

JUNE 03, 2025

Eric A. Hanushek - '<https://www.iza.org/person/2570>', Simon Janssen - '<https://www.iza.org/person/6996>', Jacob D. Light - '<https://www.jacob-light.com/>', Lisa K. Simon - '<https://sites.google.com/site/lisaksimon/home>'

Job loss is not always a disaster—but for some, it is

Estimates of the economic costs of job displacement invariably show large and systematic average income losses, but this masks the fact that most workers adjust well and outcomes differ sharply even across similar individuals

Research consistently finds that older workers tend to lose more than younger ones, those with less education more than those with more, and women more than men. But averages can be misleading. Our recent IZA Discussion Paper - '<https://www.iza.org/publications/dp/17889/adjusters-and-casualties-the-anatomy-of-labor-market-displacement>' introduces a new framework that goes beyond average effects to recover the full distribution of earnings losses after job displacement due to firm closures, providing a richer understanding of who is most affected and why.

The distribution of losses is highly skewed: a small share of workers suffers catastrophic losses, which heavily influence the average. Even among workers with similar backgrounds, earnings losses can vary dramatically. Two demographically similar coworkers at the same firm with identical roles often follow very different adjustment paths. Some workers are more productive or adaptable; others may not realize they can do better elsewhere. Personal networks, timing, or luck may play important roles.

Our findings show that losses are highly uneven. A small group of workers suffer catastrophic losses, and their experiences heavily influence the overall average. But most workers experience much smaller setbacks, and some even come out ahead. For example, using detailed German social security data, we find that the typical worker who loses their job due to a firm closure loses earnings equivalent to just three months of their prior salary over a five-year period. Nearly 25% of displaced workers actually earn more than they would have if they had kept their job.

Most strikingly, we find that differences in earnings losses are larger within groups of similar workers than between groups with different backgrounds. Even when workers are identical in age, education, gender, and other observable traits, and were laid off from the same firm, their earnings paths can diverge dramatically. Some recover quickly, while others continue to struggle.

We refer to these two groups as “adjusters” and “casualties.” Adjusters often switch firms or occupations quickly and end up earning more than their peers in their new jobs. Casualties, by contrast, are slower to move and tend to experience prolonged instability, frequently changing employers, occupations, or locations without ever regaining their previous earnings.

These results challenge the idea that we can predict who will fare poorly after job loss simply by looking at broad characteristics like age or education. Instead, outcomes depend on more complex, individual-specific factors, such as adaptability, information access, networks, timing, and luck. This underlines the need for more personalized approaches to policy and support for displaced workers.

© Eric A. Hanushek, Simon Janssen, Jacob D. Light, and Lisa K. Simon

Eric A. Hanushek - '<https://www.iza.org/person/2570>' is Paul and Jean Hanna Senior Fellow at the Hoover Institution of Stanford University, US, and IZA Research Fellow

Simon Janssen - '<https://www.iza.org/person/6996>' is Senior Researcher at the Institute for Employment Research (IAB), Germany, and IZA Research Fellow

Jacob D. Light - '<https://www.jacob-light.com/>' is Economist and a Hoover Fellow at the Hoover Institution

Lisa K. Simon - '<https://sites.google.com/site/lisaksimon/home>' is Chief Economist at Revelio Labs

Please note:

We recognize that IZA World of Labor articles may prompt discussion and possibly controversy. Opinion pieces, such as the one above, capture ideas and debates concisely, and anchor them with real-world examples. Opinions stated here do not necessarily reflect those of the IZA.

Related IZA World of Labor content:

<https://wol.iza.org/articles/compensating-displaced-workers> - '<https://wol.iza.org/articles/compensating-displaced-workers>' by Donald O. Parsons - '<https://wol.iza.org/authors/donald-o-parsons>'

<https://wol.iza.org/articles/worker-displacement-in-transitioneconomies-and-in-china> - '<https://wol.iza.org/articles/worker-displacement-in-transitioneconomies-and-in-china>' by Hartmut Lehmann - '<https://wol.iza.org/authors/hartmut-lehmann>'

<https://wol.iza.org/articles/how-should-job-displacement-wage-losses-be-insured> - '<https://wol.iza.org/articles/how-should-job-displacement-wage-losses-be-insured>' by Donald O. Parsons - '<https://wol.iza.org/authors/donald-o-parsons>'

Foto by holigil 27 on Unsplash - '<https://unsplash.com/de/fotos/zwei-blaue-schilder-die-auf-einer-weissen-wand-in-entgegengesetzte-richtungen-zeigen-nQhKsE9hQAE>'

