for a family of four in 1997). Of those in poverty, 7.5 million (21%) had been in the workforce for at least twenty-seven weeks during the past year. The working poor tend to experience one or more of the main employment problems: intermittent unemployment, involuntary part-time work, and low wages. Even at its most successful, the American economy still has difficulty providing adequate employment for all workers.

The result is a large gap between the number of living-wage jobs and the number of people needing them. A living wage, as distinct from a poverty-level wage, is one that allows families to meet their basic needs without public assistance, to deal with emergencies, and to plan ahead. One study estimated that for a family with one adult and two children, a living wage in 1996 would be at least \$30,000 in one of the northwestern states, varying according to housing and childcare costs (Northwest Policy Center and Northwest Federation of Community Organizations, 1999). The median wage in the Northwest was then slightly greater than the living wage of an individual (assuming full-time work for a full year), but it was only two-thirds of the living wage for an adult with two children. It was estimated that for every job opening that paid a living wage for an adult and two children, there were on average ten to seventeen job seekers in the Northwestern states. Despite variation in details according to local living costs and industries, a similar shortfall probably exists in other regions.

Different explanations for the gap between the number of workers and the number of adequate jobs have emerged. For example, one perspective is that we have evolved into a "winner-take-all society," where the best

in each field takes the lion's share of the rewards, leaving everyone else with a pittance (Frank & Cook, 1995). With the emergence of mass media, consumers can elect not to attend their local opera house or minor league ballpark to see the available singers or athletes. Instead, they can choose to see and reward only the very best talent by buying CDs or purchasing cable connections. Thus the "best" performers get most of the audience and remuneration, leaving little for the rest.

Whatever validity this view has for certain jobs, such as those in sports and entertainment, it may be less applicable to the more mundane types of blue- and white-collar work. But another explanation addresses these categories by reference to the economic globalization that occurred after the end of the cold war, when capital became freely mobile to go anywhere in the world (Wolman & Colamosca, 1997). In this view, the unexpected (from the Phillips curve) absence of wage increases despite full employment derives from the capacity of multinational companies to shift jobs overseas at the first sign of unwanted wage demands. In other words, job insecurity can help hold down wages.

Job Churning and Insecurity

Whatever the full explanation for rising income inequality, high job turnover seems to be a hallmark of the modern American economy. We expect substantial job displacement during recessions, but it has continued on, albeit somewhat abated, during the most recent expansion as well. Thus the low unemployment rates of recent years have emerged by a process of job churning. In a kind of musical chairs, high numbers of workers were displaced and then reemployed. A workforce snapshot each time the music stopped would show low levels of unemployment, but such snapshots would miss the stressful flurry of job leavings and seekings that many workers experienced.

The U.S. Department of Labor has conducted special surveys of job displacement since 1984, including a report covering the expansion period 1995–97 (U.S. Department of Labor, 1998). Displaced workers are defined as those over nineteen years old who lost or left jobs for economic reasons (e.g., plant closed or moved, position or shift abolished, insufficient work). A total of 8 million workers were displaced during the survey period 1995–97 (out of about 125 million total employed workers in 1995). Of these, 3.6 million had long tenure, defined as three or more years in the same job. By January 1998, 76% of the long-tenured displaced workers were reemployed, with the remainder either unemployed (i.e., actively trying to find work – 10%) or out of the labor force (discouraged workers, retired, or other).

Of the 2.7 million long-tenured workers who found new jobs, about 2.4 million had lost full-time wage or salary jobs. Of these previously

full-time workers, about one in five were working either part-time (11%) or in self-employed or unpaid family work (7%). Of those reporting new full-time positions, only 47% reported wages equal to or better than their lost jobs. The remainder either reported a decline in wages (38%) or did not report prior wages (15%). In sum, large numbers of American workers experience job displacement even in good times, and although most can find new work, a substantial number of these new jobs are economically inferior to their old jobs.

