

Losing Work, Moving On

International Perspectives on Worker Displacement

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Synopsis

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In this volume, 22 authors collaborate to examine the process of worker displacement in 10 industrialized countries. Using large, nationally representative data sets and detailed policy analysis, the authors examine differences in the institutions that regulate and affect displacement in the 10 countries, within-country patterns of displacement and its consequences, and international differences in displacement and its consequences. The study's main findings are as follows.

INSTITUTIONS AFFECTING DISPLACEMENT

Overall we detect two broad styles of national policy relevant to displacement. The "palliative" approach confines most state intervention to policies like retraining, mobility assistance, and income support that assist workers after the fact of displacement. Countries in our sample which take a largely palliative approach are the United States, Canada, the United Kingdom, Australia, and (to some extent) Denmark. The remaining countries (the Netherlands, Japan, France, Germany, and Belgium) also adopt palliative measures but in addition take a much more "preventative" policy stance. Preventative policies include extensive consultation and bargaining requirements which attempt to prevent plant closures. If that is not possible, preventative policies then aim to forestall layoffs in the event of a plant closure, for example by mandating extensive outplacement services or employee transfers to other plants within the firm. If layoffs are inevitable, preventative policies then aim to prevent unemployment via extensive advance notice periods. At every step, the preventative state intervenes to inhibit movement to the following step of the displacement process.

Of course, while such broad categorizations are helpful, tremendous and often quite unexpected institutional heterogeneity remains within the above categories. For example, within the palliative group, Australia had a highly centralized wage-setting system during our sample period (which acts to reduce displaced workers' wage losses), while Britain had no minimum wages at all. Canada and the U.K. had fairly stringent advance notice requirements while the United States, Australia, and Japan had very little. Denmark has strong unions and compressed wages but very little

employment protection legislation (EPL). The many differences of this kind uncovered in this study show the importance of attention to institutional detail. Simple comparisons of highly versus loosely regulated economies are not sufficient.

Finally, some of the most important national institutions affecting displacement are not legislated. For example, in some countries, collectively bargained provisions supersede legislated requirements as the main binding constraints on employers, not just in wage-setting decisions but in worker termination and plant shutdown procedures as well. Thus, in many cases, a knowledge of the main collective bargaining settlements in a country is needed to characterize the institutional environment. Going beyond bargained assistance, voluntarily provided assistance from firms constitutes the most important part of a worker's severance package in many instances, and well-established local and industry norms and practices regulate what these packages contain.

Another institution affecting displacement is simply the organization of labor markets on the industry level: industries that are organized on a "craft" or "hiring-hall" basis (such as construction in North America) will have very high displacement rates and relatively small consequences of displacement because of the methods by which labor is exchanged. Countries also have their own traditional mechanisms of labor mobility, ranging from the practice of (ex ante) temporary layoffs, which sometimes become permanent in North America, to practices like *shukko* and mandatory early retirement in Japan. As the current volume shows, knowledge of these institutions is crucial to a task as basic as counting the number of displacements in a country.

WITHIN-COUNTRY PATTERNS

Looking across a sample of 10 industrialized countries, is displacement always more common among men than women? Are the consequences of displacement always more severe for older workers? In our search for universal patterns in this volume, we have uncovered a few probable universals, as well as some fascinating exceptions. We describe these results by demographic characteristic below.

Age

One universal pattern in all countries examined here is that older workers fare worse than younger workers after displacement. This lower apparent adaptability of older displaced workers throughout the developed world may well reveal something fundamental about the structure of industrial economies. Whatever this is, however, it is more than just firm-specific skills: the age effect generally persists when we hold predisplacement tenure constant. Perhaps it reflects something even more fundamental, such as the biology of aging. However, simply because of its pervasiveness, this effect seems worthy of further study.

