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Outcomes of unemployment episodes during early career for mismatched workers in the United Kingdom and Germany and the mediating effects of education and institutions

Paul Schmelzer^b, Alberto Veira-Ramos^{a,*}^a Universidad Carlos III de Madrid, C/Madrid, 126, Getafe, 28903 Madrid, Spain^b German Institute for Economic Research (DIW Berlin), Mohrenstrasse 58, 10117 Berlin, Germany

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ABSTRACT

Our research challenges the traditional view that unemployment is an unequivocal negative event in working life. We argue that depending on workers' educational attainment and on national-specific institutional settings unemployment might have different implications on young workers who begin their employment careers in low occupational positions. The strongly skill-based and rigid labour market in Germany increases the likelihood of a better initial position but might hinder occupational mobility via unemployment. In contrast, in the more flexible labour market of the United Kingdom, an unemployment phase might indeed be a conventional means by which workers improve their occupational positions. We use longitudinal data from the German Socio-Economic Panel (GSOEP) and the British Household Panel Survey (BHPS) to estimate chances of re-employment and changes in occupational status after unemployment. Our results show that workers with tertiary education, employed in jobs for which they are overeducated, significantly improve their occupational positions after unemployment in the United Kingdom and Germany. The same applies to workers with secondary education in the United Kingdom, but not in Germany.

1. Introduction

The early career can be a quite turbulent phase for young adults. It may involve unemployment periods, employment in jobs for which young workers are overqualified and/or with starting wages significantly below employee's peers' salaries (mismatched employment) and frequent job changes.

Research shows that job-to-job mobility is associated with positive rewards (Burdett, 1978; Davia, 2005; Sørensen, 1974; Tuma, 1985). In contrast, outcomes of more precarious trajectories, such as job mobility via unemployment, are harder to predict. Most international comparative studies support the idea that unemployment episodes penalize workers' future wages (Gangl, 2006) and employment opportunities (Eriksson & Rooth, 2014; Mavromaras, Sloane, & Wei, 2015). In addition, unemployment has a larger stigma effect than being an over-qualified employee (Baert and Verhaest (2014)). However, it is also true that certain types of occupations appear to send equally negative signals to future employers about workers' competence, penalizing them in similar ways to those remaining unemployed (Kalleberg, 2009; Pedulla, 2016). Moreover, it is also observed that penalties for unemployment depend highly on educational attainment and are greatly

conditioned by the respective national institutional setting (Schmelzer, Veira, & Ramos, 2016; Voßemer & Schuck, 2015; Yu, 2012).

Various theories describe how unemployment and employment in mismatched jobs may affect the trajectories of young workers in their quest for stable employment. Search and matching theories view mismatched employment and job mobility via unemployment as part of a job allocation process that contributes to the general improvement of workers' positions over time, in accordance to their education. In many countries, a job match is hard to achieve in the first job. Instead, frequently there is a phase of trial and error, involving job changes and, at times, unemployment spells.

However, human capital and signalling theories emphasize the risk of unemployment and frequent job changes on the future employability of young workers. Changing employers entails the loss of firm specific human capital and the stigma associated with unemployment. Additionally, mismatched employment may be associated with a negative signal to potential employers whose hiring practices tend to be risk-averse, thus penalizing future opportunities for those workers with unstable careers.

This study contributes to research on job mobility in several ways. First, we restrict our research scope to the effect that unemployment

* Corresponding author.

E-mail addresses: pschmelzer@diw.de (P. Schmelzer), alberto.veira@uc3m.es (A. Veira-Ramos).

has on occupational mobility during the early career, thus, avoiding confusion from mixing the effects of unemployment during early and later life. To accomplish this, we restrict our sample to individuals who became unemployed during the first 8 years after starting their first job. Second, we focus on those experiencing a job mismatch, precisely the type of individuals considered by search and matching models. Nevertheless, we also discuss the outcomes for those who come from correctly allocated positions. Third, unlike other studies on job mobility (Abbring, Berg, Gautier, Lomwel, & Ours, 1998; Boheim & Taylor, 2000; Kahn & Low, 1982), we systematically discuss the impact of the specific national institutional settings on chances of re-employment and occupational mobility of young adults from different educational groups. To accomplish this, we observe the employment trajectories of young workers from two countries, Germany and the United Kingdom, with markedly distinctive labour market regulatory institutional settings: one rather liberal; the other conservative and regulated. We carry out our analyses focusing on the changes in occupational status between the job prior to unemployment and the new job. For a better understanding of occupational status changes, we also estimate the transition rate into a new job, which gives us an indirect hint on the job arrival rate for different educational groups.

In the next section, we assess the outcomes of unemployment on occupational mobility for different educational groups and different institutional contexts utilizing different theoretical models. Then, we discuss the data and methods used and, after presenting the empirical results, we present our final conclusions.

