

## Disentangling the Scar Effects of Unemployment: The Case of West-Germany

Anna Manzoni  
Postdoctoral Associate  
CIQLE, Yale University

140 Prospect Street  
06511 New Haven, CT, USA

tel: 203-432-5281  
fax: 203-432-4952  
[anna.manzoni@yale.edu](mailto:anna.manzoni@yale.edu)

### ***Abstract***

Previous studies have looked at scarring effects of unemployment in Germany but it is still not clear which dimensions of unemployment affect future employment, nor how.

Questions might concern, for example, whether occurrence, number of episodes or duration of unemployment act as scars, or whether unemployment matters differently when experienced at specific stages of the working career. Furthermore, scarring effects might affect future employment in different ways: they might have short or longer term effects, they might affect re-employment opportunities or just occupational levels. Individual-level characteristics might also mitigate or amplify scarring effects.

In this paper, I carefully combine two longitudinal datasets, the German Life History Study and the German Socio Economic Panel, and apply dynamic panel models to disentangle the scarring phenomenon in the German labor market, across several birth cohorts and social groups. I look at several dimensions of unemployment and I operationalize 'scarring' in different ways (occupational status changes, unemployment probabilities and duration, career instability). In this way, I provide more robust substantive evidence for a richer understanding of how different aspects of unemployment drive the scarring process as well as evidence on the 'true' magnitude of scarring.

I focus specifically on differences across cohorts and educational groups, for both men and women.

Building on job search, human capital and signaling theories, I extend current research by asking which dimensions of earlier unemployment damage subsequent employment career, how that happens and to what extent such effects vary by key individual characteristics.

The findings have relevant policy implications, in that knowing which dimensions of unemployment alter future employment career as well as how and for whom specifically, policies could be targeted to protect the most vulnerable groups in particular and to combat the most damaging features of unemployment.