Not surprisingly, surveys of American workers reveal a persistent anxiety about their job security (Herzenberg, Alci, & Wial, 1998; Mishel, Bernstein, & Schmitt, 1999). Compared to results from 1989 at a similar point in the business cycle, the proportion of workers in 1996 who thought it unlikely that they would lose their jobs was sharply down. And it was not just that workers feared losing their jobs; their confidence that it would be easy to find an equally good job was also down. In past expansions, workers typically took the opportunity to leave undesirable jobs voluntarily, but in the most recent expansion, the voluntary share of unemployed workers stayed low (Mishel et al., 1999, p. 239). Workers apparently suspect that job changes in the present labor market can have adverse effects not only on their incomes but also on benefits such as health insurance and pension plans. This picture of a fully employed but anxious workforce suggests a distinction between full employment and "good employment."

From the perspective of traditional unemployment research, the impact of downsizing should fall mainly on those who are dislocated from their jobs. But from a perspective that includes inadequate employment, the survivors of downsizing may also suffer harm. That is, the "stayers" who retain their jobs may face health consequences not unlike those of the "leavers" (Kivimäki et al., in press). Adverse effects, including self-reported health and emotional difficulties, have been reported for survivors of downsizing (Kivimäki et al., 2001; Woodward et al., 1999). Explanations for such effects on stayers include increased job demands, decreased employment security, and a reduction in job control (Kivimäki et al., 2000). Having just seen some of their coworkers downsized, stayers have good reason to worry about their own jobs. Simultaneously, they are expected to make up the production slack left by the leavers, leading to job strain (Karasek & Theorell, 1990).

In addition to the ongoing reorganization of work determined by the private sector, the U.S. government added a new factor to the labor market in 1996. Under the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, Aid to Families with Dependent Children (AFDC) was renamed Temporary Assistance to Needy Families (TANF) and required that states make major changes in welfare programs. Unlike AFDC grants, federal funds for TANF assistance are cut off after two years unless the parents engage in approved work or job training, and these funds

have a five-year cumulative lifetime limit regardless of employment status. What will happen when welfare recipients approach the time limit on their TANF benefits? The Nobel Prize-winning economist Robert Solow offers this answer:

... More important is the possibility that competition for jobs by ex-welfare recipients and their successors will drive down the wages for unqualified workers by enough to induce some employers to hire them to replace slightly more qualified incumbents who do the job better but have to be paid more. . . . In principle, the process does not stop here. The erosion of wages of second-level, slightly skilled, workers makes them more competitive with third-level, slightly more skilled workers. . . . So the costs of adjusting to the influx of former welfare recipients spreads to the working poor, the working just-less-poor, and so on, in the form of lower wages and heightened job insecurity. (Solow, 1998, pp. 28–29)

In short, the welfare reform may contribute to the existing trend toward stagnant wages, job dislocation, and insecurity among low-earning groups. But there exists still another aspect to this changing labor market – the dissolution of the old social contract between workers and employers.

Changing Employment Relationships

New technologies and management techniques have always changed the process of work. For example, computerization, just-in-time inventory control, and heightened competition from all corners of the globe have each contributed to the most recent work changes (Wall & Jackson, 1995). But some argue that the present changes go beyond evolutionary adjustments of the work process and now threaten to overthrow the very nature of jobs and careers.

From a historical perspective, the “job” is a social construction that arose only in recent centuries with the industrial revolution (Bridges, 1994). The job served to provide the employer a fixed number of the worker’s hours at the work site on a fixed schedule, in return for which the worker got fixed wages regardless of the amount of work produced. This familiar employee-employer relationship is now beginning to disappear. Although plenty of work remains to be done, it is no longer being packaged in the familiar envelope of activities called jobs. Instead, organizations are said to be “dejobbing” in favor of more flexible arrangements in order to get work done at less cost. The problem from a psychological perspective is that people have come to base their sense of identity and security on their jobs. Thus the gains in efficiency for the new flexible organization will likely entail some “social breakage” for the affected workers (Bridges, 1994).

This shift in the nature of jobs in turn implies changes in the nature of careers. A career consists of one or a series of jobs in the same occupation, and workers traditionally made their entire career with the same employer.

At one point, careers were even multigenerational, with fathers and sons working at the same job for the same employer. Then careers became a single lifetime in length, and now individuals may have several careers in the same lifetime – different occupations with different employers (Hall & Mirvis, 1995).

