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Earnings Losses of Displaced Workers: Canadian Evidence from a Large Administrative Database on Firm Closers and Mass Layoffs

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Abstract

Using Statistics Canada's Longitudinal Worker File, we document short-term and long-term earnings losses for a large (10%) sample of Canadian workers who lost their job through firm closures or mass layoffs during the late 1980s and the 1990s. Our use of a nationally representative sample allows us to examine how earnings losses vary across age groups, gender, industries and firms of different sizes. Furthermore, we conduct separate analyses for workers displaced only through firm closures and for a broader sample displaced either through firm closures or mass layoffs. Our main finding is that while the long-term earnings losses experienced on average by workers who are displaced through firm closures or mass layoffs are important, those experienced by displaced workers with considerable seniority appear to be even more substantial. Consistent with findings from the United States by Jacobson, Lalonde and Sullivan (1993), high-seniority displaced men experience long-term earnings losses that represent between 18% and 35% of their pre-displacement earnings. For their female counterparts, the corresponding estimates vary between 24% and 35%.

Keywords: Layoffs; Job Losses; Employment; Worker Displacement; Earnings Losses.
JEL Code: J61, J31

Executive summary

What is the magnitude of earnings losses that Canadian workers suffer several years after being displaced? The answer to this question is currently unknown. Several of the previous studies are based on U.S. data and have shown that, even five years after displacement, displaced workers still suffer substantial earnings losses. However, most of the evidence offered is based either on a sub-sample of high-tenure workers in a specific region or on relatively small samples drawn from the Panel Study of Income Dynamics. Furthermore, the evidence presented is not recent since it covers either the early to mid-1980s or the early 1990s. Canadian studies of worker displacement have compared pre-displacement wages to wages observed shortly after displacement but have been unable to quantify the magnitude of the earnings losses suffered several years after displacement.

The goal of this paper is to fill this gap and to quantify the earnings losses experienced up to five years after displacement by Canadian workers who lost their job during the late 1980s and the 1990s as a result of firm closures or mass layoffs. To do so, we take advantage of Statistics Canada's Longitudinal Worker File, a unique administrative data set that tracks a large (10%) sample of Canadian workers throughout the 1983 to 2002 period.

Quantifying the earnings losses that Canadian workers experience several years after displacement is important for several reasons. First, Canada's Employment Insurance program covers unemployed workers up to one year but the earnings losses suffered by many Canadian displaced workers might well extend beyond that one-year period. Since: a) displaced workers bear a disproportionate share of the costs of resource reallocation that the Canadian economy experiences due to technological changes, growth in international trade and changes in consumers' preferences; and b) such resource reallocation is generally thought to be productivity-enhancing, assessing the magnitude of the earnings losses experienced after the first post-displacement year is a prerequisite for the design of policies, if any, aimed at compensating these workers.

Second, earnings losses that extend over a one-year period likely affect the well-being of Canadian displaced workers in numerous ways. They may signal the loss of: a) rents due to union coverage or employment in large firms, b) important firm-specific skills or industry-specific skills or c) good job matches. All of these factors likely imply a permanent drop in workers' earnings. Since they are not fully compensated by increases in wives' labour supply, longer-term earnings losses of displaced workers may affect the stability of family earnings, thereby potentially influencing the consumption patterns of families affected by displacement.

Our main finding is that while the long-term earnings losses (i.e., those suffered five years after displacement) experienced, on average, by workers who are displaced through firm closures or mass layoffs are important, those experienced by displaced workers with considerable seniority appear to be even more substantial. Consistent with findings from the United States by Jacobson, Lalonde and Sullivan (1993), high-seniority displaced men experience long-term earnings losses that represent between 18% and 35% of their pre-displacement earnings. For their female counterparts, the corresponding estimates vary between 24% and 35%.