

The importance of early labour market experiences

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*Understanding and influencing young people's early labour
market experiences*

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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

¹All 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 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

- ▶ 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

- ▶ British Household Panel Survey (BHPS), 1991-2008.
- ▶ 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

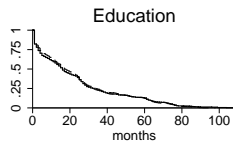
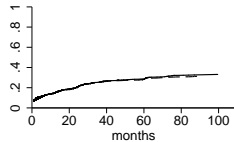
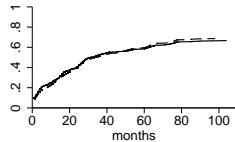
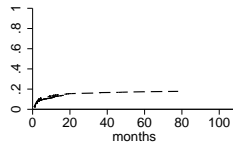
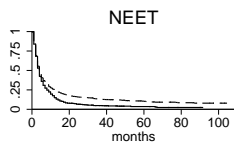
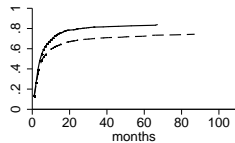
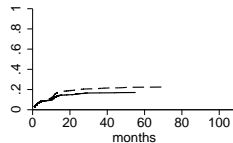
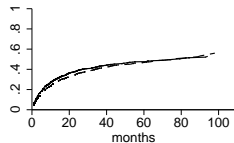
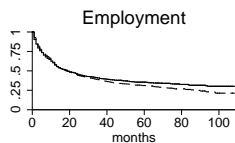
Summary spell descriptives

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 cross spell effects:

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

So use simulation to visualise

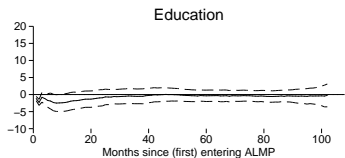
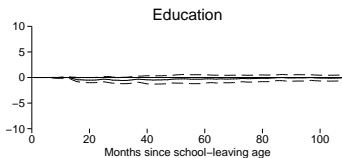
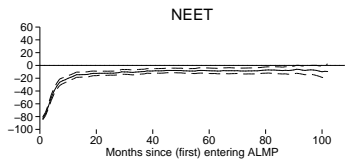
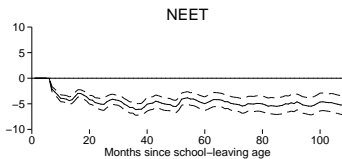
Simulating the effect of a 'work experience' ALMP

- ▶ 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

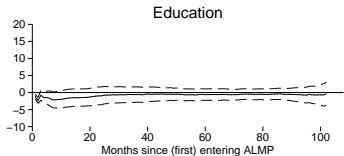
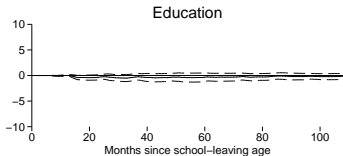
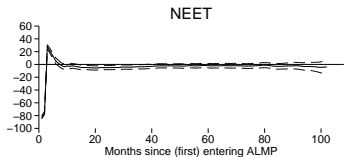
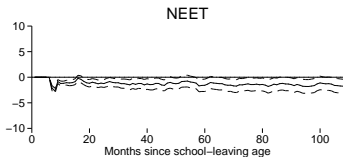
Features of hypothetical – and unrealistic – ALMP

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

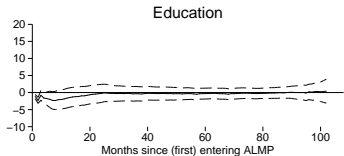
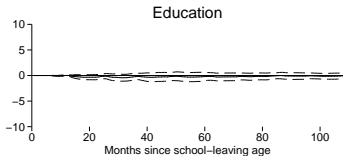
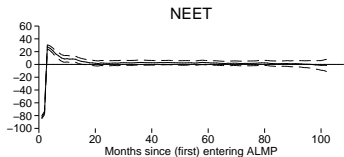
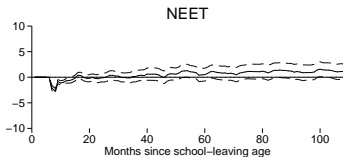
Treatment effects (percentage points)



...but if instead participants return to NEET



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



In numbers, employment effect for participants

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

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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