

# Wage losses of displaced workers: the allocation of workers into firms and job titles\*

Pedro S. Raposo<sup>†</sup>    Pedro Portugal<sup>‡</sup>    Anabela Carneiro<sup>§</sup>

## Abstract

Using an unusually rich matched employer-employee data set for Portugal, we studied the persistent earnings losses of workers displaced due to firm closure. We found that those losses are rather severe and persistent, representing around 50 percent of the pre-displacement wages, six years after the separation event. Those losses are largely explained by the joblessness experience of the displaced workers.

We explored the sources of those losses, estimating a three-way high-dimensional fixed effects regression model, which enabled us to obtain worker, firm, and job title fixed effects. We found that the allocation into lower-paid job titles accounts for half of the total average wage loss. Sorting into firms also plays a significant role to explain the wage loss of displaced workers. The worker-firm match heterogeneity explains nearly one fourth of the total average wage loss.

Keywords: Earnings losses, displaced, high dimensional fixed effects, match, job title

JEL codes: J31, J63, J65, E24

---

\*The authors are grateful for helpful comments and suggestions from António Antunes, Joop Hartog, Jan van Ours and José Varejão.

<sup>†</sup>Corresponding author. Tel.:+351 217214258; fax: +351 217270252. Universidade Catolica Portuguesa, Catolica Lisbon; email: pedro.raposo @ ucp.pt . Pedro S. Raposo gratefully acknowledges financial support by the Portuguese Foundation of Science and Technology, FCT [SFRH/BD/21906/2005]. Part of this work was carried out while he was visiting the Bank of Portugal, whose support is gratefully acknowledged. We are grateful to the Portuguese Ministry of Employment, for access to the data.

<sup>‡</sup>Banco de Portugal, Universidade NOVA de Lisboa and IZA Bonn

<sup>§</sup>Universidade do Porto and CETE