

IAB-Colloquium

zur Arbeitsmarkt- und Berufsforschung

The Impact of Firm Closure on Workers' Future Employment and Earnings

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This paper examines the impact of job loss due to firm closure on workers' employment and earnings. It uses data from Statistics New Zealand's Linked Employer-Employee Data (LEED). LEED is an administrative dataset in which the death of a firm identifier does not always represent a complete firm closure. After selecting all continuing establishments with at least five employees that 'died' in LEED between April 2001 and March 2004, information on the flows of clusters of workers from these establishments to other firms was used to classify them according to the likelihood that a complete closure took place. Other apparent firm deaths were classified as partial closures or restructurings.

The impact of job displacement was estimated by comparing the changes in labour market outcomes for workers who experienced a closure or restructuring with the changes in outcomes for a control group of workers who were employed at firms that did not experience these events. We allow the estimated impacts of displacement to vary according to the type of event experienced.

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We also assess whether the effects of job displacement differ for workers with different personal and job characteristics, and whether there are identifiable impacts on people who worked at affected firms in the year prior to the closure or restructuring.

We find that job loss due to firm closure has persistent impacts on the subsample of workers who were most likely to have experienced a complete firm closure. Employment rates for these workers are 17 percent lower one year after the firm closed than those for comparable workers at non-closing firms, and remain 12 percent lower four years after the closure. Similarly, monthly earnings are 22 percent lower one year after the closure and 16 percent lower four years after the closure. This affected group represented 9 percent of the total population of workers employed at firms with apparent 'deaths' in LEED. We find smaller but still significant negative impacts for workers whose firm event was classified as a partial closure. Displacement has relatively little impact, on average, on the outcomes of workers who were most likely to have experienced a firm restructuring.

Employees at small and medium-sized establishments that closed experienced greater employment and earnings losses than those at closing firms with 50 or more employees. Employees with at least two years of job tenure also sustained larger losses than those with shorter tenure. Although overseas studies have found that mature workers in the 55 plus age bracket tend to be harder hit by redundancy than prime-age workers, in this study the impacts on prime-aged and older employees were of a similar magnitude, while larger impacts were found for younger employees.

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