The chances of having a career with one employer for most of one lifetime have fallen with the emergence of new outsourcing arrangements. In the three-part “shamrock organization” model, one segment consists of a small number of core workers who serve as the leaders of their organization and provide its institutional memory (Handy, 1989). Only they enjoy the long-term employer-employee relationship that we associate with the traditional job and career. A second section of the organization consists of outside organizations or individuals who perform most of the actual work under contract to, and at the direction of, the core section. Such outside contractors may in turn use a shamrock-style organization guided by a small core leadership group. The third section consists of temporary workers brought in by the core group on a part-time basis to cover peak production periods. Thus most of the organization’s production comes from workers with little or no commitment to it.

Not only is the employer-employee relationship changing, but for many the nature of work itself is changing – becoming more cognitive, complex, and fluid (Howard, 1995a). With dejobbing, workers are paid not for their availability to provide fixed hours of labor but rather for the performance of some task. The availability of this work is uncertain, and its location is variable. Like musicians, workers increasingly are paid by the “gig,” and getting the gig may be just as difficult as performing it well. This new organizational environment requires workers with high intelligence and special abilities and may increasingly differentiate the workforce into those in the core sections of successful organizations and the multitude of peripheral, contingent workers (Howard, 1995b).

We are witnessing not the end of work but the end of traditional jobs and careers seen as marriagelike bonds between employee and employer. As more of us become contingent workers in one fashion or another, the few who can exploit this new environment will reap high rewards. But workers who are not well equipped to compete are likely to experience continued wage stagnation, insecurity, and the “social breakage” of lost job and career identities. As Beck says, in this new environment, “unemployment in the guise of various forms of underemployment is ‘integrated’ into the employment system, but in exchange for a *generalization of employment insecurity* [emphasis in original] that was not known in the ‘old’ uniform full-employment system of industrial society” (1992, pp. 143–144). In the old system, when employees came to work, the employer assumed the risk that there would not be enough work to occupy them or that their efforts would not yield a profitable amount of production. The workers still got

full pay for full hours, unless and until the company foundered and had to lay them off. Under the new work arrangements, the employer buys a contracted product of completed labor from the contingent employee, leaving to the worker or subcontracting work group the details of work arrangements and time of labor. This flexibilization of work (the worker can choose the location, timing, and production procedures) may be attractive to some workers, but it comes with a price, the “privatization of the physical and mental health risks of work” (Beck, 1992, p. 143). The extent of this price in health costs provides the focus for our research.

THE TASK

The Question

If inadequate employment is really supplanting unemployment, is that so bad? Surely any job, even a bad one, is better than no job. Put another way, is inadequate employment really harmful and a health threat, or merely unpleasant, something necessarily tolerated for the greater good provided by economic efficiency? The answer, of course, varies depending on one’s point of view. From an economic perspective, both unemployment and inadequate employment may be regarded as necessary evils, inevitable side effects of a dynamic labor market continually seeking equilibrium between the supply of and demand for workers. However, although the efficiencies of a free labor market may benefit everyone in theory, the costs of underemployment fall most heavily on only a few.

From an ethical perspective, what are the interests of the harmed individuals, those who must experience job loss or inadequate employment for the greater good? These individuals can and do claim the right to be protected against or indemnified for their loss of dignity, security, and standard of living. How shall we resolve this tension between the economic benefits to the many and the personal costs to the few? This is where the political process comes into play – balancing the electorate’s sympathy for the pain of the underemployed with its interest in keeping taxes for social safety-net programs low and productivity high. This balance is itself dynamic, tending more to sympathy when rising unemployment rates give a taste of joblessness and insecurity to more of the electorate. For this reason, U.S. presidential candidates pay great attention to unemployment rates during election years (Monroe, 1984).

While each of these perspectives is important, we will focus on a different one here – the health effects of inadequate employment. What are the social costs, measured in mental health terms, of adverse employment change? Are the effects of being inadequately employed more like those of adequate employment or of unemployment? We must constantly remind ourselves of the plausibility of the null hypothesis, namely that falling from