“Better overeducated than unemployed? Early career consequences of overeducation at labor market entry”

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Abstract

Previous research has shown that unemployment at the beginning of one’s employment career can have long-lasting negative consequences for the future life course, e.g. in terms of lower job stability, higher unemployment risks, and lower wages. These consequences are even more alarming when we consider that they disproportionately affect the group of people that already has an outsider position in the labor market due to lack of labor market experience.

Against this background, the question then arises whether school leavers should aim for a quick labor market entry at all costs or hold out for better prospects. This paper therefore investigates if unemployed school leavers should start any job rather than remain unemployed by comparing overeducated labor market entries with remaining in unemployment. Despite large evidence on the negative consequences of overqualified employment compared to adequate employment, this “downward comparison” has been neglected in the literature thus far. Theory supports two opposing scenarios for an overeducated labor market entry. On the one hand, an overeducated labor market entry could serve as a stepping stone towards adequate employment by signaling employability and motivation, allowing access to social networks, avoiding the stigma of unemployment and preventing the decay of human capital (integration perspective). On the other hand, such an entry could end up being a dead end for one’s employment career if overeducation is related to “overeducation scarring” or if mobility barriers and a “lock-in” effect (due to job-specific human capital) prevent the attainment of adequate future employment (entrapment perspective). Since highly educated young people generally have better labor market prospects due to higher demand, productivity, and aspirations, they can be expected to encounter the entrapment rather than the integration perspective.

The analyses are based on the German Socio-Economic Panel for the period 1984 to 2012. Using monthly calendar information, the individual labor market entry is determined and evaluated in terms of job quality. Specifically, a triple-variable strategy combining information on job requirement level, occupational status, and qualificational level is applied and serves as an extremely clear-cut measure of overeducation as opposed to adequate employment. The longitudinal data structure enables the investigation of career effects of overeducated labor market entries within the sample of unemployed school leavers. The consequences are evaluated in a multidimensional perspective. Both the probability to be in any kind of employment – an indicator for future employment stability and security – and the probability to be adequately employed during the early career – an indicator for the quality of future employment – are assessed. First results show that overeducation at labor market entry significantly decreases the probability of attaining adequate employment in the early career and do not significantly affect the probability to be employed in the first five years of labor market participation. Heterogeneous effects by educational level could not be found.