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Job loss among rich and poor in the United States and Germany: Who loses more income?

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Abstract

This article compares household income losses after involuntary job loss between household income quintiles in the United States and Germany. I argue that income trajectories after job loss vary between social strata in country-specific ways because of differences in the labor market, the family and the welfare state. Using panel data from the Panel Study of Income Dynamics and the German Socio-Economic Panel, I calculate household income after job loss for each household income quintile. The results show that job loss in the United States has the most severe effect on the poorest quintile whereas in Germany, the middle quintiles lose most after job loss. My analysis reveals that this is due to differences in the factors that buffer income losses between the strata: In both countries, the lower quintiles have the highest losses in earnings and family income support is comparatively low among them. In Germany, the welfare state ameliorates this because it has a higher impact on the lower quintiles than on the upper quintiles. In the United States on the other hand, the welfare state has a more equal impact among the quintiles and hence does not offset the disadvantages of the lower quintiles that the labor market and the family generate.

Keywords: Job loss; Household income mobility; Income inequality; Labor market; Welfare state; Family

1. Introduction

The comparative study of social stratification in different countries is a well established field in the social sciences. In addition to classical explanations like differences in welfare policy or occupational structure, differences in economic insecurity and mobility recently gained attention (DiPrete, 2002). Involuntary job loss is one of the major causes of economic insecurity in the middle of the life-course because most people depend on labor income during this stage. Therefore, it is crucial to understand the mechanisms that shape the impact of job loss on economic well-being. Previous research found that nation specific institutions influence how much income people lose through job loss (DiPrete & McManus, 2000a; Gangl, 2004). However, these studies only compared the consequences of unemployment as nation specific averages. Yet, it is likely that income losses through job loss are unevenly distributed within a country. Therefore, I analyze how people in different strata fare after job loss. This idea merges dynamic with classical study of social stratification.

Research on economic insecurity has grown substantively during the last decades. Scholars studied the transition in and out of poverty (e.g. Bane & Ellwood, 1986; Layte & Whelan, 2003; Leisering & Leibfried, 1999) and income volatility (e.g. Fritzell, 1990; Gottschalk & Moffitt, 1999; McManus & DiPrete,

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2000). Reviewing this research however, Western, Bloome, Sosnaud, and Tach (2012) argue that analyzing events that cause income changes provides most insight about economic insecurity. The literature providing this kind of analysis generally finds that job loss and family break-up are the main triggers for income losses (Burkhauser & Duncan, 1989; DiPrete & McManus, 2000a; Kohler et al., 2012). In a cross-national perspective, welfare state institutions, the family, and the labor market lead to distinct income mobility patterns (DiPrete, 2002).

Studies of income losses through job loss differ in terms of the analyzed income. While some focus on wages after the unemployment spell, others analyze household income. Both types of analyses agree that job loss and subsequent unemployment leaves "scars" in incomes. That is to say, in addition to direct loss, job loss lowers income in the long run. Analyses of earnings trajectories found that those who experienced unemployment have lower earnings in the mid and long term than those who did not become unemployed (Arulampalam, 2001; Burda & Mertens, 2001). Cross-national research showed that such scars in earnings are lower in countries that provide long and generous unemployment benefits because such benefits help the unemployed to find better jobs (Gangl, 2004, 2006). Researchers who considered household income after job loss also proved that the welfare state is important in mediating losses. DiPrete and McManus (2000a) found that Americans are worse off than Germans both initially and in the long run because they often remain below their initial income level. Later results that included the 1990s and the 2000s however suggest that this changed over time: With the growing number of long-term unemployed in Germany and the booming labor market in the United States, the differences between the countries diminished (Ehlert, 2012).[1]

All of these studies have in common that they study job loss and unemployment as an individual risk with little or no consideration of social stratification. This fits well into the idea of "individualization" of social inequality coined by Beck (1986). According to this idea, classes are dissolving because life courses in today's societies are growing more dissimilar. For example, Beck claimed that labor markets become more volatile and employment insecurity nowadays affects everyone regardless of their position in the social stratification. Following this reasoning, it becomes harder if not impossible to classify individuals into classes. Consequently, research on social stratification should focus on individuals rather than groups. Researchers adopting a dynamic perspective on social inequality often follow this suggestion, and analyze individual mobility regardless of class background.

This has not remained uncontested. Mayer (1991) for example warned against a tendency to replace "inequality" by "life course". That is to say, the structural location of life courses within social stratification should always be considered. Many researchers studying life courses consequently showed that class background is an important determinant of life chances, contrary to Beck's claims. For example, Mayer and Carroll (1987) analyzed the impact of class background on job shift patterns. Likewise, Allmendinger and Hinz (1998) studied class mobility in different welfare states. Likewise, literature on "cumulative advantage" over the life course showed in multiple cases that a persons origin determines outcomes to a great extent (DiPrete & Eirich, 2006).

Despite this continuous focus on social stratification in the field of life course studies, many analyses of economic insecurity and especially income loss after adverse events do not consider this perspective. However, social strata vary in terms of resources and options to cope with job loss and unemployment as I will explicate below. Also, the risk of becoming unemployed is unevenly distributed. People in the lower strata have a increased risk of losing a job (Giesecke & Heisig, 2010; Keys & Danziger, 2008; McGinnity & Hillmert, 2004). In the face of growing income inequalities in almost all western countries, the neglect of stratification in the analysis of income mobility does not seem appropriate. In order to understand individual dynamics in the different strata, the consequences of unemployment also have to be differentiated.

A few studies connect income losses after trigger events and social stratification. Burda and Mertens (2001) compare labor earnings before and after unemployment in Germany and found different "scars" in post-unemployment wages depending on pre-unemployment wages. Those with higher earnings lose more compared to their prior job than those with lower earnings. Similarly, DiPrete and McManus (2000b) report that household income losses after various life course events are higher in the upper parts of the income distribution than in the lower parts in both the United States and Germany. However, they do not explore the causes of this finding.

In the field of poverty dynamics, Worts, Sacker, and McDonough (2010) find that incidences of poverty are highly concentrated among already disadvantaged

[1] Researchers also found scars after unemployment in other life domains such as life satisfaction (Clark, Georgellis, & Sanfey, 2001) or job quality (Dieckhoff, 2011).