Employment Risk Perceptions: Extended Abstract

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Job loss is one of the most costly economic risks workers are exposed to throughout their lifetimes, and employers vary strongly in their layoff rates. This heterogeneity has consequences for workers: workers who switch to firms with higher historical layoff rates face a greater risk of future job loss. However, relative to wages, historical layoff rates may be less observable in the job search process. As a result, workers may not fully respond to differences in layoff risk across firms. Incomplete information about firms' historical layoffs could distort the compensating differentials workers receive for risk, the sorting of risk-averse workers into safer jobs, firms' choices of layoffs, and firms' choices of how much risk to take on.

Do workers have accurate beliefs about historical layoff rates across firms? Do differences in historical firm behavior affect workers' beliefs about their future personal employment risk? How do worker beliefs about past layoffs across firms affect their job search behavior, compensating differentials for risk, and equilibrium separations? To answer these questions, we combine evidence from administrative data, a survey, an information provision experiment, and a model.

We use employer-employee data to show that firms vary strongly and persistently in their layoff rates. These differences cannot be fully explained by worker selection: moving to historically "riskier" firms increases a worker's future risk of job loss. We also show substantial heterogeneity in layoff rates among observably similar firms. These differences tend to be driven primarily by persistent differences in churn rather than some firms growing and others shrinking. These facts are consistent with the Burgess et al. (2000) theory that differences in churn across firms reflect different choices of "personnel policy." This evidence suggests that workers can influence their layoff risk by directing their job search toward historically low layoff rate firms.

To understand (1) the extent to which workers are informed about historical layoff across firms and (2) whether workers believe working at firms with lower historical layoffs can reduce their future layoff risk, we survey unemployed individuals in Lower Austria, the second most populous state in Austria (after Vienna), in partnership with the Public Employment Services of Lower Austria. We ask workers about the layoff rate *in 2023* of the firm *they worked at before becoming unemployed*. Asking about layoffs last year allows us to construct an empirical benchmark in the administrative data to which we compare their responses. We find that workers have limited information about the firm they used to work at: just 57% of respondents are correct about whether their firm's 2023 layoff rate was above or below median—only slightly better than if they guessed randomly. Workers from firms with layoff rates in the top 10% believe their firms were at the 60th percentile on average. Workers' knowledge about a firm they have worked at recently likely provides an upper bound on how much information a worker can know about a firm. These results thus suggest that workers know very little about differences in layoff rates across firms they are considering applying to.

Next, we ask whether these misperceptions matter. While the previous year's firm-level layoffs are highly predictive of next year's layoffs, workers may not know this. Or, they may have private information about their ability or fit at different types of firms. To understand whether workers value accurate information about a firm's historical layoffs, we conduct an information provision experiment within the survey. The treatment provides information about historical layoffs at different types of firms. Since we cannot provide information about specific firms, we leverage the fact that highly observable firm characteristics are correlated with layoff risk. For example, large firms have lower layoff rates than small firms on average. We document substantial misperceptions about which firm characteristics are safer: 48% of workers believe that small firms have lower layoff rates than large firms. After randomly treating some workers with information on layoff rates at different types of firms, we elicit worker beliefs about their own future layoff risk if they were to work at those types of firms. Workers who learn that a firm type had a 10 percentage point higher layoff rate believe they are 4.3 (std. err. 0.97) percentage points more likely to be laid off in the next year if they work at that type of firm. This suggests that workers believe that a firm's past layoff rate is an important predictor of their personal risk of layoff. Next, we ask whether this information causes workers to direct their search towards firms they learn are safer. We find that learning a type of firm had 10 percentage points higher layoffs last year causes workers to plan to submit -0.6 (std. err. 0.2) or 29% fewer applications to that type of firm.

The survey provides evidence that workers value information about which firms lay off more people but are misinformed. These misperceptions may distort wages (through compensating differentials for risk) and equilibrium separation rates (firms do not benefit from lowering layoffs if workers do not notice). We use a model to quantify the equilibrium effects of correcting the layoff rate misperceptions of all workers.

This paper is closely related to the literature understanding worker beliefs about the labor market and the consequences of these beliefs. Previous work has shown how worker beliefs and information about their outside options (Jäger et al., 2024), aggregate employment risk (Roth and Wohlfart, 2020; Roth et al., 2022), managers' pay (Cullen and Perez-Truglia, 2022), coworker pay (Card et al., 2012) and alternative occupations (Belot et al., 2019) affect their labor market decisions. We show how beliefs about the distribution of firm-level layoff rates affect worker decisions and document significant misperceptions of layoff rates.

We contribute to the literature measuring worker valuations of job characteristics (Mas and Pallais, 2017; Maestas et al., 2023; Wiswall and Zafar, 2018) by showing that workers value jobs with *historically* lower layoff rates and by providing willingness to pay estimates that can be benchmarked against other job characteristics. We also contribute to this literature by exploring the relationship between the characteristics workers value and the extent to which they can observe them. We show that workers value lower employment risk and (correctly) believe past layoffs are predictive of future layoffs, but have poor information about which firms had lower past layoffs. This suggests that workers may value job characteristics in a way that may not be fully captured by real world decisions in cases when workers have poor information.

Finally, we expand on work understanding determinants of layoff rates (Burgess et al., 2000; Jarosch, 2023) by documenting persistent firm effects in layoff rates and showing that this persistence cannot be explained by worker selection.

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