

Job Displacement Scars over the Earnings Distribution

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Abstract:

Workers who are displaced from their job experience a well-documented scarring effect: a large and persistent earnings loss on average. However, these average effects mask a substantial amount of heterogeneity among a number of observable dimensions. In this paper, I explore how the scarring effect of job displacement differs by the affected workers' earnings prior to displacement. I use detailed administrative data from Germany to analyze this dimension empirically. I find that earnings losses, relative to pre-displacement earnings, are larger for individuals whose recent earnings situate them at the bottom of the earnings distribution. This seemingly contradicts existing models that can explain the average scarring effect, as these are generally based on the idea of a job ladder, and thus imply that workers at the top of the earnings distribution should suffer from larger (relative) earnings losses. I then propose a model in which displaced workers do not fall off the ladder completely. Rather, the size of their drop is determined by the characteristics of the firm they were laid off from. I show that this setup enables the model to explain larger relative earnings losses at the bottom of the recent earnings distribution.

JEL Classifications: E24, J21, J24, J62, J63, J64, J65

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