



Employment trajectories in heterogeneous regions: Evidence from Germany

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ABSTRACT

To what extent do regional characteristics influence employment trajectories? Do regional factors diversely affect the employment careers of different sociodemographic groups? By investigating these questions, we extend current life course research in two ways: First, from a conceptual perspective, we use approaches from regional economics in addition to established sociological labour market theories to gain insights into the effects of regional determinants on individual labour market outcomes. Second, from a methodological point of view, we conduct event history analyses based on a German dataset that contains information on individuals, firms and regions. Our results show that there are considerable regional heterogeneities regarding population density and the amount of human capital endowment, both of which influence working careers differently. Regional agglomeration predominantly offers opportunities in terms of employment trajectories, while regional human capital accumulation increases employment risks. Additionally, our findings indicate that group-specific inequalities with respect to employment careers can be weakened or even strengthened by regional frame conditions. Female and foreign employees benefit most from denser regions and from a higher human capital endowment. By contrast, the unemployment risks of workers who previously experienced unemployment periods during their working lives are increased by both of these regional characteristics. Findings regarding education level are mixed: Workers with occupational qualifications profit from regional agglomeration to a greater extent than do low or even generally qualified workers. However, a high local human capital endowment leads to skill segregation between vocationally trained and highly qualified employees.

1. Introduction

The structure and functioning of labour markets play an important role in modern societies; both have a significant impact on how economic wealth is shared among members of a society, as income and derived contributions to the social security system are both based on paid work. Labour markets thus affect the structure of social inequalities by determining the employment opportunities and risks within the workforce as well as the employment options of the unemployed (Heinz, Huinink, & Weymann, 2009). For workers, stable employment is highly relevant because it provides both earnings and the opportunity to maintain and increase their human capital (Blossfeld, Mills, & Bernardi, 2006).

Empirical findings paint a heterogeneous picture of employment stability in Germany. Research that examines developments up to the mid-1990s (Erlinghagen, 2004; Erlinghagen & Knuth, 2004; Winkelmann & Zimmermann, 1998), as well as some recent studies (Giannelli, Jaenichen, & Rothe, 2013), shows that employment relations are largely stable over time and across different labour market

entry cohorts. However, an increasing number of findings point to a destabilisation of employment relations (Blossfeld et al., 2006; Buchholz, 2008; Struck, Grotheer, Schröder, & Köhler, 2007). In this context, an erosion of internal labour markets is reported because internal job changes and promotions have been observed less frequently since the mid-1990s (Diewald & Sill, 1980; Giesecke & Heisig, 2011).

Against this backdrop, life course research is interested not only in levels of change and overall trends in employment stability but also in the determinants and mechanisms influencing employment trajectories (Blossfeld, 1985; Manzoni, 2012). Well-established labour market theories have in common that they explain action and outcomes in the labour market by predominantly focussing on individual factors, especially qualifications (Berg, 1981; Kalleberg & Sørensen, 1979). The “new structuralism” (Baron & Bielby, 1980) and recent approaches of HRM systems (Hendry, 2003; Lepak, Hui, Yunhyung, & Harden, 2006) stress the significance of accounting for firm characteristics. According to these approaches, companies – depending on their size, economic success or type of production – work with fixed core workforces or unprotected and unstable workforces.

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However, existing approaches do not address the impact of macro-structural factors at the regional level. Sociologists such as Coleman (1990) and Esser (1996) have pointed to the importance of the broader social context for individuals. Just as it is important to recognise that individuals act within specific contexts, this also applies to the labour market. To some extent, employees' options for decisions and action depend on resources or limitations that vary among regions because of different economic situations, structures of the labour force, etc. Thus, contextual factors must be taken into account, which leads to a multi-level explanation of social action in the labour market. Furthermore, theories of discrimination emphasise that in the labour market social actors tend to discriminate against others under certain conditions (Arrow, 1971; Phelps, 1972). Such behaviour is also contingent on structural frame conditions, e.g. when employers can make more use of observable characteristics of job applicants in dense regions where there is a high labour supply. Thus, it is essential to examine whether different groups of workers unequally benefit or suffer from specific regional settings (Hirsch, König, & Möller, 2013). Against this backdrop, this study raises the following question: to what extent do regional characteristics influence employment trajectories. Additionally, this study deepens the inquiry by investigating the possibly diverse effects of regional characteristics on different sociodemographic groups.

This paper first (Section 2) reviews the current state of research. In Section 3, theoretical considerations are presented and hypotheses derived. Section 4 describes the datasets and explains the methodology and the variables. Empirical results on employment trajectories in Germany are presented in Section 4. A discussion of the results follows in Section 5, and the last Section concludes.

