



British workers and the effects of global crisis

The Earnings Costs of Business Closure in the UK

By Peter Wright and Richard Upward

The average Briton who loses his job because his firm closes down is still feeling the impact even after five years, new research has uncovered.

“Displaced” workers spend an average of half a decade trying to return to their previous wage levels, according to this study.

Economists found the closure of a firm leads to the average worker suffering a drop in income of around 50% in the first year.

Average income gradually recovers thereafter, but even after five years it is significantly less for these workers than for those who retained their jobs.

In that time a worker whose firm has closed down experiences an average income loss of between 18% and 35% a year, while one from a company that has suffered mass lay-offs loses between 14% and 25%.

Research basis

Researchers set out to uncover the extent of the losses suffered by British workers who are made unemployed following firm closure or as part of mass lay-offs.

They used information from the Office of National Statistics’ Virtual Microdata Lab to study a random sample of employees who were part of the PAYE scheme.

The sample was linked to a large panel of UK businesses from 1994 to 2003, producing around 100,000 observations of workers’ employment status and income for each year in that period.

Key findings

- The average worker who loses his job suffers a drop in income of around 50% in the first year, chiefly because of increased levels of unemployment among those “displaced”.
- Average income recovers gradually in subsequent years, but even after five years it remains significantly less for these workers than for those who have retained their jobs.
- In that time a worker whose firm has closed down experiences an average income loss of between 18% and 35% a year, while one from a company that has suffered mass lay-offs but remains open loses between 14% and 25%.
- Those workers who are male, older, skilled and employed in manufacturing or senior positions will tend to suffer bigger losses if their firm closes.

Comments and implications

Dr Peter Wright, one of the study's co-authors, said the findings revealed the plight many workers in Britain could face in the aftermath of the global financial crisis.

He said: "Losing your job is a blow to anyone at any time and can have large and long-lasting effects."

"However, in the current labour market, with rising unemployment, things could be even more difficult."

The research found those who are male, older, skilled and work in manufacturing or senior positions are likely to suffer larger losses if their company closes.

Dr Wright said the findings should remind policymakers of the importance of helping all workers who are made unemployed.

"Direct adjustment assistance to those who lose their jobs and focusing on ways to promote employment should form part of any comprehensive policy package," he said.

About GEP

Based at the University of Nottingham and substantially funded by grants from the Leverhulme Trust, GEP is the major centre in Europe studying the impacts of globalisation and economic policy.

In January 2008 it opened GEP in Malaysia at the University of Nottingham's purpose-built Semenyih campus, 30km from Kuala Lumpur. In November 2008 it launched GEP in China at the University of Nottingham, Ningbo, China.

GEP is keen to promote its research work and is committed to communicating its expertise. Its academics have advised the Treasury, the OECD, the World Bank and the WTO.

Website: www.gep.org.uk

Study authors

Peter Wright

"Labour economics is about people. It's about the sort of things we all might experience. It's about unemployment and how issues like trade and migration might affect your job prospects and your wages."

Dr Peter Wright is an Associate Professor of Economics. He has been a member of staff at the University of Nottingham since 1993.

His primary research interests are labour market adjustment (particularly in response to globalisation), the labour market impact of mergers and acquisitions and the market for executive labour. Peter is the co-ordinator of GEP's Globalisation and Labour Markets programme.



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Richard Upward

"How does the government measure unemployment? Why don't we know how many migrants there are in the UK? Why has manufacturing's share of jobs in the UK fallen from 50% to 15% in the past 50 years? The answers often lie buried deep in data, waiting to be uncovered. The art is knowing how to uncover them."

Dr Richard Upward is an Associate Professor of Economics. He joined the Nottingham School of Economics in 1998, having previously worked as a Research Associate in the economics department at Manchester University, where he also completed his PhD.

His research work at GEP includes studies of worker displacement and the effects of offshoring.



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