2. Theoretical background

Job search can be described as a process of job offers arriving sequentially while workers decide whether to accept the current offer or to refuse it and wait for the next one. In its dynamic version, the optimal search strategy is to form an aspiration for occupational status (reservation wage) at the minimum acceptable offer (Jovanovic, 1984; McCall, 1970). Job search proceeds when opportunity costs are low and while the job searcher expects to receive a better job offer. The job search stops when a job offer corresponds with the aspired-to job. Increasing opportunity costs and low chances of receiving an aspired-to job reduce the expectation of the occupational status of the next job. The outcomes for job search depend on the job offer arriving rate and on the quality of the arriving jobs. Moreover, job search may take place while worker is already employed or while worker is unemployed. According to existing literature, an unemployment phase might be used for an active job search and might result in a better position (Kahn & Low, 1982; Schmelzer, 2011). However, such an outcome may vary depending on education and national-specific institutional settings governing the functioning of labour markets.

2.1. National-specific institutional settings

Institutional settings have important implications for job search and matching theories as well as for human capital and signalling theories. Organization of vocational systems, employment protection legislation (EPL), and the type of welfare regime are usually identified as key elements of institutional settings when explaining outcomes for the labour market (DiPrete et al., 1997; Gangl, 2004b). In our work, unemployment insurance is less of our concern since many young workers are not yet entitled to UI or other provisions when unemployed. Institutional settings also shape national specific responses to the challenges derived from globalization. Allowing to delocalize manufacturing industries and replace their jobs by fostering the service sector on the one hand, or developing new strategies to keep manufacturers at home and foster export of high-quality manufactured goods, on the other, are responses that have greatly conditioned the British and German labour markets, their occupational structure as well as their hiring and firing practices (Soskice, 1991).

The British employment system reflects that of a liberal market economy with decentralized and dualistic industrial relations, where workers have limited scope for influencing internal firm decisions (Soskice, 1999). A weak linkage between vocational education and occupational systems (DiPrete, deGraaf, Luijkx, Tahlín, & Blossfeld, 1997; Gangl, 2004a) creates a context where young adults often start their careers in poorly matched and low-paid positions (Wolbers, 2007), including those who are highly educated (Hillmert, 1999). For example, only 25 per cent of school leavers in England and Wales attend vocational training, and the attempt to introduce national standards (NVQ and GNVQ) was considered a failure because it lacked curriculum setting and examination standards (Vignoles & Machin, 2005). However, low occupational boundaries and low employment protection legislation (EPL) allow young adults to improve upon their initial positions. The lowest EPL in Europe enables British employers to screen for promising workers on a ‘hire and fire’ basis (OECD, 2004), generating high levels of turnover, a high number of vacancies, and high overall job mobility, making unemployment a somehow less stigmatizing experience than in rigid labour markets. Indeed, career patterns in liberal countries, like the United Kingdom, are often described in terms of stepping stones and job shopping (Oppenheimer & Kalmijn, 1995). According to these models, upward occupational mobility is one of the returns from (higher) education, so employees may stay for some time in positions for which they are over-qualified with the prospect of working their way up to better jobs (Scherer, 2004). In fact, studies emphasize that prolonged searching for work is rewarded with a better job (Boheim & Taylor, 2000; Gangl, 2002, 2006), suggesting that the job search period and the quality of the job found depend on the aspiration of job searchers; aspirations reflecting their productivity and the opportunity costs of the job search (McCall, 1970). We believe that in such a scenario, an off-the-job search might also be used as an active phase to improve occupational position.

Coordinated market economies, like that of Germany, are characterized by employers’ commitment to long-term relationships with their employees. The organization of vocational training creates a tight linkage between educational and employment systems (Soskice, 1999), thus enabling employers to rely on educational certificates as signals for the employees’ key qualifications and therefore, their potential productivity. At the same time, employees and trade unions refer to them as a basis for negotiations and claims for an appropriate starting salary. The majority (about 65 percent) of the German workforce is trained under such system, which facilitates a smooth transition into the labour market (Gericke, Uhly, & Ulrich, 2012), lowering the risks of job mismatch and guaranteeing that acquired human capital will quickly be translated into high productivity. Furthermore, internal labour markets in middle-sized and large companies provide young entrants starting in well matched positions with good prospects for a stable career. Thus, in contrast to the United Kingdom, the ‘trial and error’ strategy for achieving an appropriate position is less common than relying on educational credentials. Simultaneously, strong occupational boundaries and strong EPL reduce inter-firm and inter-occupational mobility, contributing to preserve initial starting positions (DiPrete, 2003; DiPrete et al., 1997; Gangl, 2003, 2004a; Scherer, 2001). In such a labour market workers beginning their employment career in mismatched positions become trapped within a ‘peripheral’ ‘non-core’ segment of the labour market (Büchel & Mertens, 2004). Starting in a mismatched position and going through an unemployment episode can be interpreted by German employers as an indicator that the worker’s formal human capital has depreciated (Spence, 1973) or as a negative signal of the worker’s productivity (Gibbons & Katz, 1991). In Germany, with strict EPL, employers are particularly risk-averse in their hiring practices (Gangl, 2006). However, the effects of a strict EPL and tight occupational boundaries may not be ‘hurting’ all workers who start in mismatched positions equally. Those with a college degree may benefit from an occupational profile that is more interchangeable than those who have vocational education certificates, which are valid for only one

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