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Bart Cockx, Corinna Ghirelli

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Scars of Recessions in a Rigid Labor Market.

Bart Cockx[a,b,c,d,1,*], Corinna Ghirelli[e,a,1]

[a] *SHERPPA - Ghent University, Tweekerkenstraat 2, B-9000 Gent, Belgium*
[b] *IRES - Université catholique de Louvain, Louvain-la-Neuve, Belgium*
[c] *IZA, Bonn, Germany*
[d] *CESIfo, Munich, Germany*
[e] *Joint Research Centre, European Commission, Via E. Fermi 2749, 21027 Ispra, Italy*

Abstract

We study the impact of graduating in recessions in the Belgian labor market, where high minimum wages protect the low educated against wage losses but possibly reinforce the unemployment risk. By contrast, due to labor regulations, the high-educated can get stuck in low-wage jobs. We find that a typical recession leaves the wages of the low-educated unaffected, but reduces their working time and earnings by about 4.5% for up to twelve years after graduation. For the high-educated, working time is not persistently affected, but hourly wages and earnings are. This wage and earnings penalty increases with experience, and reaches roughly -6% ten years after labor market entry.

Keywords: scars, graduating, labor market rigidity, recession

1. Introduction

The Great Recession in 2008 and its devastating impact on youth unemployment spurred the debate on the long-term effects of economic downturns on the career prospects of young graduates. In the current public debate, the dominant viewpoint is that the Great Recession has created a *lost generation*. However, is this view evidence based? Kahn (2010), Oreopoulos et al. (2012), and very recently Altonji et al. (2016) show that in North America adverse initial conditions push college graduates into initial lower-quality placements, which translates into long-term penalties on earnings or wages. By contrast, in the US, recessions[1] do not seem to harm the career of low-

*Corresponding author at: Ghent University (SHERPPA and Faculty of Economics and Business Administration), Tweekerkenstraat 2, B-9000 Gent, Belgium.

Email addresses: Bart.Cockx@UGent.be (Bart Cockx), corinna.ghirelli@jrc.ec.europa.eu (Corinna Ghirelli)

[1] In this literature, a “recession” refers to a situation of adverse labor market conditions as measured by a rise in the unemployment rate rather than by a decline in real GDP.