



Unemployment scarring by gender: Human capital depreciation or stigmatization? Longitudinal evidence from the Netherlands, 1980–2000



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ABSTRACT

Using longitudinal data from the Dutch Labor Force Supply Panel (OSA), this article examines how unemployment scarring (i.e., wage setbacks following unemployment) and its underlying mechanisms operate across gender in the Netherlands over the period 1985–2000. A series of fixed effect panel models that correct for unobserved heterogeneity, reveal a notable disparity in unemployment scarring by gender. Interestingly, while unemployment scarring is short-lived and partly conditional upon human capital differences among women, it is strongly persistent among men and contingent upon old age, ethnicity, and tight economic conditions. Our findings provide new evidence regarding unemployment scarring by gender while they support the hypothesis that among women the effects of unemployment scarring are predominantly driven by human capital depreciation, while among men stigma effects dominate.

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1. Introduction

The link between unemployment and subsequent economic disadvantage has been at the heart of public and academic debates over more than three decades. Early unemployment has been found detrimental for workers' future employment opportunities because it reduces the future likelihood to be hired, and inflicts a setback in re-employment wages that perpetuates long after the initial unemployment occurrence (Arulampalam, 2001; DiPrete, 1981; DiPrete and McManus, 2000; Gangl, 2004, 2006; Gregg, 2001; Jacobson et al., 1993; Kuhn, 2002; Moore, 2010; Ruhm, 1991). This wage setback is referred to in the literature as 'unemployment scarring'.

While unemployment has been increasingly recognized as a disruptive event that may become the onset of adverse wage trajectories and inequalities in the labor market, surprisingly little is known about how unemployment processes operate across gender. The singular focus of previous studies on the scarring effects among men, has mostly led to the omission of women from these analyses. As we already know, changes in the employment structure – as result of skilled-biased technological change and globalization – have influenced employment opportunities and dynamics among both men and women since the 1980s (Autor, 2010; Buchmann and DiPrete, 2006; Farber, 2011). To the extent that these changes have influenced disproportionately the risk of unemployment among disadvantaged groups (such as women or older workers), unemployment is no longer a disruptive event in the employment careers of men, but has become a lived experience in the lives of many women.

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Yet, with few exceptions (Albrecht et al., 1999; Kuhn, 2002; Gangl, 2006; Wilkins and Wooden, 2013), evidence has remained scarce about how the size and strength of unemployment scarring among women compares to that of men. Consequently, the question of whether and how unemployment scarring varies by gender still remains not yet fully assessed.

In addition, relatively little attention has been devoted to understanding the conditions under which unemployment scarring operates across gender. For instance, existing research has offered two key mechanisms underlying the process of unemployment scarring. A *resource-related* mechanism that links scarring to workers' loss or depreciation of skills during periods of unemployment; and a *signaling-related* mechanism that links unemployment scarring to the stigma attached to it. These mechanisms may work out differently amongst men and women because of differences in the accumulation of human capital and the different gender prejudices that surround employers' hiring decisions. Yet, how human capital and signaling mechanisms reduce or introduce scarring across gender has received little systematic attention. Do these mechanisms govern the scarring process similarly across gender or is this process contingent upon individual and contextual level variation?

These questions fall within and contribute to the broader sociological debates about the gender wage gap and will be the core of our study, which adds two major contributions. First, we advance theory on this topic by investigating the heterogeneous effects of unemployment scarring across men and women of different social groups and in different economic conditions. Similar to Omori (1997), we argue that if stigma drives unemployment scarring, then scarring effects should exacerbate in specific (tight) labor market situations and among specific (disadvantaged) groups (e.g., gender, age, parenthood, and ethnicity). By contrast, little or no contextual variation would indicate that human capital depreciation effects dominate. This distinction helps us understand the gendered disparity in unemployment scarring.

Second, we extend existing research by including multiple dimensions of unemployment – previous unemployment occurrence, repetition and duration – to investigate how each influences men's and women's re-employment wages. In doing so, our study provides a more nuanced view about the effects of unemployment and extends research that has mainly focused on singular dimensions of unemployment. We also assess the full magnitude of unemployment scarring, by combining the various unemployment dimensions into a single 'unemployment index'. This approach provides a comprehensive and statistically powerful measure of the unemployment scarring effects, which is new in existing research.

We test our hypotheses about unemployment scarring by gender among a sample of workingmen and women in the Netherlands over a twenty-year period (1980–2000). The Dutch case is interesting because of its unique labor market structure (with a high share of women working in part-time jobs), high employment protection, and the prevailing work culture that adds contrasting evidence and additional insights on the processes underlying unemployment scarring by gender. Our analyses rely on a rich and comprehensive longitudinal dataset, the Netherlands Labor Supply Panel (OSA) spanning over the period 1980–2000 with a biennial panel design. The analytical strategy in our study is to apply the same model to a sample of workers who differ only with respect to their route into employment: one group came into employment via a spell of unemployment and the other group via employment. We use fixed-effects panel models that correct for time-constant unobserved heterogeneity to analyze the effects of unemployment and to disentangle human capital depreciation from stigma effects on men's and women's re-employment wages.

2. Theoretical background and expectations

Evidence in different countries has shown that unemployment leaves significant scars in the re-employment wages of the previously unemployed such that wage setbacks remain largely persistent after the initial unemployment instance (Gangl, 2004, 2006; Gregg and Tominey, 2004; Ruhm, 1991). Several theories are used to explain these group differences in wages, two of which are the most prominent and will guide us through the development of our hypotheses.

2.1. Human capital depreciation and unemployment scarring

The first "resource-specific" explanation, originating from the human capital theory (Becker, 1964, 1993), emphasizes that wage losses following an unemployment spell reflect the process of human capital depreciation and skill relocation. Theory suggests that human capital can be divided into a *generic* part, which is acquired through education and is transferable across employers, and a *specific* part, which is acquired through acquisition of job-specific human capital through experience in a specific firm or sector and is non-transferable across employers (Becker, 1993). For both men and women, a direct implication of this distinction is the expectation that interruption of job specific training may lead to lower levels of productivity, both instantaneously and in the long run. In particular, skills related to specific occupations, firms, or industries are lost when unemployment occurs. By contrast, generic human capital depreciates over longer spells of unemployment.

Existing studies show that the velocity with which human capital depreciates depends on the duration, repetition, and recency of unemployment spells. For instance, a single occurrence of unemployment leaves a significant scar on re-employment wages (Jacobson et al., 1993), which becomes larger with more frequent (Stevens, 1997) and longer unemployment spells (Gangl, 2004; Gregory and Jukes, 2001). While this process is evident across gender, literature suggests two major factors that lead to a diverging human capital depreciation among previously unemployed men and women. First, given the erratic nature of women's labor market trajectories in the Netherlands, which include more frequent interruptions due to periods of childbearing and caring, women – more than men – accumulate a reduced amount of work experience (Datta Gupta and Smith, 2002; Gangl and Ziefle, 2009). Above and beyond the child-related job interruptions, women

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