



The impact of employment transitions on health in Germany. A difference-in-differences propensity score matching approach



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ABSTRACT

This article investigates the effects of transitions between employment and unemployment on health. It also addresses the question of whether or not the widespread use of temporary employment has altered the positive health effects of employment. Drawing on data from the German Socio-Economic Panel for the period 1995–2010, we apply difference-in-differences propensity score matching to identify the direct causal effects of unemployment and reemployment on psychological and physical health. This combination of two approaches towards causal inference controls for both unobserved fixed effects and observable differences in a flexible semi-parametric specification. Our sample includes persons between the ages of 16–54 who have at least experienced one respective employment transition (treatment groups) or are continuously employed or unemployed (control groups). The results show that only psychological but not physical health is causally affected by the respective employment transitions. Specifically, the effects of unemployment and reemployment are of similar size, highlighting the importance of reemployment in compensating unemployment's negative impact on psychological health. In contrast, health selection and confounding seem to be important determinants of the cross-sectional association between unemployment and physical health. Carrying out separate analyses for permanent and temporary workers, we shed new light on the health effects of temporary employment. It has been argued that the rise of temporary employment has introduced a new inequality in the world of work, blurring the line between employment and unemployment. However, contrary to our expectations we find that both employment transitions have effects of a similar size for permanent and temporary workers. In sum, our results highlight two points. First, longitudinal research is needed to properly evaluate the health effects of unemployment, reemployment, and temporary employment. Second, compared to temporary employment, unemployment is still the greater threat to individuals' psychological health.

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1. Introduction

Employment is of primary importance for meeting the socially defined needs of individuals in Western societies (Nordenmark and Strandh, 1999). It not only provides economic resources (Strandh, 2000) but also a major social role and identity (Jahoda, 1982). Consequently, unemployment is one of the most important threats to individuals' psychological and physical health. Job loss brings along economic deprivation (Gallie et al., 2003), disrupts valued identities and self-esteem, and reduces individuals' agency over their life (Strandh, 2000). Accordingly, many studies have

documented the negative health effects of unemployment (see McKee-Ryan et al., 2005; Paul and Moser, 2009 for meta-analyses; see Wanberg, 2012 for a review). However, there are fewer studies available on the health effects of reemployment (e.g., Kessler et al., 1989; Strully, 2009), although it may be considered one of the most important interventions in offsetting the negative effects of unemployment. Thus, the following study, first, contributes to the existing literature by examining both the psychological and physical health consequences of losing and finding a job. Instead of pooling transitions into and out of unemployment to estimate a single effect, we propose separate estimations in order to choose the appropriate control groups and allow for an asymmetry in the effects of unemployment and reemployment (Young, 2012).

A second contribution of this paper is that we will address the widespread use of temporary employment that is said to have led to increased work inequalities (Barbieri, 2009). This predominantly

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applies to countries such as Germany, where the core workforce is still sheltered by strong employment protection whereas the work periphery and labour market outsiders such as unemployed workers are increasingly confronted with insecure jobs. These changes in the organisation of work and the employment relationship (Benach et al., 2000) are said to have blurred the line between employment and unemployment and thus reduced the positive health effects of employment (Gash et al., 2007). A central research question is whether temporary jobs have integrative potential by improving the health of unemployed workers or whether they are just precarious jobs that are detrimental to one's health implying similar health risks as unemployment. In this respect this paper provides a detailed investigation of whether the impacts of unemployment and reemployment are moderated by the quality of work, focussing on the labour market segmentation between temporary and permanent work contracts.

Third, this paper makes a methodological contribution to the existing literature. Issues of health selection and other confounding factors will be addressed (Burgard et al., 2007). Whereas meta-analyses and most longitudinal research suggest that unemployment causally impairs and reemployment improves health (Burgard et al., 2007; Huber et al., 2011; Strully, 2009) some recent research has found that the association between unemployment and health is spurious (Böckerman and Ilmakunnas, 2009; Browning et al., 2006). Using longitudinal data from the German Socio-Economic Panel (SOEP) 1995–2010 we combine the strengths of two approaches toward causal inference (Heckman et al., 1997). Propensity score matching (PSM) tries to get rid of selection bias by conditioning on confounding variables and past health status using a flexible semi-parametric specification (Kim et al., 2008; Quesnel-Vallée et al., 2010). This is combined with a difference-in-differences (DID) estimator that removes unobserved fixed effects via within-person comparisons over time as well as common period and ageing effects by comparing the trends of a treatment and control group.