While older workers fare worse after displacement, in all countries except Japan they are less likely to be displaced. (Some countries, including the United States, show a small increase in displacement rates after age 50, but not to the levels experienced by the youngest workers). This raises the question of why and how labor market institutions appear to protect older workers from displacement in most countries and why this arrangement differs in Japan. Japan's "lifetime employment" system clearly plays a role here, but why does this system gradually withdraw its protection from workers as they age, in sharp contrast to other countries?

Tenure

The effects of predisplacement job tenure on displacement-related outcomes are more complex than those of the worker's age. First, as for age, high-tenure workers are less likely to be displaced than low-tenure workers in all countries except Japan (we do not have tenure data for Japan). A tempting explanation is firm-specific training, although Japan may not fit this pattern. The effect of tenure on postdisplacement joblessness varies in a different way among countries. In fact, it appears to reveal something about the effect of employment protection legislation (EPL): jobless durations tend to rise with predisplacement tenure in low-EPL countries—a familiar result in the United States—but to fall with tenure in high-EPL countries. Institutions seem to be at work here: senior workers in high-EPL countries are entitled to more relocation assistance, which may allow many of them to avoid unemployment altogether.

The positive correlation between tenure and wage losses, so much studied in the U.S. displacement literature, does not appear to be universal either. We do find a positive correlation in the United States and in other countries with similar, decentralized wage-setting institutions (such as the United Kingdom and Canada). However, in this volume we have not been able to document seniority-related wage losses in countries with more-centralized wage-setting institutions, and in one such country (Belgium) we can rule out this phenomenon quite convincingly. Thus, it appears that national wage-setting institutions do affect the wage changes experienced by displaced workers.

Gender

In all countries, men are more likely to be displaced than women. In part this reflects a historical tendency of men in industrialized countries to work in cyclically sensitive industries such as construction and manufacturing. In part, it may also reflect the fact that employment in many male-intensive industries such as manufacturing is in secular decline in these countries. Perhaps, in addition, men have historically been more willing than women to accept higher job insecurity in return for higher wages.

Although women are less likely to be displaced, they have longer jobless durations after displacement than men in all the countries studied here. Women's wage losses however are broadly similar to men's in percentage terms (with the exception of Japan, where they are smaller). One interpretation of both these patterns is that women's greater share of household labor competes more strongly with the incentive to return to work, thus raising their reservation wages. In Japan, displaced women's lower wage losses are explained, in part, by their lack of access to the "high-rent, lifetime" jobs typically reserved for men in that economy.

Skill Level

Worker skill can be measured in a variety of ways, including education, predisplacement wages, and (in some countries) occupational level. Regardless of the measure used, unskilled workers are more likely to be displaced than skilled workers. One reason for this may be that workers who have few general skills also tend to have few firm-specific skills. In all countries but Germany, unskilled workers also experience longer postdisplacement joblessness than skilled workers. This pattern probably reflects the tendency for unemployment insurance benefit replacement rates to decline precipitously with the wage level in most industrialized countries; Germany is one of the few countries where this is not the case. Percentage wage losses from displacement are quite similar across skill groups in most countries.

CROSS-COUNTRY COMPARISONS

In any international study, the most difficult kind of results to generate—but potentially the most rewarding—are those that make cross-national comparisons in the levels of key variables (such as the frequency of displacement, or the duration of post-displacement unemployment) and that associate these with international differences in labor market structure and policy. In this area, our conclusions are less firmly held than in other areas, but they are also in equal measure more thought-provoking. These conclusions are

- Displacement rates are surprisingly similar across all 10 countries studied in this volume, at between 4 and 5 percent of the employed population each year. This occurs despite substantial differences in labor market institutions among countries. This result is consistent with existing statistics showing very large differences in unemployment inflows among countries because a) North American unemployment inflow statistics contain a very large share of temporary layoffs, who are not displaced workers; and b) generous advance notice and relocation assistance allows a large number of European displaced workers to avoid unemployment altogether. Our result of similar displacement rates is also consistent with recent statistics showing similar rates of sectoral labor reallocation across countries. Perhaps a certain rate of

displacement and reallocation is simply a necessary feature of a dynamic capitalist economy.

