Explaining Wage Losses after Job Displacement: Employer Size and Lost Firm Rents

Research Question

What explains permanent wage losses after job displacement: losses in worker-embedded productivity versus firm-specific wage premiums?

Contributions

Use of bankruptcy data allows identifying costs of job loss from small plants.

Distinguish between employer-related (pay premia) and worker-related (human capital) determinants of wage loss.

Data and Empirical Approach

Data: German social security data combined with novel administrative bankruptcy data

We run fixed-effects regressions to estimate losses in wages and firm wage premiums, respectively, of displaced workers compared to a matched control group of non-displaced workers.

Firm wage premiums are measured as firm effects from a two-way fixed-effects model of log wages.

Results

Wage losses after job displacement in Germany can be explained by losses in firm rents rather than human capital depreciations.

Limited catch up in premia after displacement explains permanence of wage losses.

Wage and premia losses (but not employment losses) monotonically rise with pre-displacement employer size.

Losses during the crisis 2008/2009 are higher because a higher share of well-paying firms went bankrupt.

Implications

Productivity gains associated with reallocation of labour from unproductive to productive plants are not counterweighted by worker-embedded productivity losses.

Previous research's focus on large employers overestimated the costs of job displacement.

Structural change (e.g., due to import competition or technological change) is less costly for workers if concentrated among smaller plants.

Raising UI benefits during crises (like in the US) benefits workers who have been better off before.