2. Theory and research hypotheses

Based on previous theoretical research Nordenmark and Strandh (1999) have identified two main rewards of employment: economic and psychosocial. Although welfare receipt and household income provide financial support to unemployed individuals, employment is still the primary source of income in Western societies (Strandh, 2000). In particular, the downsizing of welfare states in times of rising unemployment is thought to have increased the risk of economic hardship caused by job loss. It necessitates workers to adjust their living standards (Korpi, 2001) and use their savings to smooth consumption. In addition, the financial insecurity restricts individuals' control over their own situation and, thereby, their ability to plan for the future (Strandh, 2000). In the end, the financial worries accompanying unemployment may only be resolved by reemployment. Therefore, it is expected that employment transitions cause changes in both psychological and physical health.

For example, economic resources are the prerequisite of planning for the future; having financial troubles renders long-term decisions impossible and, thus, causes distress. The economic consequences of unemployment may also transfer into social and personal problems. For instance, the need to relocate may at the same time imply leaving behind family and friends. Unemployment may also decrease health-promoting behaviours (e.g., exercising) and increase health-damaging behaviours (e.g., smoking). Besides, physical symptoms may arise from psychological distress and in the long-run accumulate into illness. As changes in physical health need time to manifest, somewhat weaker effects may be expected

in the short-run. Reemployment seems to be important in resolving these issues and restoring individuals' health.

Aside from employment's manifest function, it is thought to bring along some latent benefits (Jahoda, 1982). For many it provides a major social role, which defines their social standing and affects their self-conception and social identity. In addition, employment provides social contacts which lend emotional and social support. These benefits seem particularly important for individuals' psychological health suggesting that physical health may be affected to a smaller extent. Furthermore, job loss permanently disrupts career paths. It not only deprives persons of income and wealth, but also of the power and prestige attached to their jobs, affecting their self-esteem.

Lastly, unemployment may stigmatise people as nonuseful and permanently reduce their confidence (Young, 2012). If the unemployed anticipate that future jobs will not be as rewarding as their last job, this may cause psychological problems and in the long-run even manifest into physical illnesses. Therefore, we expect that unemployment negatively affects psychological and physical health, whereas reemployment improves unemployed persons' health by restoring financial security and providing psychosocial benefits. This leads us to our first two hypotheses:

Hypothesis 1. On average, unemployment decreases individuals' psychological and physical health.

Hypothesis 2. On average, reemployment increases individuals' psychological and physical health.

However, as the rewards of employment vary with the quality of work (e.g., Kalleberg et al., 2000), we expect that permanent workers are harmed more by job loss than temporary workers. Respectively, finding permanent work should be more beneficial to psychological and physical health than finding temporary employment. In contrast to permanent work, temporary jobs offer lower wages, less prestige and power, limited autonomy, less pleasant working conditions, fewer career prospects, and higher job insecurity (e.g., Scherer, 2009).

While permanent workers may experience a greater need to adjust their living standards than temporary workers, because they have "farther to fall" (Berchick et al., 2012; p. 1893), the latter may face more difficulties cushioning the economic consequences of job loss through family income and savings. However, the restriction that financial insecurity puts on individuals' agency – compared to their previous situation – is still expected to be more harmful to permanent workers' health. While job insecurity is a characteristic of temporary work, permanent workers experience increased insecurity due to job loss (Strandh, 2000). Similarly, job loss is unforeseeable to most permanent workers, whereas fixed-term contracts are terminated on a specific date. Given this suddenness, losing a permanent job is expected to be more harmful to a worker's psychological and physical health. In return, these arguments suggest that taking up work via a fixed-term contract may not be sufficient in resolving the issues of unemployment and in restoring individuals' health.

Besides these economic characteristics, permanent and temporary work differs with respect to the psychosocial rewards of employment. Permanent work guarantees high job security and offers structured career ladders giving access to jobs of high prestige and power (Scherer, 2009). Such jobs may provide a major social role and identity as well as social contacts and support, boosting individuals' self-esteem and health. In contrast, temporary workers are often considered a "buffer workforce" who can be laid off in times of low demand (Booth et al., 2002). The low autonomy, the unpleasant working conditions, and limited career prospects temporary workers face are likely to result in an instrumental

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