- Given that a worker is displaced, the probability that he or she will experience any joblessness at all varies a great deal among countries. While over 80 percent of U.S. displaced workers experience some joblessness immediately following displacement, experiencing a spell of joblessness is the exception rather than the rule in the Netherlands, Denmark, and Germany. The most likely explanation of this low incidence of unemployment is employment protection legislation, and/or union-negotiated "social plans" for plant shutdowns, both of which use a variety of methods to forestall the inception of an unemployment spell.
- Given that a spell of joblessness has begun, its expected length also varies substantially among countries. Perhaps unexpectedly, these conditional durations are not lowest in the United States, which is rather in the middle of the pack. One reason for the unexpectedly high unemployment durations of U.S. displaced workers is that some previous international comparisons included temporary layoffs (which tend to have short durations) in the U.S. statistics. As well, many (ex post) displaced workers in the United States have a prospect of being recalled to their former firm. This prospect may reduce their search intensity relative to workers in countries where displacement is a more "discrete" phenomenon. The role of recall expectations—a relatively unique feature of North American labor markets—in lengthening average unemployment durations would seem to be an important area for further comparative research. All of this said, however, U.S. unemployment durations are dramatically below those in, say, Belgium, a fact which does seem to be related to the effect of Belgium's strict EPL on firms' hiring rates.
- In all countries, the mean wage change experienced by a low-tenure displaced worker is close to zero or positive. Small mean wage losses are also observed when we consider all displaced workers as a group, not conditioning on tenure. In essence, this reflects the fact that all the countries under study have a casual labor market, in which displacement is frequent but relatively inconsequential. Displacements from such low-tenure jobs tend to dominate flow samples of involuntary separations everywhere. Perhaps a high-turnover, casual sector of the labor market is also a necessary feature of modern capitalist economies.
- Large percentage wage losses are observed only for workers with high levels of predisplacement tenure and—with one exception—only in countries (the United States, Canada, and United Kingdom) having relatively high levels of wage inequality and low rates of union coverage. Just as a compressed

national wage structure may reduce the gender-wage gap (see the recent research by Francine Blau and Lawrence Kahn), it may also reduce the magnitude of the wage changes experienced by displaced workers. The one exception is the subgroup of French and German displaced workers who both a) experience an unemployment spell—remember that this is often the exception and not the rule—and b) remain unemployed for over a year. Substantial wage losses (though not greater than those among high-tenure U.S. workers) are observed for this group, suggesting that they somehow manage to fall out of the safety net that protects most displaced workers in those countries.

Taking these five points together, our examination of the cross-national experience in this volume suggests that, with the apparent exception of Belgium and its extremely inflexible employment protection system, it is surprisingly hard to pinpoint any large negative effects of the highly regulated labor markets of Europe and Japan on displaced workers relative to the United States or Canada. Instead, stringent employment protection laws appear to dramatically reduce the incidence of an unemployment spell among workers who lose their jobs involuntarily.

At the same time, compressed national wage structures also appear to reduce the frequency of large, displacement-induced wage losses. While jobless durations, conditional on starting a spell, do tend to be higher outside the United States, they are not dramatically so, especially when temporary layoffs (with their very short durations) are removed from the U.S. unemployment statistics. In sum, there is a sense in which, in some highly-regulated labor markets, once one becomes an insider, one is always an insider. Even permanent job loss and the closure of one's workplace do not undermine the strong employment rights given to incumbents in these labor markets.

Of course, the relatively benign experiences of, say, displaced French or German workers do not mean that strong employment protection laws and compressed wages are good for those countries as a whole. It does mean, however—and again with the probable exception of Belgium—that researchers looking for evidence of major costs of labor market rigidities need to look somewhere other than at displaced workers. A natural starting point would be the labor market for new entrants, including immigrants, women reentering paid work after child/family care or after moving to facilitate a spouse's career, and students. Strict employment protection and compressed national wage structures may seriously harm these labor market "outsiders"; unfortunately, these potential negative effects are probably the most important issue that has not been addressed in this volume.

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