IWH
Halle Institute for Economic Research
Member of the Leibniz Association

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

Figure 1
Changes in log daily wages and firm wage premiums

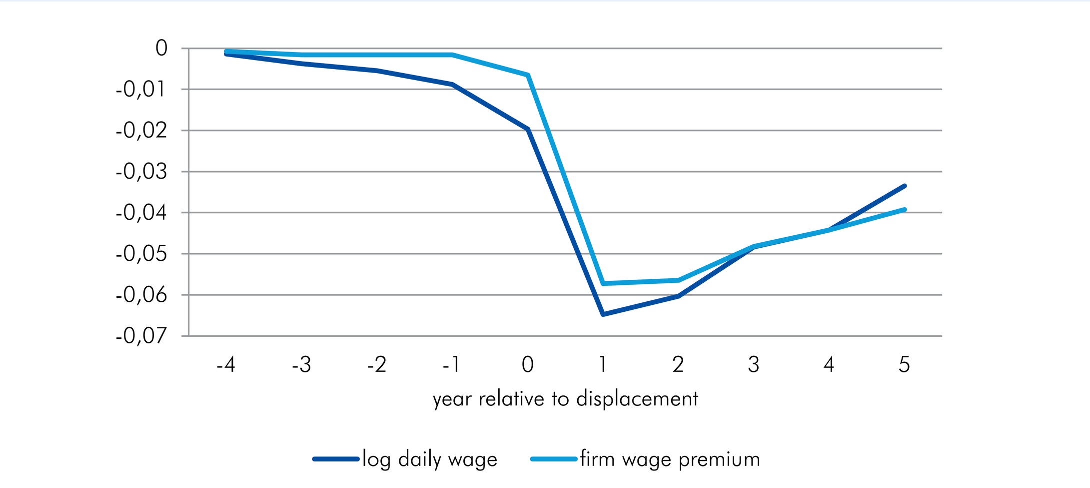


Figure 3
Changes in log daily wages by pre-displacement firm size

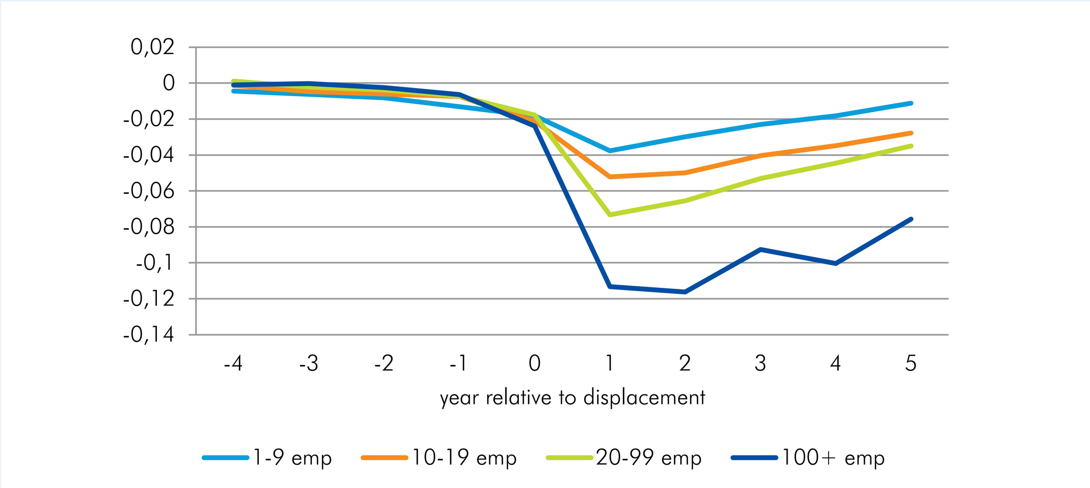


Figure 2
Changes in days in full time employment by pre-displacement firm size

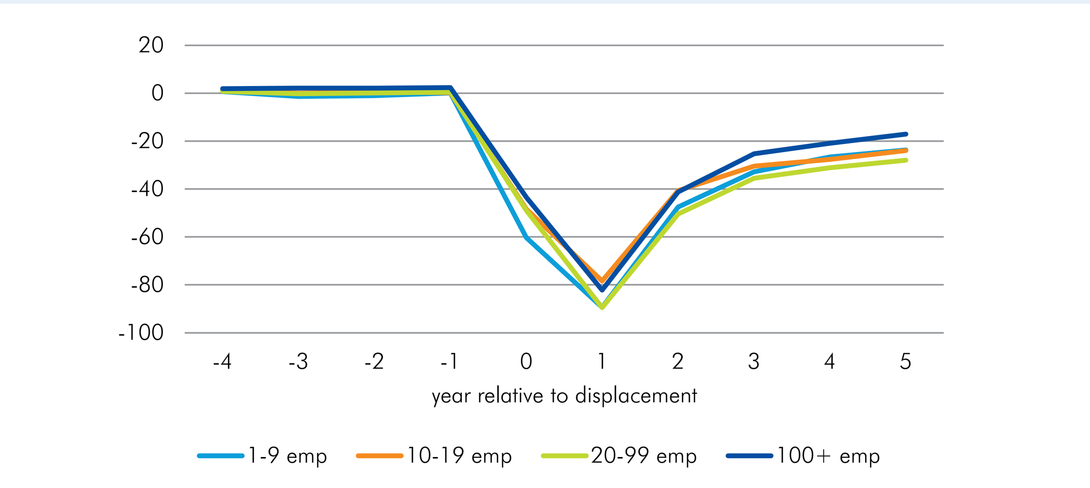
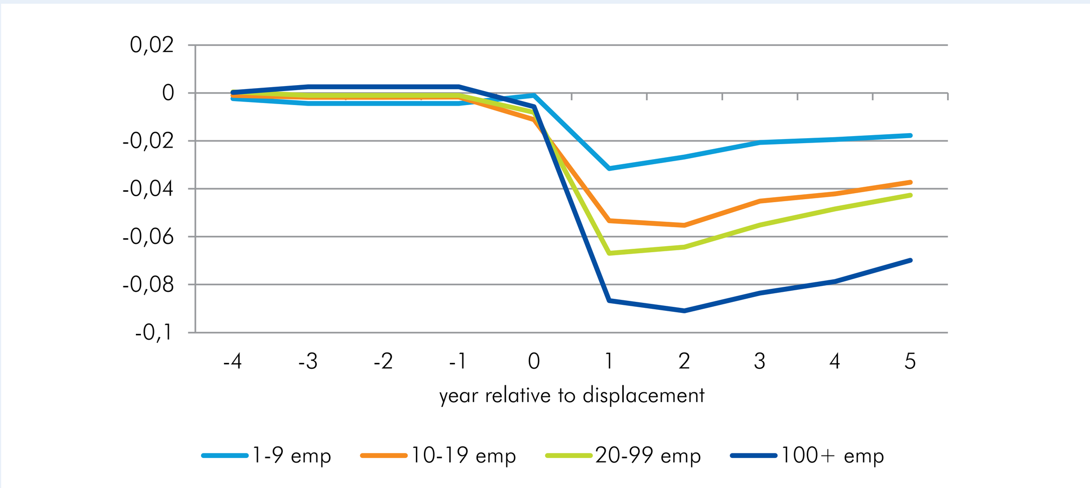


Figure 4
Changes in firm wage premiums by pre-displacement firm size



Source: IWH illustrations.

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.
- Distinction 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 of before.

Team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