

Persisting Disadvantage: Job Loss and the Immigrant-Native Earnings Gap

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February 17, 2026

Although much of the literature on immigrant integration focuses on how to bring foreign-born individuals into employment, much less is known about how they fare once they have entered the labor market. In particular, little attention has been paid to the dynamics of immigrants' working lives in terms of their job stability, transitions between employment and unemployment, and recovery after job loss. Job separations may arise endogenously from low individual productivity or a poor match between worker skills and firm needs, or exogenously from shocks such as firm closures. The literature on job displacement has consistently shown that workers who become unemployed due to firm closures experience substantial income losses that persist over time (Eliason and Storrie, 2006; Jacobson et al., 1993; Athey et al., 2024). These losses are typically attributed to the loss of firm-specific human capital (Lachowska et al., 2020), job- or task-specific skills (Poletaev and Robinson, 2008; Gathmann and Schönberg, 2010), and, for industry switchers, the loss of industry-specific human capital (Neal, 1995). In addition, displaced workers may experience lower earnings because they are unwilling to accept jobs that do not match their qualifications, leading to longer unemployment spells (Herz, 2019). Yet, we know little about how firm closures affect different groups of the labor force, particularly those already facing significant challenges in the labor market. Immigrants can be considered one such group, due to language, social, and cultural challenges.

In this paper, we study how foreign-born workers in Sweden are affected by job displacement. First, we ask whether foreign-born individuals are more likely than natives to work in establishments that subsequently close. Second, we examine how their labor market trajectories evolve after job loss, comparing them to (i) comparable non-displaced workers and (ii) displaced natives from the same establishment. We analyze both earnings and re-employment dynamics and explore heterogeneity

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across gender, education, region of origin, and age at arrival in Sweden. Third, we study the extent to which local labor market characteristics and mobility - both geographic and industry - can mitigate or exacerbate the posited negative effects of job displacement.

We further examine whether regional characteristics can mitigate the earnings losses of displaced immigrants. We hypothesize that denser places with better functioning labor markets facilitate faster re-employment, thereby reducing the potential earning loss from displacement. Specifically, the matching and learning mechanisms associated with (urban) agglomeration economies ([Duranton and Puga, 2004](#)) are expected to help displaced workers find new jobs. Urban regions do not only offer a larger number of vacancies but also greater occupational and industrial diversity ([Jacobs, 1969](#)), increasing the likelihood that displaced workers find positions that match their skills and experience. This, in turn, enhances post-displacement productivity and earnings ([Neffke et al., 2018](#)). This mechanism is closely related to the well-documented literature on the urban wage premium ([Yankow, 2006](#); [Gould, 2007](#); [Andersson et al., 2014](#)). In particular, [Andersson et al. \(2018\)](#) show that greater access to jobs shortens unemployment spells among displaced lower-income workers, with minority groups being especially affected by accessibility. Beyond improved job matching, urban areas, simply due to their higher population density, provide more opportunities for social interactions, fostering knowledge spillovers and information exchange about, for example, job openings ([Glaeser et al., 2000](#); [Calvo-Armengol and Jackson, 2004](#)). Moreover, urban amenities themselves attract workers to larger cities ([Buch et al., 2014](#); [Leishman and Goel, 2024](#)).

To examine how foreign-born individuals are affected by job loss, we rely on administrative longitudinal matched employer-employee data for all workers and firms in Sweden. Job displacements are identified through establishment closures between 2003 and 2018, and we follow the earnings and employment trajectories of affected employees from three years before to five years after job loss. To ensure that establishment closures are exogenous shocks to the individuals, we make several standard restrictions to the sample following the literature on job displacement (see Section ??). We begin our analysis by estimating whether foreign-born workers are more likely than natives to be employed at establishments that subsequently close. To analyze post-displacement outcomes, we construct a matched sample of displaced and non-displaced workers with similar pre-displacement characteristics and employment histories, using a two-stage matching procedure following [Schmieder et al. \(2023\)](#). We then estimate event study specifications to examine the dynamics of earnings and employment. For every estimation, we present two complementary event-study specifications. The first separately estimates the trajectories of displaced natives and displaced foreign-born to the matched sample of all non-displaced workers. The second estimation compares displaced foreign-born with displaced native workers who were employed at the same establishment prior to the closure. This way we allow individuals to sort into establishments (of different qualities), and provide a cleaner measure of the differential impact of displacement between immigrants and natives.

We contribute to the literature in several ways. First, we provide new evidence for Sweden showing that displaced foreign-born workers experience larger and more persistent earnings losses

than natives, confirming patterns found in other countries. Second, we extend this literature by comparing trajectories of foreign-born and native workers displaced from the same establishments. This comparison shows that even when sorting into establishments of different quality is taken into account, foreign-born individuals are more severely affected by job loss than their native colleagues. This suggests that sorting into specific establishments is not the only mechanism which explains the post-displacement labor market trajectories. Third, we link post-displacement outcomes to the regional context and to geographic mobility, providing novel evidence on how agglomeration economies and migration decisions shape earnings recovery for immigrants and natives differently. Finally, we document substantial heterogeneity in displacement effects between gender, region of origin, education, and age at migration.

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