The Unequal Consequences of Job Loss across Countries

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Losing a job entails lasting negative consequences on workers' careers (Jacobson et al, 1993). More efficient labor markets reallocate workers more quickly and generate lower earnings losses after job displacement. Comparing trajectories of displaced workers across countries may reveal which labor markets are functioning better than others and shed light on the potential mechanisms behind these negative and unequal consequences (supply factors, demand factors, institutions, frictions, etc.).

However, such comparisons remain challenging. Empirical analyses from existing literature usually focus on a single country, and their conclusions are clouded by differences in sample selection, the definition of the displacement event, and the econometric specifications. In Bertheau et al (2022), we illustrate how these discrepancies in the research design make very hard to interpret and reconcile the results across different studies.

The contribution of this paper to the empirical literature is to fill this gap by comparing negative consequences of job loss across countries using a harmonized dataset coming from administrative data from Social Security records and implementing an identical research design separately in each country to obtain comparable estimates across seven countries (Austria, Denmark, France, Italy, Portugal, Spain and Sweden) characterized by a wide range of labor market institutions.

EMPIRICAL STRATEGY AND RESULTS

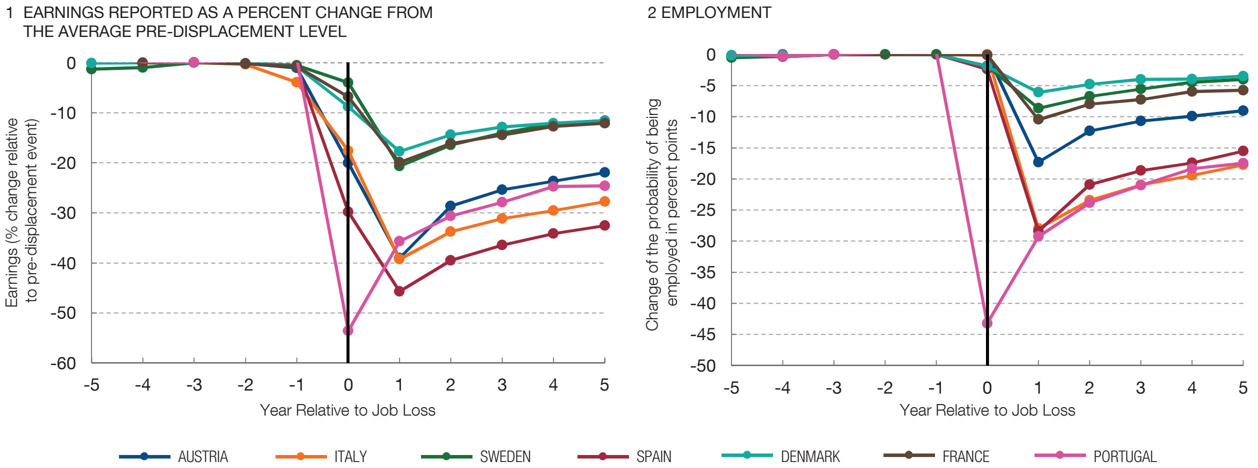
Our research design follows very closely the study of Schmieder et al (2020) for Germany, in order to obtain comparable estimates. We focus on involuntary job separations coming from mass layoffs, that is, job displacements from collective dismissals or firm closures, in order to avoid capturing spurious effects of voluntary job quits or individual firings. Thus, we compare across countries how labor market outcomes evolve in a period of five years around the year of job displacement for displaced workers in comparison with the trajectories of workers who have never been displaced due to a mass layoff and who share very similar characteristics to those of the displaced workers.

Figure 1 shows the average difference between displaced and never-displaced workers in each year relative to the mass layoff for each country and for the following outcomes: total earnings (excluding government transfers) and the probability (in percentage) of being employed. To avoid biases due to permanent differences between displaced and non-displaced workers in the estimated impact of job loss, Figure 1 shows the mean difference of the outcomes between both groups of workers in each year relative to their mean difference in one year normalized, we use the third year prior to the mass layoff, year in which all workers that take part in our sample were employed by sampling design. Year 0 refers to the year in which job displacement takes place, positive years (1, 2…5) indicate each one of the five subsequent years after job displacement and negative relative years (-1, -2…-5) refer to five preceding years before the mass layoff (one year before, two years before, and so on).

Figure 1 shows that displaced workers experience large and persistent earnings losses in all countries. These losses are represented as a percentage of their average pre-displacement level of earnings. Panel 1 also reveals substantial heterogeneity across countries, earnings losses are around 10% in Northern European countries (Denmark and Sweden) vs 30% in Southern Europe (Italy, Portugal and Spain) five years after job displacement. Earnings losses in Austria and France are somewhere in between. Panel 2 highlights the fact that a large part of the differences in earnings losses is explained by the unequal probability of finding a job across countries. Five years after the mass layoff, the probability of being non-employed is 20 percentage points (pp) larger for displaced workers in Southern countries, whereas these non-employment probabilities are much lower in Denmark, Sweden and France (around 5pp) and in Austria (around 10pp). In the paper, we show that the differences of daily wage losses of displaced workers being employed five years after the mass

Figure 1

THE EFFECT OF JOB LOSS ON LABOR MARKET OUTCOMES ACROSS COUNTRIES



NOTE: Figure 1 shows average outcome differences between displaced workers and non-displaced workers in every year relative to the third year prior to the mass layoff (year -3). Year 0 refers to the year in which the job displacement takes place (indicated by a vertical line).

layoff are less disperse across countries and range approximately from 5% to 15%.

UNDERSTANDING THE IMPACT OF JOB LOSS ACROSS COUNTRIES

A large part of the earnings and wage losses suffered by displaced workers is explained by the transition to worse-paying jobs in all countries after job displacement (the loss of firm-specific human capital and rents accumulated by workers with their employers). This result is quite similar across countries. Moreover, we also find that the heterogeneity we observe in the negative consequences of job loss across countries is not explained by cross-country differences in worker and employer characteristics, such as gender, job tenure, age, unemployment rate, economic sector, and year of job loss, among others.

Finally, we investigate the sources of the differences in employment across countries after job displacement, and we find that the key explanation is the permanent withdrawal of displaced workers from the labor market at much higher rates in Southern Europe than those in the rest of countries. Even when we look at workers re-employed after the mass layoff, these workers (mainly women) also experience significantly longer non-employment durations after losing the job in Southern Europe.

CONCLUSION

All in all, the vastly different earnings trajectories following a job loss documented in this paper should be informative for policy makers and academics alike. Our results reveal that labor markets appear to function better –in terms of faster reallocation of workers and lower earnings losses– in some countries than others. European policy makers should thus focus on policies that could reduce these differences.

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