“The Long Run Earnings Effects of a Credit Market Disruption”

Abstract

This paper studies the long term consequences on workers' earnings of the credit crunch induced by the 2007-2008 financial crisis. We look at the evolution of both employment and wages in a large sample of Italian workers followed for eight years after the crisis. We rely on a unique matched bank-employer-employee administrative dataset to identify firms that, because of the collapse of the interbank market during the financial crisis, were unexpectedly affected by credit restrictions.

We find that, compared to firms less hit by the credit crunch, workers in more exposed firms: (i) have a higher probability of becoming unemployed as their firms permanently shrink; (ii) face lower wage growth, especially if they move; (iii) experience a persistent and sizable earnings loss (8% of total earnings during the period 2007-2015 for one standard deviation increase in the exposure to the shock).

These effects are highly heterogeneous: workers in older firms, typically less risky, give up part of their wage growth for greater job stability. Earning losses are larger for workers with lower tenure in their last pre-crisis employer and for workers in newly-born firms. All in all, our results document persistent effects of the Global financial crisis on the earnings distribution.