



Employment transitions and labor market exits: Age and gender in the Israeli labor market



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ABSTRACT

This study focuses on the employment difficulties of older workers in the Israeli labor market. Using administrative panel data for the years 2005–2010, it traces the employment transitions of workers and their consequences, focusing on age and gender differences. The findings show that in Israel older workers, men and women alike, are indeed less likely to leave their jobs. However, once out of the labor force, they face difficulties in finding new employment. These difficulties are severer for women than for men. Male workers who experience high instability experience job losses, with no substantial age differences. The wage penalties for women are much lower, probably because of their limited opportunities in terms of earnings.

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1. Introduction

The labor force participation of older workers is rising in most industrialized societies. For example, between the years 1985 and 2004 the proportion of workers aged 65 and older in the American labor market increased from 10.8% to 14.5% (Michello & Ford, 2006), and about two-thirds of older workers (50+) expressed their expectation of continuing to work after retirement age (AARP, 2003). The rise in the older population in general, the increase in their labor force participation in particular, is drawing attention to this group and its experiences in the labor market, which have become a source of concern to policymakers.

Studies have generally focused on age-related risks in light of economic crises and the recent changes in the

organization of work. The transition to a new economy during the last three decades, characterized by greater flexibility of employment relations and lower stability, puts older workers in a complicated position (Lippmann, 2008). On the one hand, they are better protected against unemployment compared to younger workers due to their higher tenure. On the other hand, the changes in demand for more updated, highly skilled workers and the higher instability have reduced the tenure advantage (Farber, 2006) and posed unique risks to older employees. These risks may be aggravated by the discrimination in the workplace that older workers face (Berger, 2009).

The definition of “older workers” varies across studies, with some focus on age 50 and above (e.g., Malul, 2009; Smyer & Pitt-Catsouphes, 2007), others chose age 55+ (Kaye and Alexander, 1995; Noonan, 2005; Taylor, 2007) or refer to those above retirement age. In some cases age 45 and older is considered the appropriate cut-point for defining older workers (e.g., Berger, 2009).

The current study focuses on age differences in employment transitions in the Israeli labor market and their

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consequences, defining workers aged 50 and above as “older workers”. The study raises four questions: first, to what extent do older workers differ in their work trajectories from younger ones? Second, are they more likely than younger workers to face employment difficulties (long-term separation from employment; difficulties in gaining access to a new job)? Third, are there wage penalties associated with instability and do they differ by age? And last, are employment transitions and their consequences similar for older men and women? Israel provides an interesting case for examining the employment difficulties of older men and women, as the economic recession that has characterized most of the industrialized labor markets in recent years did not severely affect the Israeli labor market, which continued to grow during the first decade of the twenty-first century, and unemployment declined or did not change (Bank of Israel, 2012). Israel is also characterized by a high level of technological development (Archibugi & Coco, 2004), which involves higher flexibility in employment and better opportunities for young well-educated workers.

2. Literature background

Older workers fare well in the labor market by standard measures such as earnings, unemployment, and displacement risk. However, with technological changes and the restructuring of employment, recent studies have focused on older workers' constrained employment options, as these workers have been disproportionally exposed to the risk of job displacement. The transition to the new economy highlights the complicated position of older workers in the labor market (e.g., Lippmann, 2008). On the one hand, they enjoy good working conditions and stable employment because they have accumulated experience, job tenure and training, and have established a stable career. Hence, age is positively associated with wages and labor market position (Hank & Erlinghagen, 2011; Taylor & Walker, 1994; Van Dalen, Henkens, & Schippers, 2009). On the other hand, older workers face a growing risk of job displacement (Zhivan, Soto, Sass, & Munnell, 2012) and encounter more difficulties in finding employment after losing their jobs. In a rapidly changing, flexible and technology-intensive economy, with an ever more educated and mobile workforce, younger workers are preferred by employers and discrimination on the basis of age increases. Older workers searching for jobs are often seen as less productive and their skills are considered obsolete (Johnson & Mommaerts, 2011).

2.1. Employment transitions and age

Older workers are less mobile than young or prime-age workers and are often protected against displacement. These workers have accumulated experience, training and knowledge that make them valuable to employers. Since wages and working conditions in ongoing jobs are characterized by implicit long-term contracts and because regulations put restrictions on firing, older workers usually have higher job stability (Johnson & Mommaerts, 2011). What protects older workers from displacement

is mainly their experience, indicated by their job tenure, as argued by human capital theory (Farber, 1997, 2006; Hirsch, Macpherson, & Hardy, 2000; Rodriguez & Zavodny, 2003). In addition, older workers are usually more satisfied with their jobs, more committed to the organization, and less willing to move. Moreover, these workers are less likely to leave their jobs voluntarily, because the opportunities open to them in the labor market are constrained, employers being more reluctant to hire older workers. It is therefore reasonable to expect that older workers will be less likely to experience a voluntary job transition (Hirsch et al., 2000; Rodriguez & Zavodny, 2003).

Yet recent studies suggest that older workers may be losing this advantage over younger cohorts, as the rates of job loss among older workers are on the rise and age differences in job displacement are narrowing (Chan & Stevens, 2001; Zhivan et al., 2012). These trends are not uniform across labor markets and industries and depend on a variety of factors, including the organization of labor markets, the level of workers' protection, technological development, and specific work arrangements in firms and industries. Older workers suffer more from displacement than younger workers (Chan & Stevens, 1999, 2001, 2004; Couch, 1998; Couch, Jolly, & Placzek, 2009; Koeber & Wright, 2001) and, once displaced, are less likely to be reemployed – they are less attractive to potential employers because they are perceived as less productive, with shorter time horizons, less capable of learning new skills, and less willing to settle for lower wages (Chan & Stevens, 2001; Lippmann, 2008). Although the unemployment rate among workers 45–64 years old is lower than the overall rate in most OECD countries, the incidence of long-term unemployment is significantly higher (OECD, 1998), which suggests a lower mobility of older workers who experience unemployment.

The risk of displacement and prolonged separation from the labor market is especially high in a situation of technological change and demand for new skills (Ahituv & Zeira, 2011; Bartel & Sicherman, 1993). Zhivan et al. (2012) find that college graduates, public-sector workers, and workers with long job tenure were less likely to be displaced than workers with lower levels of educational attainment, individuals working in the private sector, and workers with shorter tenure. Additionally, workers in manufacturing face a higher likelihood of displacement than workers in other industries. Conditioned on tenure, their results also indicate that older workers and prime-age workers have the same probability of job loss. However, over time older workers become more likely to be displaced.

2.2. The wage penalty of (involuntary) job change

Voluntary job changes often involve an increase in wages or improved work conditions. This is not the case for involuntary job loss. According to human capital theory, firm-specific skills determine a large portion of workers' wages (Becker, 1962). Losing a job, then, affects the future earnings, usually resulting in their reduction. The interruption of employment often involves a diminishment of firm-specific human capital and is usually followed by increased employment instability (Stevens, 1997).

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