Job Destruction, Churning, and Earnings Losses

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Technological progress may be good for the economy, but it is tough on the workers who lose their jobs. This is documented in a study by Steve Davis and Till von Wachter (2011), who use records from the Social Security Administration between 1974 and 2008 to look at what happens to workers who lose their job as a result of a mass layoff.

Davis and von Wachter first identify all the firms with more than 50 workers where at least 30% of the workforce was laid off during one quarter, an event they call a mass layoff. Then they identify the laid-off workers who had been employed at that firm for at least three years. These are long-term employees. They compare the labor market experience of long-term employees who were laid off in a mass layoff to similar workers in the labor force who did not separate in the layoff year or in the next two years. Finally, they compare the workers who experience a mass layoff in a recession to those who experience a mass layoff in an expansion.

Figure 1 summarizes their results. The year 0 is the year of the mass layoff. Years 1, 2, 3, and so on are the years after the mass layoff event. The negative years are the years prior to the layoff. If you have a job and are a long-term employee, your earnings rise relative to the rest of society prior to the mass layoff event. Having a long-term job at the same firm is good for an individual's wage growth. This is true in both recessions and expansions.

Look at what happens in the first year after the layoff. If you experience a mass layoff in a recession, your earnings fall by 40 percentage points relative to a worker who does not experience a mass layoff. If you are less unfortunate and you experience your mass layoff in an expansion, then the fall in your relative earnings is only 25 percentage points. The conclusion: Mass layoffs cause enormous relative earnings declines whether they occur in a recession or an expansion.

Figure 1 makes another important point. The decline in relative earnings of workers who are part of a mass layoff persists for years after the layoff. Beyond 5 years or even up to 20 years after the mass layoff, workers who experienced a mass layoff suffer a relative earnings decline of about 20 percentage points if the mass layoff took place in a recession and about 10 percentage points in the mass layoff took place in an expansion. Thus, the evidence is strong that a mass layoff is associated with a very substantial decline in lifetime earnings.

It is not hard to explain why such earnings losses are likely, even if the size of the loss is surprising. The workers who have spent a considerable part of their career at the same firm have specific skills, skills that are most useful in that firm or industry. The mass layoff, if due to technological change, renders those skills much less valuable than they were.

Other studies have found that in families that experience a mass layoff, the worker has a less stable employment path (more periods of unemployment), poorer health outcomes, and children who have a lower level of educational achievement and higher mortality when compared to the workers who have not experienced a mass layoff. These are additional personal costs associated with mass layoffs.

So, although technological change is the main source of growth in the long run, and clearly enables a higher standard of living for the average person in society, the workers who experience mass layoffs are the clear losers. It is not surprising that technological change can and does generate anxiety.

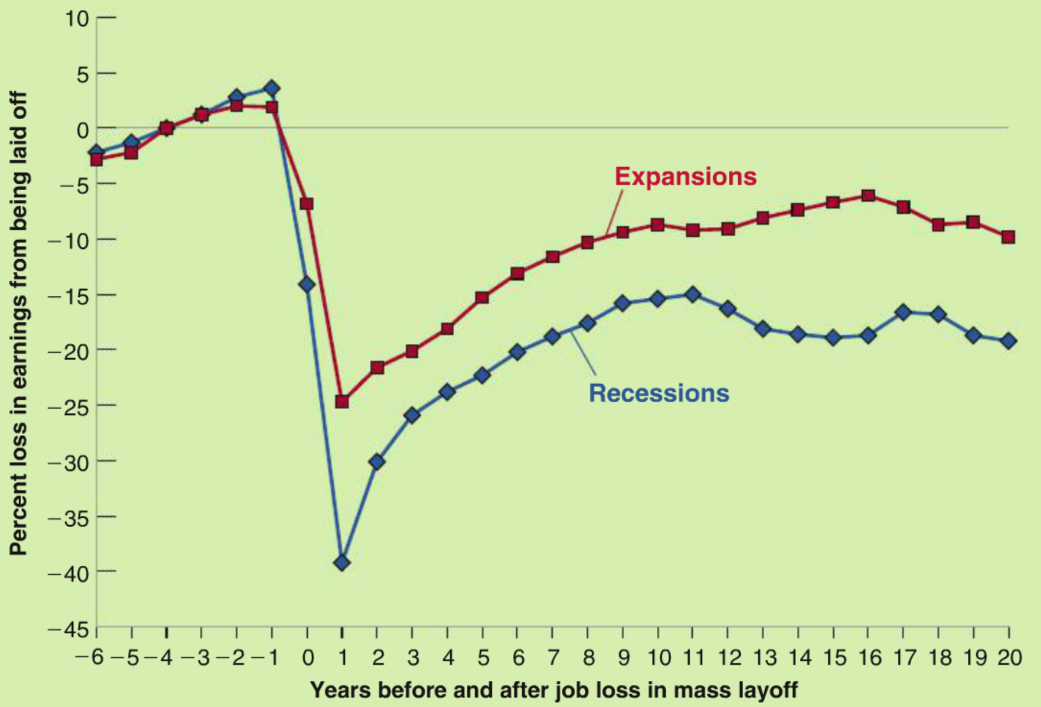

Figure 1

Earnings Losses of Workers Who Experience a Mass Layoff

Source: Steven J. Davis and Till M. von Wachter, "Recessions and the Cost of Job Loss," National Bureau of Economics Working Paper No. 17638.