Overview

- What is a business cycle?
- Business cycles and behavior
- Traditional view on the business cycles and work comp
- Challenges to the traditional view
- Review of psychological issues hitting employees and employers during a recession
- How can employers respond to recession induced HR problems?

Defining Terms

- “Business cycle” describes the periodic, but irregular, ups and downs of the value of goods and services produced by the economy
  - The interval from “peak to peak” or “trough to trough” ranges from 1-4 years
  - “Recession” has traditionally considered two successive quarters of negative GDP growth.
  - More precisely, the beginning and ending months of a recession are declared by the National Bureau of Economic Research
Current Recession in Perspective

- The NBER declared the recession ended in June 2009
- By way of comparison with the 10 recessions since WWII, is:
  - Above average in duration (18 months vs. 15 mos median length)
  - Worse than average in unemployment rate (10.1% Oct 2009 vs. 7.7% avg.)
  - Higher percentage contraction in GDP (-6.4% vs. -2.4% avg.)

Pattern of Business Cycles

Macroeconomic Effects on Behavior

- The economy has been shown to affect an amazing range of human behavior
- Increases in unemployment have statistically significant affects on:
  - Overall country birth and death rates
  - Motor vehicle accidents
  - Incidence rates of certain diseases
  - The height of a population!!!
### Macroeconomic Effects on Behavior

- Studies have linked job displacement and unemployment to:
  - Lower rates of participation in social activities (Brand & Burgard, 2008)
  - Lower levels of mental health (Cassidy & Wright, 2008; Scutella & Wooden, 2008)
  - Heavy drinking (Mossakowski, 2008)
- The psychological impact of unemployment can be deep and long lasting
- Behavioral problems affect work sites and society in general

### Violent Acts

- Child and spousal abuse increases in communities with surges in unemployment
- Criminologists have found strong statistical links between unemployment and both property and violent crime. See references in [Brand](#) and [Scutella](#) and [Wooden](#)

### Increased Substance Abuse

- Drug abuse counseling centers have reported a surge in demand during the past year
- Laid off workers feeling depression or stress are turning to drugs
Record Breaking Injury Reductions

- The effect of recession on injury rates should be considered in the context of long term trends.
- Injury frequency has declined by more than 30% between 1992 and 1998 (BLS data).
- Declines are overall trend, not due to industry or occupational shifts.

Employment and Injuries

Note the decoupling of employment and injury.

Source: Monthly Labor Review March 2004

What Has Caused the Downward Trend in Frequency?

- Labor advocates have argued that OSHA is the cause of safer workplaces and better injury statistics.
- However, there is no obvious correlation with OSHA enforcement energies and incidence rates.
Some analysts are questioning the accuracy of the BLS injury survey data in measuring injury trends.

Thus, it could be that the actual reduction of injury is less than reported.

The “classic” study is by Bob Hartwig et al. published by the Casualty Actuarial Society, 1997

"Empirical evidence from 37 states over the 1979-1993 period strongly suggests that frequency is strongly pro-cyclical tending to increase during periods of economic expansion and fall during periods of economic decline or sluggishness." (Hartwig, 1997)

Seventy years ago, the Bureau of Labor Statistics offered this rationale for the decline in injury frequency during recessions:

“… those most recently hired were laid off first. This generally left employed workers with long years of service … Such workers were generally thoroughly familiar with job hazards and had developed safety habits which were carried from job to job” (BLS, 1943)
Alternative Story to BLS

Rationale

- The BLS reasons "familiarity with job hazards" and "safety habit" may not be as important as more fundamental personality characteristics
- Youthful workers are more impulsive and take risks
- Older workers may be more cautious and less risk taking
  - Might also be more loyal to employer

Youthful Workers and Recession

- Whether from "lack of knowledge about hazards" or inherent risk taking, youthful workers are the first to become unemployed in a recession
- Thus the fact that youthful workers are the last to be hired and first to be fired could explain a lot about rising and falling of injury during business cycles
An Older Workforce Has Fewer Claims

Other Reasons Often Cited

<table>
<thead>
<tr>
<th>Reasons for high injury rate during expansion phase:</th>
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<tbody>
<tr>
<td>• Speed and volume of work increases with expansions</td>
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<tr>
<td>• Workers are more fatigued from taxing work and overtime</td>
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<tr>
<td>• Management cuts corners to meet customer higher orders and delivery expectations</td>
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<td>• Older equipment is brought back into service</td>
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<table>
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<tr>
<th>Reasons for low injury rate during recession phase:</th>
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<tr>
<td>• Work schedules are slower</td>
</tr>
<tr>
<td>• More idle time</td>
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<tr>
<td>• Only most modern equipment is used</td>
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Still Moving in the Same Direction?

- The NCCI stands by the belief in the “pro-cyclical” linkage between claims and GDP
  - In a recent model they found an inverse linkage with unemployment rates (an indicator for economic growth) and claim frequency
The economic booms in ‘94 and ‘97 also saw a persistent decline in injuries.

