Gary Reece was earning six figures when he lost his tech-industry job in 2000. He was making about half his old salary when he was laid off again in 2008. Now 61 years old, unemployed and looking to improve his odds in the job market, he left his family in San Jose, Calif., for a few months this year to live in a college dormitory and finish a long-abandoned bachelor’s degree.
He is looking for more than a paycheck. “Everywhere you go, when you meet people it’s, ‘What do you do?’” Mr. Reece said. “You don’t have much of an identity with that question if you say, ‘I don’t do anything.’”

The recession ended seven years ago, but persistent joblessness and underemployment marred the economic expansion that followed. A growing body of research suggests the economic trauma has left financial and psychic scars on many Americans, and that those marks are likely to endure for decades.

About one in six U.S. workers became unemployed during the recession years of 2007, 2008 and 2009. Today, nearly 14 million people are still searching for a job or stuck in part-time jobs because they can’t find full-time work.

Even for the millions of Americans back at work, the effects of losing a job will linger, the research suggests. They will earn less for years to come. They will be less likely to own a home. Many will struggle with psychological problems. Their children will perform worse in school and may earn less in their own jobs.

“The average effects are severe and very long lasting,” said Jennie Brand, a sociologist at University of California, Los Angeles. “There’s no quick recovery.”

U.S. economic output remains stubbornly below its potential level, as estimated by the Congressional Budget Office. And many people probably won’t be back on their feet by the time the next recession arrives. J.P. Morgan Chase & Co. economists recently predicted a new recession was more likely than not within three years.

Anger about stagnant wages, among other things, has helped fuel the presidential runs of Donald Trump and Bernie Sanders. When the John J. Heldrich Center for Workforce Development at Rutgers University surveyed Americans after the recession about the causes of high unemployment, their top responses were cheap foreign labor, illegal immigrants and Wall Street bankers.

Labor Department data show 40 million layoffs and other involuntary discharges during the recession that began in December 2007 and ended in June 2009. The official unemployment rate peaked at 10%. Princeton University economist Henry Farber calculated that the rate of job loss from 2007 through 2009 was 16%.
Wage scarring

As in previous recessions, millions of Americans faced a phenomenon economists sometimes call wage scarring. People who lose a job, even during economic expansions, usually earn less money when they re-enter the workplace. They are out of work for a time and often take a pay cut as the price of returning to work at a new employer or even in a new career.

This time, the damage was exacerbated by the job market’s painfully slow recovery. Extended or repeated spells of unemployment mean more severe earnings losses, and recent years have seen an unusually large number of job seekers out of work for more than six months or stuck in part-time positions.

“They had a much harder time finding a job, and in particular a full-time job, which immediately turns into an earnings decline,” Mr. Farber said.

Mr. Reece, the San Jose resident, didn’t think it would be so difficult to get back on his feet. He was a manager at a technology company earning $120,000 a year, plus bonuses and stock options, when he was laid off after a merger toward the end of the dot-com bubble. He later worked as a technician for the San Mateo County schools, making about half as much. He was laid off again in mid-2008, when the recession began to squeeze local-government budgets.
He looked for a new job but didn’t have any luck. “When I turned 14, I started working, and I never thought I’d be out of work,” he said. “I always thought I’d be able to find a job, and I was just stunned that I could not find a job.”

Mr. Reece kept busy running a nonprofit group and doing contract work, “a month here, a month there, a couple weeks here, a couple days there, pretty hit or miss,” he said.

His family lived frugally, relying on his wife’s salary and income from a rental home he had purchased during good times. Eventually, Mr. Reece got in touch with Union College in Lincoln, Neb., where he studied in the 1970s but left without finishing his bachelor’s degree. It agreed to let him come back for his final semester of course work.

He graduated in early May, with plans to resume his job search back in California. “I’m probably not going to accept a job at a fast-food restaurant, but I will find something to do,” he said.

While growth remains tepid and uneven, the U.S. job market is undeniably on the mend. The share of the prime-working-age population with a job has climbed from postrecession lows. The unemployment rate in April was 5%, labor-force participation has stabilized and wage growth seems to be firming.
The improving economy is helping people such as Bruce Clendenning emerge from the last recession’s shadow. The Concord, N.H., resident lost his job in mid-2010 when his conservation nonprofit folded, but he continued to work part-time at roughly half his old pay. His contract work and income started to pick up in 2013 and, last fall, he finally landed a full-time job as energy-policy manager at the Nature Conservancy’s New Hampshire chapter.

