



The increasing unemployment gap between the low and high educated in West Germany. Structural or cyclical crowding-out? ☆

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ABSTRACT

This paper addresses trends in education-specific unemployment risks at labor market entry in West Germany from the mid-1970s to the present. In line with previous research it shows that vocationally qualified school-leavers have relatively lower unemployment risks than school-leavers with general education. Over time, the gap in unemployment risks between the low-educated and medium- and highly educated labor market entrants substantially widened for both sexes. The literature identifies two different mechanisms for this trend: structural or cyclical crowding out. While in the former scenario low-educated become increasingly unemployed due to an oversupply of tertiary graduates and displacement from above, in the latter their relative unemployment risk varies with the business cycle. The results provide evidence for cyclical rather than structural crowding-out in West Germany. Since macroeconomic conditions became generally worse over time, this strongly explains the widening unemployment gap between the low-educated and all other education groups.

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1. Introduction

Increasing unemployment rates have become a severe economic and social problem across affluent countries over the last three decades. Labor markets have gone through several restructurings and became more flexible, including a sharp increase in the proportion of nonstandard employment arrangements (Kalleberg, 2009; Esping-Andersen and Regini, 2000). Globalization and international competition has wrought structural uncertainty and market risks particularly among labor market entrants (Mills and Blossfeld, 2005). Aside from these more destandardized and insecure work arrangements, (long-term) unemployment, however, remains the 'ultimate form of work precarity' (Kalleberg, 2009, p. 6).

Among other life course consequences, unemployment has persistent negative effects on individuals' subsequent working career in terms of earnings losses and career complexity over the life course (e.g. Gangl, 2006; Manzoni and Mooi-Reci, 2011). Educational achievement mitigates the exclusion from the labor market: the highly educated are considerably less exposed to unemployment than the low-educated (Brauns et al., 2003; Gesthuizen et al., 2011). This seems to be particularly true for Germany, where low-educated workers have the highest unemployment rate among OECD countries (OECD, 2009).

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In times of increasing structural and economic uncertainty, employers try to shift the increasing labor market risks further to those individuals who have always been disadvantaged (Breen, 1997). While skill-biased technological change (SBTC) leads to rising wage inequality in the US, economists argue that it increases unemployment among the low-educated in Europe thanks to rigid wage setting institutions (Blau and Kahn, 2002). By contrast, the sociological literature assumes that low-skilled workers in European labor markets increasingly suffer from being allocated to temporary employment rather than unemployment (DiPrete et al., 2006). In fact, most of the countries in Europe show increasing relative temporary employment rates among low-educated workers, but quite stable or even decreasing trends in the educational divide of unemployment risks (Gebel and Giesecke, 2011). Germany seems to be an exceptional case: Low-educated individuals experienced a sharp increase in relative unemployment risks compared to medium and high educated workers over time (Gebel and Giesecke, 2011; Noelke, 2008). Since the German labor market is characterized by a qualifical space (Maurice et al., 1986), where educational qualifications are strongly linked with occupational positions, low-educated without any academic or vocational training may be particularly disadvantaged and become more so in this labor market setting.

Against this background, the aim of the paper is twofold. First, it aims to describe long-term changes in the relationship between educational attainment and unemployment risks upon labor market entry in West Germany from the mid-1970s to the present. Prior studies are sparse, restricted to a shorter time frame (e.g. Brauns et al., 2003; Gangl, 2003) or consider only broad educational groups (Gebel and Giesecke, 2011). This paper extends previous research by investigating how, for instance, school-leavers from vocational and general tracks compare in terms of unemployment risks over time and whether unemployment risks differ among graduates from different higher education institutions. In order to address these trends, I made use of unique large-scale repeated cross-sectional data, the German Microcensus.

In a second step, the paper aims to identify the mechanisms for increasing relative unemployment risks among the low-educated in West Germany. Economic and sociological theories offer two different scenarios: *structural crowding-out* due to an oversupply of tertiary graduates or *cyclical crowding-out* caused by a general shortage of jobs during worsening macro-economic conditions. Based on a European comparison, Gangl (2003) showed that the unemployment rate among the low-educated is particularly responsive to the current economic climate. Some Dutch studies also find support for cyclical crowding-out (Teulings and Koopmanschap, 1989; Van Ours and Ridder, 1995), while others do not find any evidence (Gautier et al., 2002). For West Germany, Pollmann-Schult (2005) provides evidence for cyclical crowding-out at the worker inflow. However, only one study tests the effects of structural and cyclical crowding-out simultaneously. In contrast to previous studies, it provides evidence for structural crowding-out in the Dutch labor market (Gesthuizen and Wolbers, 2010). This paper adds to the literature by assessing whether structural and/or cyclical crowding-out is responsible for increasing relative unemployment risks among the low-educated in Germany.

In the following section I introduce the theoretical considerations and hypotheses with a particular emphasis on the German context. The next sections present the analytic strategy and the empirical results. Before concluding the paper I reassess the robustness of these results with a fixed-effects approach on the German state level.

2. Theoretical considerations

2.1. Educational attainment and unemployment risk

In order to explain qualification-specific unemployment risks, job competition or matching theories (Thurow, 1975, 1979; Sørensen and Kalleberg, 1981) provide a useful framework. In contrast to human capital theory, these models assume that some individuals become unemployed when the supply of workers exceeds the number of vacant jobs. While job seekers are ranked into a labor queue according to their amount of training costs, employers match these workers to vacant jobs in a second queue that are sorted according to their skill demands. Since employers do not know job seekers' true productivity, they primarily use educational qualifications as indicators of future performance. Individuals' educational attainment thus determines their relative position in the labor queue. In times of slack demand, the low-educated at the bottom of this labor queue will be pushed out of the labor market. Hence, we can assume that the higher one's educational achievement, the less likely individuals become unemployed.

Since employers aim to keep the training costs as low as possible, they look for school-leavers that already have some expertise or skills that match the future job tasks. The German dual apprenticeship system prepares students for specific occupations both in school-based and on-the-job training. Consequently, school-leavers with vocational qualifications have occupation-specific skills and are, further, familiar with the organizational culture of a specific company. Moreover, employers use vocational training as a screening device in order to evaluate workers prior to making final hiring decisions (Dustmann and Schöneberg, 2008). The dual system is highly standardized and thus vocational qualifications are reliable credentials that can be used by employers from all companies (Winkelmann, 1996). Since the availability of training places depends on employers' demand, apprentices have good chances of being offered a permanent position afterwards.

The lower-tier polytechnics (Fachhochschulen) also teach more practical and occupation-specific fields of study and skills. Thus, their graduates may, likewise, signal lower training costs to employers than their counterparts from university. While Fachhochschule graduates lag behind university graduates in accessing the most advantageous occupational positions (Müller et al., 2002; Klein, 2011), Fachhochschule degrees may protect their graduates more effectively from joblessness than university degrees thanks to their occupational specificity.

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