The importance of early labour market experiences

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Understanding and influencing young people’s early labour market experiences
NIESR workshop
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Outline

Overview of the project
- Background to the study
- Motivation and aims
- Contribution of this study
- Policy relevance

Estimation approach
- The econometric model
- The estimation sample

Results

Concluding comments
Overview
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 experience beyond school-leaving age (SLA)
  - Examine how cumulative experiences influence subsequent labour market outcomes

\(^1\) All views expressed are those of the grant holder, not the Foundation.
Motivation

- Current concern over state of youth labour market, NEETs and the difficulties encountered in the school to work transition.

- Young people’s ability to find work weakens the longer they are unemployed. Unemployment risk reduces the longer an individual is in work (Kalwij, 2004).

- ‘Scars’ from youth unemployment:
  - adult employment (Gregg, 2001)
  - wages (Gregg and Tomaine, 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

- Focus on young people
  - Follow individuals for 9 years post school-leaving age
- Longitudinal survey data (BHPS):
  - more recent data than existing studies
  - consider multiple states: Employment, Education, NEET
  - consistent definitions over time
- Econometric model to estimate:
  - duration dependence – does length of time in a state affect rate of transition to other states?
  - cross-spell effects – e.g. do those with lots of employment experience find work more easily 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-spell 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?
Estimation approach
Intuition behind the econometric model

- Examine influences on transitions post-SLA
  - background characteristics
  - length of time in spell
  - prior experience
  - other (business cycle, local area, calendar time etc)
- With 3 states, 6 transition types
- Simultaneously model sample attrition
- Controlling for unobserved heterogeneity allows causal interpretation
Data

- Our ‘youth’
  - enter estimation sample at school-leaving age
  - interviewed annually (no long-term recall)
  - for each month, respondents report main activity
  - 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 descriptive

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td><strong>Number of individuals</strong></td>
<td>3,487</td>
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<tr>
<td><strong>Number of spells</strong></td>
<td>14,221</td>
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<tr>
<td><strong>Number of spells per person</strong></td>
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<tr>
<td>- mean</td>
<td>3.29</td>
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<tr>
<td>- median</td>
<td>2</td>
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<tr>
<td><strong>Number of months observed</strong></td>
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<tr>
<td>- mean</td>
<td>53.53</td>
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<tr>
<td>- median</td>
<td>51</td>
</tr>
<tr>
<td><strong>Mean spell length (months)</strong></td>
<td></td>
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<tr>
<td>- Employment</td>
<td>20.2</td>
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<tr>
<td>- NEET</td>
<td>7.9</td>
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<td>- Education</td>
<td>17.7</td>
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Flows between states

<table>
<thead>
<tr>
<th>Origin:</th>
<th>Employment</th>
<th>NEET</th>
<th>Education</th>
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<tr>
<td>Employment</td>
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<td>1,577</td>
<td>694</td>
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<td>NEET</td>
<td>1,849</td>
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<td>375</td>
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<td>4,163</td>
<td>2,715</td>
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</table>
Survival and cumulative incidence curves

Employment

NEET

Education

--- 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 cross spell effects:
- 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’ ALMP

- Simulation allows combined effects to be seen
- Use estimates to simulate histories up to age 24
- Repeat, imposing hypothetical ALMP
- Comparing the two gives an impact estimate

Features of hypothetical – and unrealistic – ALMP

- 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 ALMP is not like ‘real’ work
In numbers, employment effect for participants

<table>
<thead>
<tr>
<th>Years after ALMP entry</th>
<th>Base</th>
<th>Return to NEET</th>
<th>Return to NEET after ‘poor’ ALMP</th>
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<tbody>
<tr>
<td>1</td>
<td>0.19***</td>
<td>0.04**</td>
<td>-0.07***</td>
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<td>(0.02)</td>
<td>(0.02)</td>
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<tr>
<td>2</td>
<td>0.13***</td>
<td>0.06***</td>
<td>-0.02</td>
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<td>3</td>
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<td>0.04**</td>
<td>-0.03</td>
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<td>(0.02)</td>
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<tr>
<td>4</td>
<td>0.08***</td>
<td>0.03*</td>
<td>-0.02</td>
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<td>5</td>
<td>0.09***</td>
<td>0.03</td>
<td>-0.02</td>
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<td>(0.02)</td>
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Concluding comments

- Labour market experiences affect subsequent outcomes
- Labour market interventions often rely on this causal relationship
- For the type of intervention hypothesised here:
  - surviving the end of ALMP in employment key to longer-term retention
  - where this is not achieved, high-quality interventions still beneficial...
  - ...but low quality interventions are ineffective and potentially damaging.
Further information

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