His salary now is where he thinks it would have been had he never lost his job. He knows he was lucky.

“I had no expectations once I had been essentially underemployed for five years,” Mr. Clendenning, 48, said. “You stop believing you’re going to get yourself back on track, and I’m a pretty optimistic guy.” Even with his new job, he said, he harbors “a little less faith in everything working out.”

Only about one in four displaced workers get back to their pre-layoff earnings after five years, according to University of California, Los Angeles economist Till von Wachter. A pay gap persists, even decades later, between workers who experienced a period of unemployment and similar workers who avoided a layoff. Estimates vary, but by one analysis, people who lost a job during recessions made 15% to 20% less than their nondisplaced peers after 10 to 20 years.

For young workers, including college graduates, simply entering the labor force during a time of high unemployment can depress earnings for years, though their salaries largely catch up over time.

For workers who experience a period of unemployment, long-lasting income hits may make it harder to accumulate savings for retirement and major purchases. They are far less likely to own a home, according to the Federal Reserve Bank of Boston, and the homeownership gap doesn’t close even after 20 years for those who were out of work for more than six months.

Since the recession, one in four Americans doubt their standard of living will improve over time, compared with 15% in the early 2000s, according to the General Social Survey conducted by NORC at the University of Chicago.
Instead of saving for retirement, Julie D’Agostino has been dipping into her savings since she was laid off in 2011 from a Web startup, where she was a designer, editor and social-media manager. She has been doing contract work and odd jobs since 2012, but hasn’t had success finding full-time employment. These days, she said, she is averaging only about 20% of her former income.

“I didn’t expect my 40s to go the way they’ve been going,” said Ms. D’Agostino, 49, of San Anselmo, Calif.

She wants a good-paying, full-time job. But if that doesn’t happen, she said, she is at peace with earning less, moving somewhere less expensive and having more time to pursue volunteering and other interests.

“I’m a hard worker. For the most part, I’ve had long periods of full-time employment,” she said. “This has been a big shift for me.”

Other consequences
Job loss has more than just financial consequences. Unemployment often is an isolating experience. A layoff can strip people of their identity as workers in a chosen field and their workplace-based social network of co-workers and other contacts. Researchers have linked job loss to stress, depression and feelings of distrust, anxiety and shame.

Alarming trends that emerged after the end of the 1990s economic boom may have been amplified by the latest recession. The death rate for middle-aged whites has been rising as a result of suicides, substance abuse and liver diseases, all potentially products of economic distress, according to research by economists Anne Case and Angus Deaton.

Data spanning the recession years show a link between high unemployment and increased abuse of painkillers and hallucinogens. The U.S. suicide rate climbed 24% between 1999 and 2014, a rise that accelerated after 2006, according to the Centers for Disease Control and Prevention. One study of Pennsylvania men who lost long-held jobs during the early 1980s found a spike in mortality following a layoff, with middle-aged men set to lose a year to 18 months off their lifespans.

Researchers have found that the children of people who lose their jobs perform worse on school tests and are more likely to repeat a grade. A father’s layoff is linked with a substantially higher likelihood of anxiety and depression in his children. In one study, the sons of men who were displaced from their jobs earned salaries that were 9% lower compared with otherwise similar children whose fathers had stayed employed.
Elizabeth Train’s first job out of law school in 2001 paid $45,000 a year. In early 2015, she still was making $45,000 a year—about one-fourth less when accounting for the effects of inflation.

In the intervening 14 years, Ms. Train worked for a law firm and then a bank, was laid off, practiced law on her own for several years, worked at another bank and was laid off a second time, then took a job at a law firm in suburban Detroit.

She earned raises early in her career, but took a pay cut after each layoff when returning to work. “I know I’m worth more,” said Ms. Train, 40. “But you’ve got to take what you can get at some point.”

The single mother of three, like many people who have lost a job, found she lost more than just money. She became more reserved, less comfortable opening up with her co-workers. “I don’t know when or if I’ll be back to the point where I was,” she said.

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