

How Replaceable Is a Low-Wage Job?

Based on BFI Working Paper No. 2023-93 "[How Replaceable Is a Low-Wage Job?](#)" by Evan K. Rose, University of Chicago; and Yotam Shem-Tov, UCLA

Among low-wage workers, job loss causes a 13% reduction in earnings six years later and over \$40,000 cumulative lost earnings, mostly due to reductions in employment and hours. Comparable losses for workers earning \$15-\$30 per hour are driven by wage reductions.

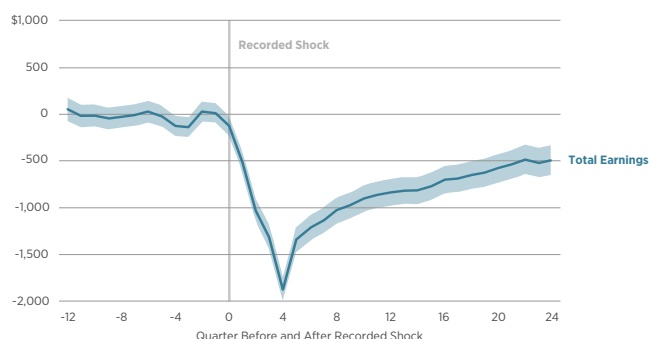
The United States labor market is highly dynamic, with about five million overall job exits and two million layoffs each month. Low-wage workers, such as the many cooks, janitors, drivers, and others paid near the minimum wage, are particularly vulnerable to displacement. The economics literature typically assumes that the consequences of job loss for these workers are modest because a new job that pays similarly can be readily found. Workers paid the minimum wage, for example, cannot suffer large wage

cuts between jobs by construction. But if finding a low-wage job that provides steady, full-time hours is harder than the literature presumes, low-wage workers may still experience lasting earnings reductions due to job loss. This paper tests whether this is the case.

The authors combine administrative earnings records from the US Census Bureau's Longitudinal Employer Household Dynamics (LEHD) program with survey responses from the American Community Survey (ACS). Their resulting dataset covers earnings, weeks and hours worked, and wages for a sample of over 230,000 workers across nearly 100,000 firms. To isolate labor-demand driven separations, the authors compare workers in firms that experience large employment reductions to workers in similar firms that do not. They find the following:

- Low-wage workers (those earning \$15 per hour or less) experience substantial cumulative and long-run earnings losses due to idiosyncratic shocks to labor demand. Negative shocks sharply increase the probability that workers separate from their job over the next year. Six years after job loss, workers earn 13% less on average, with cumulative lost earnings over \$40,000, more than a year's worth of wages.

Figure 1 • Effect of Job Loss Shocks on Earnings



Notes: This figure shows estimated effects of firm-level labor demand shocks on earnings during the quarters before and after the shock. The shaded area shows the standard errors.

- The majority of long-term earning losses stem from reductions in the likelihood and frequency of work, not reductions in hourly wage rates. Six years later, low-wage job losers are twice as likely to report being unemployed or looking for work. Job losers who find new jobs experience substantial declines in daily hours and weeks worked out of the year. By contrast, workers initially earning \$15-\$30 per hour see comparable long-run earnings losses that are driven primarily by reductions in hourly wages, consistent with prior research on the effects of job loss for higher wage workers.
- The authors use a model to estimate the value of remaining employed in a low-wage job versus becoming unemployed. They show that an unemployed worker would be willing to pay approximately about \$20,000 to trade places with a worker employed in a full-time \$15 per hour job.

These results challenge the long-held notion that basic low-wage jobs are easily replaceable. While most workers are able to find some new work after job loss, stable, full-time jobs appear relatively rare. One possible explanation is that workers struggle to find the right match—i.e., a job that is easily commutable, has the right schedule, and meets other idiosyncratic worker needs. But another possible explanation is that consistent, stable low-wage work is relatively rare. The authors estimate that 95% of job offers displaced low-wage workers receive entail less earnings than a full-time \$15 per hour job, for example. A lack of competition, regulation induced-job rationing, and transitions to “just-in-time” scheduling technologies that emphasize part-time, variable hours may all play a role in the scarcity of these opportunities. Assessing the importance of these and other factors is an important task for future research.

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