

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

Daniel Fackler,^a Steffen Mueller,^b and Jens Stegmaier^c

Abstract

This paper investigates whether wage losses after job displacement are driven by lost firm wage premiums or worker productivity depreciations. We therefore estimate losses in wages and firm wage premiums, the latter being measured as firm effects from a two-way fixed-effects model. Using German administrative data, we find that wage losses are to a large extent explained by losses in firm wage premiums and that premium losses are largely permanent. We show that losses strongly increase with pre-displacement employer size, which provides an explanation for large and persistent wage losses reported in previous displacement studies typically focusing on large employers.

Keywords: job displacement, wages, firm size, firm rents

JEL Classification: J31, J63, J65

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^a Corresponding author, Halle Institute for Economic Research (IWH), Kleine Märkerstraße 8, D-06108 Halle (Saale), Germany, E-Mail: Daniel.Fackler@iwh-halle.de.

^b Halle Institute for Economic Research (IWH) and University of Magdeburg, Kleine Märkerstraße 8, D-06108 Halle (Saale), Germany, E-Mail: Steffen.Mueller@iwh-halle.de.

^c Institute for Employment Research (IAB), Regensburger Str. 104, D-90478 Nürnberg, Germany, E-Mail: Jens.Stegmaier@iab.de.

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