The Short-Term Consequences of Unemployment Revisited

Sebastian Beil
Ruhr-Universität Bochum
Faculty of Social Science
Chair of Empirical Social Research
sebastian.beil@rub.de
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The literature on the scar effects of unemployment has its origins in research on the adverse effects of job loss on the career of displaced workers (e.g. Jacobson et al. 1993). While the displacement studies tried to establish the causal effect of a confined event, recent (mostly) sociological studies adopted a broader perspective in investigating the scar effects of unemployment on different outcomes, especially on wages. Existing research indicates that unemployment leaves considerable scars that persist for up to 4 years after an unemployment spell (c.f. Gangl 2006 and Mooi-Reci 2011). These effects vary not only with individual characteristics but also seem to depend on the design and performance of the respective labour markets which influence the job-search behaviour and determine employment opportunities (c.f. Dieckhoff 2011, Gangl 2004 and Strauß & Hillmert 2011).

However, in studies investigating the effects of unemployment the event is (implicitly) defined as job loss with subsequent unemployment. This implies that control observations are missing one condition (job loss) or both of these conditions. Therefore the estimates capture the direct effect of job loss and the indirect effect of job loss due to subsequent unemployment on the particular outcomes.

To disentangle the distinct effects of job loss and unemployment on hourly wages the present study uses spell- and panel data from the German Socio-Economic Panel Study and a difference-in-differences matching strategy. Specifically, I control for the reason of unemployment in a non-parametric fashion, matching comparable individuals that have lost their job for the same reason in the same year and that differ only with respect to the presence or absence of a subsequent unemployment spell. Preliminary results indicate that the effects of unemployment depend on the reason for job loss.
References


