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Career, experience and returns to human capital: is the dual labour market hypothesis relevant for the UK?

RANNIA M. LEONTARIDI

Department of Economics, University of Stirling, Stirling FK9 4LA, Scotland, U.K. Tel: +44 1786 467480; Fax: +44 1786 467469; E-mail: m.r.leontaridi@stir.ac.uk

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Summary

This paper investigates the relationship between career status, labour market experience and returns to human capital accumulation in the context of a two-tier, career and non-career labour market. Using micro data from the British Household Panel Survey (BHPS), this study detects wage and employment mechanisms that differ between these two tiers of workers. The paper finds no support for the hypothesis of strict duality, by which the returns to education are expected to differ across labour market segments, with the returns in career employment being high and positive and the returns in the non-career sector being close to zero. The paper, however, finds support for significant returns to current tenure only in the career sector and also for the scarring hypothesis, according to which part-time employment and unemployment experience have a negative effect on participation and earnings in the career sector. Finally, there is evidence that only non-career earnings are significantly affected by local demand conditions, in contrast to earnings in the career sector. Career status is modelled as an endogenous variable subject to an initial job choice.

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1. Introduction

In the traditional supply-based theory of wage determination, individual earnings are uniquely and monotonically related to a vector of endowed and acquired worker characteristics. Against such framework the concept of a “job” has been made redundant, while the role of occupation and industry in explaining workers’ wages is simply limited to reducing residual variance. However, one cannot ignore the fact that workers are indeed sorted into jobs, and that a worker’s wage progression is likely to depend on the firm’s strategy for developing effective mechanisms to promote and assess productivity while economising on its labour costs. Some firms may therefore pay higher wages to their established workers than to their otherwise comparable less senior counterparts. Life-cycle progression and wage growth in this case may be achieved through promotion via a firm’s job ladder.

A number of theoretical and econometric studies have explored the effects of labour market experience, job seniority and human capital accumulation on earnings growth (Altonji and Shakotko, 1987; Altonji and Williams, 1998; Mincer and Jovanovic, 1981; Topel, 1991; Williams, 1991). Moreover, a key prediction of Becker’s (1964) study of investment in specific human capital, and indeed in related models of durable employment relationships (Lazear, 1981; Rosen, 1986), is that senior workers would suffer substantial wage losses if their jobs were to end. Equally, the world of employer–employee attachments creates a complex optimisation problem for a firm’s personnel strategy. The firm must decide the weight it wants to place on a strategy of low turnover and high productivity given the substantial size of hiring, training and rewarding costs that such a strategy may incur.

Some firms may therefore offer their employees the prospect of building a career while remaining in employment. Others may choose to adopt personnel strategies that do not rely on long-term employer–employee attachments and avoid investments in their work force. While a single firm may even establish remuneration structures that create career attachments for some jobs and appeal to non-career or casual labour for others. Some workers would then be offered the prospect of building a career while remaining in the employment of a certain firm, whereas others may not be provided with such opportunities.† Such arrangements, of building a career while remaining in the employment with the same firm, were understood to exist in Japan in the post war period, but it is now recognised that they are also prominent in the US and

† The concept of a flexible firm, for example implies duality within the enterprise, with a “core” and a “periphery” work force (Atkinson, 1985, 1986).