2. State of research

International research in regional economics has widely explored the association between agglomeration, productivity, and wage premiums. Combes, Duranton, and Gobillon (2008) and D'Costa and Overman (2014) showed that the sorting of workers with higher abilities in agglomerated areas explains higher wages in denser areas. Additionally, studies have indicated better matching, specialisation and learning lead to wage premiums in agglomerations (Combes et al., 2008; De La Roca & Puga, 2017; Duranton & Puga, 2004, chap. 48; Melo & Graham, 2014; Wheeler, 2008; for an overview see Combes & Gobillon, 2015, chap. 5). Furthermore, higher wages were found to be related to greater opportunities of individual accumulation of knowledge (Andersson, Klaesson, & Larsson, 2014; D'Costa & Overman, 2014; De La Roca & Puga, 2017; Matano & Naticchioni, 2016). According to Wheeler (2001), the local market size is positively associated with average productivity and greater between-skill-group wage inequality. Several studies have revealed that a large share of highly skilled workers in an area increases subsequent employment growth (Glaeser & Saiz, 2004; Shapiro, 2006; Simon & Nardinelli, 2002).

Regional research on Germany points to stronger labour demand in densely populated areas in Germany (Blien, Kirchhof, & Ludewig, 2006; Dauth, 2013; Farhauer & Granato, 2006). Kelle (2016) found that population density is positively associated with wage growth rates. Furthermore, the regional skill structure positively influences employment growth. This finding can be explained by the share of the skilled workforce in an area (Blien & Wolf, 2002). Other studies have shown that the presence of a large proportion of highly skilled workers promotes employment growth in a region (Poelhekke, 2013; Schlitte, 2012; Shapiro, 2006; Südekum, 2008). However, Gerlach, Meyer, and Tsertsvadze (2002), Schlitte (2012) and Stephan (2001) found that skill segregation increases due to the presence of a high proportion of qualified employees in a region, leading to divergent development in terms of employment and wages.

In addition to these studies on the effects of regional determinants on aggregated employment, which – at least – indicate the risks and

opportunities of employment trajectories, there are only a few studies that directly integrate regional indicators to explain individual employment trajectories from a life course perspective. Grotheer, Struck, Bellmann, and Gewiese (2004) analyse the impact of economic conditions on the employment stability of workers who have recently joined a company. They show that cycles of production and demand, as well as regional unemployment rates, stabilise employment relations in the structurally weaker regions of East Germany but destabilise them in West Germany. The authors explain this result based on the higher willingness to compromise of employees in structurally weaker areas in East Germany. Furthermore, the business cycle and the unemployment rate lead to more frequent transitions between firms in West Germany, as well as to lower job-to-job transitions and more transitions into unemployment in East Germany. Boockmann and Steffes (2005) found similar results when taking into account the previous year's unemployment rates at the federal state level. While they could not identify a clear effect of the unemployment rate on employment stability in West Germany, they did find a stabilising effect in East Germany. The likelihood of accomplishing inter-firm changes is lower for women in East Germany. In a further study on male employees, however, Boockmann and Steffes (2010) determined no significant effect on employment stability of the previous year's unemployment rates at the federal state level, but they did find a reduced inter-firm transition rate in West Germany.

This research overview has shown that individual and firm-specific determinants influencing employment trajectories have been widely explored. Regional explanatory factors have been largely neglected or, at most, modelled by using regional unemployment rates. However, studies in regional economics mostly investigate macro-variables such as employment stocks and growth. Such research cannot be interpreted in terms of life course research due to the lack of a micro-foundation. Nevertheless, those studies hint at noteworthy parameters, especially concerning the extent of regional agglomeration and the regional endowment of human capital. These determinants will be examined systematically below by further focussing on diverse impacts on specific groups of workers.

3. Theoretical considerations

Individuals in modern societies pass through several stages during their life course (Kohli, 1985; Levy & Bühlmann, 2016; Mayer, 2009). They participate in education and then in family, as well as in the employment system. Finally, they leave the employment system and enter retirement. The employment period is considered a central stage of the life course (Kohli, 1985; Mayer, 2009) because it is mainly paid work that structures opportunities and risks during the life course. Against the backdrop that such opportunities and risks are the results of a cumulative process (Blossfeld, 1985; Manzoni, 2012), labour market and life course research has emphasised the disadvantages for low-skilled workers and females, as well as for foreign employees and workers with discontinuous employment trajectories.

However, most of this research only focuses on individual factors (Bergemann & Mertens, 2004; Giesecke & Heisig, 2011) but ignore the fact that individual action always takes place within certain frame conditions (Coleman, 1990; Esser, 1996). Thus, individual employment trajectories can be affected by opportunities or limitations that arise from certain regional frame conditions. The significance of regional factors on economic parameters has recently been highlighted by the “new economic geography” (Krugman, 1991). As a starting point, Krugman (1991) relied on the work of Hirschman (1958) and developed a core-periphery model of economic activities. Thus, a range of divergent centripetal and centrifugal forces have to be taken into account. This approach looks at the effect of positive external factors and points to the mutual relationship among economies of scale, transportation costs, and migration. Centripetal forces lead to urbanisation effects because they encourage the concentration of economic activities

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