

The importance of early labour market experiences

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Background to the study

Nuffield Foundation-funded project:

- ▶ *Moving from school to work: understanding the role of early outcomes*¹

Two stages

- ▶ Describe young people's labour market experiences beyond school-leaving age (SLA)
- ▶ Examine how experiences acquired after reaching SLA influence subsequent progress in the labour market

This presentation focuses on the second stage

¹All views expressed are those of the grant holder, not the Foundation.

What we already know

Length of time a young person spends in a state affects the probability of leaving that state (“duration dependence”):

- ▶ ability to find work weakens the longer they are unemployed
- ▶ risk of unemployment reduces the longer they stay in work (Kalwij, 2004)

Also, youth unemployment can result in long-term scars:

- ▶ adult employment (Gregg, 2001)
- ▶ wages (Gregg and Tominey, 2005)
- ▶ life satisfaction (Bell and Blanchflower, 2010).

Currently, limited understanding of how these long-term effects materialise: how and when do the scars emerge?

Contribution of this study

Observe individuals for 9 years post SLA using BHPS 1991-2008:

- ▶ more recent data than existing studies
- ▶ consider multiple states: Employment, Education, NEET
- ▶ consistent definitions over time

Econometric techniques to identify the *causal* effect of experience:

- ▶ how length of time in a state affects exit rate to other states?
- ▶ does employment experience help with finding work when unemployed?

Use the results for simulation:

- ▶ show how all these effects combine
- ▶ framework for considering labour market interventions

Relevance to policy questions

Knowledge of duration dependence informs when to intervene

- ▶ too early: deadweight
- ▶ too late: harm employability (if negative duration dependence)

Cross-skill effects inform how to address longer-term impacts

- ▶ looks beyond exit from current state to consider scarring
- ▶ but experience may also have positive long-term effects

Simulate effects of idealised intervention

- ▶ how might policymakers effectively intervene?
- ▶ when is the right time to intervene?
- ▶ how long should intervention last?

Intuition behind the econometric model

Allow for 6 types of transition:

- ▶ employment \rightarrow NEET
- ▶ employment \rightarrow education
- ▶ NEET \rightarrow employment
- ▶ NEET \rightarrow education
- ▶ education \rightarrow employment
- ▶ education \rightarrow NEET

Examine influences on transitions post-SLA

- ▶ background characteristics
- ▶ length of time in spell
- ▶ prior experience
- ▶ other (business cycle, local unemployment, calendar time etc)

Control also for sample attrition and unobserved influences

Data

The young people in our sample

- ▶ are first observed just before SLA
- ▶ interviewed annually (no long-term recall)
- ▶ report main activity for each month between interviews
- ▶ censored on turning 25 (or first non-response)

Merge in other data

- ▶ local unemployment rate (deviation from national average)
- ▶ monthly GDP (Mitchell et al., 2005), deviation from trend

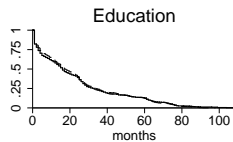
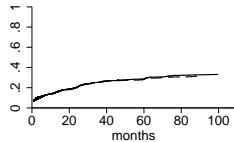
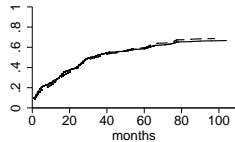
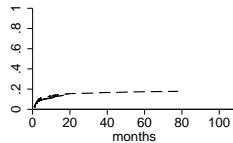
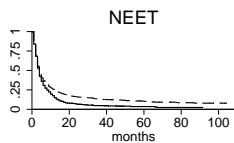
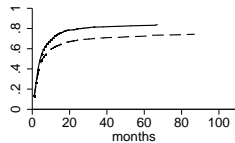
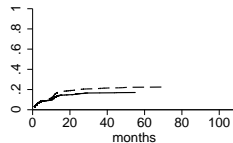
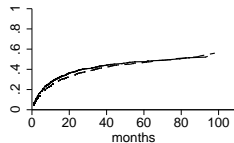
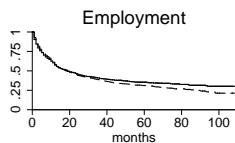
Summary spell descriptives

Number of individuals	3,487
Number of spells	14,221
Number of spells per person	
- mean	3.29
- median	2
Number of months observed	
- mean	53.53
- median	51
Mean spell length (months)	
- Employment	20.2
- NEET	7.9
- Education	17.7

Flows between states

	<i>Destination:</i>			
<i>Origin:</i>	Employment	NEET	Education	N
Employment	-	1,577	694	2,271
NEET	1,849	-	375	2,224
Education	2,314	1,138	-	3,452
N	4,163	2,715	1,069	7,947

Survival and cumulative incidence curves



— Male - - - - Female

Results: duration and cross-spell effects

Duration dependence:

- ▶ Negative in exits from Employment and NEET...
- ▶ ... varying in degree with destination
- ▶ No duration dependence in Education exits

Complex effects of prior experience:

- ▶ previous status
- ▶ length of previous spell
- ▶ number of prior employment/NEET spells
- ▶ total employment/NEET experience

So use simulation to visualise

Simulating the effect of a 'work experience' intervention

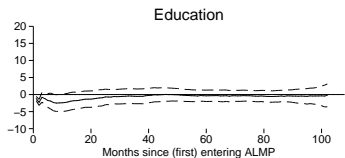
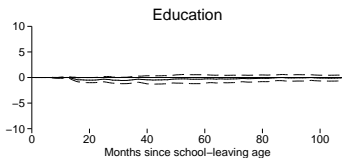
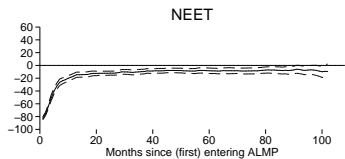
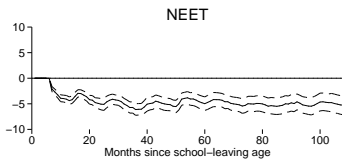
Simulation allows combined effects to be seen

- ▶ Use estimates to simulate histories up to age 24
- ▶ Repeat, imposing hypothetical WE intervention
- ▶ Comparing the two gives an impact estimate

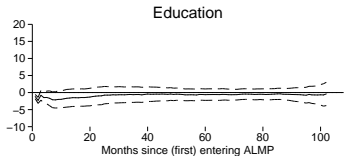
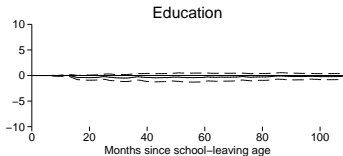
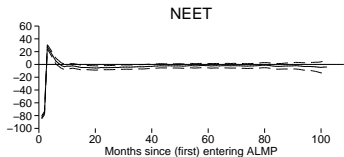
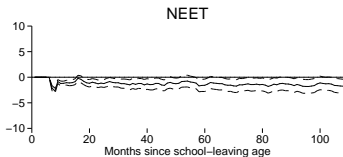
Features of hypothetical – and unrealistic – WE programme

- ▶ 2-month period of work
- ▶ compulsory after 6 months NEET
- ▶ individuals participate no more than once
- ▶ full compliance
- ▶ outcomes post-ALMP determined by model

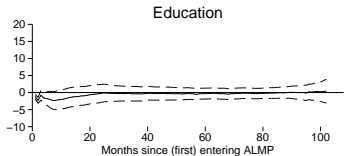
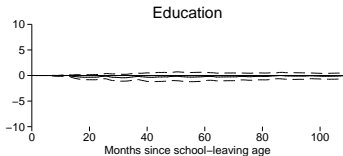
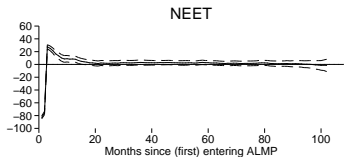
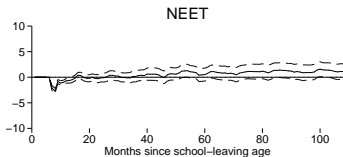
Treatment effects (percentage points)



...but if instead participants return to NEET



...and if their WE is not like 'real' work



In numbers, employment effect for participants

Years after ALMP entry	(1) Base	(2) Return to NEET	(3) Return to NEET after 'poor' ALMP
1	0.19***	0.04**	-0.07***
2	0.13***	0.06***	-0.02
3	0.10***	0.04**	-0.03
4	0.08***	0.03*	-0.02
5	0.09***	0.03	-0.02

How simulation results alter in recession?

Years after ALMP entry	(1) Base	(2) Return to NEET	(3) Return to NEET after 'poor' ALMP
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“Trend growth”

1	0.19***	0.04**	-0.07***
2	0.13***	0.06***	-0.02
3	0.10***	0.04**	-0.03
4	0.08***	0.03*	-0.02
5	0.09***	0.03	-0.02

“Recession”

1	0.22***	0.04**	-0.07***
2	0.16***	0.06***	-0.03
3	0.12***	0.03*	-0.03**
4	0.09***	0.03*	-0.02
5	0.09***	0.02	-0.02

Concluding comments

Labour market experiences affect subsequent outcomes

Policies often rely on this causal relationship

For the type of work experience intervention hypothesised here:

- ▶ surviving in employment beyond the intervention is key to longer-term retention
- ▶ where this is not achieved, high-quality interventions still beneficial...
- ▶ ...but low quality interventions are ineffective and potentially damaging.

We find no evidence that the effectiveness of such interventions varies with the business cycle

Further information

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