Severity of Claims

- There is evidence that the depth and nature of the job market disruption has greatly complicated return to work
- Construction/manf. particularly affected
  - Greater difficulty in finding light duty
  - Reduction in total number of jobs

Severity of Claims: Permanent Disability

- Higher permanent disability claims may be awarded because of the difficulty of returning to previous job
  - Pre-injury employer has no openings
  - Injured worker not employable generally
- More vocational/rehabilitation benefits paid out
- Interestingly, limited evidence that PT and Voc Rehab up due to last recession
Structural Changes in Workforce

• The most recent recession and current high unemployment seem to related to big changes in job markets:
  – Whole classes of jobs being eliminated permanently
  – Fewer undocumented workers
  – More independent contractors
  – Lots of new business start ups
  – More part time employment

The New Face of Unemployment

• Job layoff has a much more severe implication
• Period of unemployment may be a year of more
• Switching industries to get a job more likely
• Dropping out of labor market entirely by older and disabled workers

Worker Psychology

• Economic downturns create changes in the mental state of workers
• Concern over general labor market conditions, or conditions in their industry
• Uncertainty over the security of their present job, and prospects for finding a replacement job, can have opposite effects
  – The worker may be reluctant to file a claim, or stay out on temporary disability for fear of losing a scarce job
  – The worker may see their job disappearing and regard workers' comp as a better option than unemployment insurance
Worker Psychology

- Is there evidence of increased fraudulent claiming?
- Even if no increase in fraud, adverse worker attitudes affects job performance

2009 Survey of Ins Fraud Bureaus: Changes in Employee Fraud Incidents

2009 Survey of Ins Fraud Bureaus
Change in Employee Fraud Incidents

Stress

- Economic insecurity breeds great stress, especially among household sustainers
  - The source of the stress may come from a spouse's job
- Stress can manifest itself in many inappropriate physical and emotional outcomes
- Some of the first manifestations of inappropriate behavior may be away from work, but could later spill back to the workplace
Links Between Stress and Claims

- Lack of attention from sleep deficit
- Distraction and poor morale
- More employee conflict
  - May lead to physical violence
- Heightened resentment of employer
  - Triggering aggressive claiming behavior
  - Claim is vindication or "payback" to the boss

Mental Health and Substance Abuse

- Substance abuse appears to be a refuge of sorts for many during the times of economic uncertainty
- There has been a dramatic reduction in mental health services rendered to "private pay" clients and many patients are going without meds
  - Hence, a prolonged withdrawal from treatment could produce flare ups of problems at work

Layoff

- Not only will those at greatest risk of layoff feel stress, their coworkers will also suffer stress
- Once layoff is a sure thing, the worker suddenly has an economic incentive to file a claim, or to remain out of work longer on TTD
  - WC has richer benefits than UI
    - Better wage replacement
    - Chance for Permanent Injury and Voc Rehab benefits
- Layoff-induced claims are difficult to handle
  - Subjective pain or psychological issues are difficult to verify
  - Long delay in report from time of injury makes investigation difficult
Layoff

- Duration of unemployment after layoff is much worse in recent recessions
- The percentage of those exceeding 27 weeks of UI is at record proportions
- Current layoff are predominantly permanent job elimination rather than temporary situations
  - Further alters claiming behavior of workers
    - More incentive to claim WC rather than UI
    - More incentive to seek voc rehab

Mass Layoff

- Considerable anecdotal evidence of a spike of claims following a large scale layoff or plant closing
- Workers may receive advice from "advocates" to take advantage of the "better deal" under workers' compensation

Mass Layoffs

- Obviously not all claims after a mass layoff is announced are bogus
- Suppressed injury reports may come forward because there is nothing left to lose
- Employment exit physicals will confirm occupational hearing loss and other injuries
Dealing with the Recessionary Impacts

• Generally, during recessions most employers are operating with slack physical capacity and reduced workforces
  – All else equal, this should minimize injury
• However, counter forces may increase the occurrence of difficult claims:
  – Stress
  – Mental health and substance abuse
  – Layoffs
• The severity of most severe claims during recent recession increased

Attitudes Toward Work

• Claiming behavior is heavily influenced by the attitude of the worker toward their employer
• Especially true regarding return to work
• Disgruntled employees will seek to stay away from work

• Attitude is shaped by the whole of HR policy, not just one act
• Some specific HR policies to uphold during a recession:
  – Communicate frequently about the company's condition and the likelihood of layoffs
  – Reinforce “Employee Assistance” programs
  – Train supervisors on the warning signs of pathological stress
This creates a cultural risk:

- May send a message to employees that management regards production as more important than workers and their protection.

Summary

- Recessions produce a wide range of negative behaviors in those most stressed by threat of job loss
- Various WC claims and benefits are at risk of developing adversely during a recession
- Employers can mitigate the damage by proactive safety and HR policies
- RAY OF HOPE: Recent surveys show improved employee satisfaction with their employers

Questions can be sent to the author at:
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### Resources

- **Youthful workers and injury prevention**
  - "Young Workers," Sept, 2004, ISHN magazine:
  - For more information on workplace safety and health issues or to request copies of "Work Injuries and Illnesses Associated With Child Labor-United States, 1993," or the NIOSH Alert, "Preventing Deaths and Injuries of Adolescent Workers" (Publication No. 95-125) call: 1-800-35-NIOSH

### Resources

- **Mass layoffs and plant closings**
  - "Employees as Racketeers," Mar 21, 2007, Workers’ Comp Insider:
  - "Management: Keeping Workers Comp Claims Down After Downsizing," Dec 1997, Waste Age:
  - "Layoffs, terminations, and seasonal employment: tips for protecting your e-mod," Louisiana WC Corp:

### References
