

Understanding Post-Displacement Earnings Losses: The Role of Wealth Inequality

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Abstract : A large empirical evidence points to sizable lifetime earnings losses associated with the displacement of tenured workers. The causes of these losses are still not well-understood. Existing explanations are heavily based on human capital depreciation during non-employment spells. In this paper, a new avenue is explored. Evidence on the role of household liquidity constraints in accounting for the persistence of post-displacement earning losses is provided based on SIPP data. Then, a directed search and matching model with endogenous human capital and wealth accumulation is introduced. The model is computationally tractable thanks to its block-recursive structure and highlights a non-trivial, yet intuitive, interaction between wealth and human capital. Constrained workers tend to accept jobs with low firm-sponsored training because the latter are (endogenously) easier to find. This new channel provides a plausible explanation for why young (highly constrained) workers suffer persistent scars after displacement. Finally, the model is calibrated on US data to show that the interplay between wealth and human capital is crucial to replicate the observed lifecycle pattern of earning losses. JEL— E21, E24, J24, J63.

Keywords : directed search, human capital accumulation, job displacement, wealth accumulation

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