

Labor Market Instability, Labor Market Entry, and Early Career Development

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Abstract

Many young people experience episodes of unemployment and precarious employment such as insecure temporary jobs and skill-inadequate jobs during their school-to-work transition period. This essay summarizes key theoretical ideas and main previous empirical findings on the determinants and career consequences of having such a nonoptimal start into the working life. Then, this essay highlights cutting-edge research that has advanced our knowledge by providing more detailed insights into the individual-level career dynamics as well as the macro-level institutional and structural determinants of cross-country differences. This article concludes with a discussion of five key issues for future research. First, there is need for a better understanding of the institutional and structural influences on the career consequences of having a nonoptimal labor market entry. Second, the experiences during the economic crisis of 2008/2009 and its aftermath ask for a better understanding of why some countries performed better than other countries in protecting youths from that severe crisis. Third, a more detailed analysis of different forms of nonemployment and precarious employment is required in order to account for the strong variation of labor market experiences of youths. Fourth, to fully assess not only the risks but also the chances of taking up temporary jobs and skill-inadequate jobs at labor market entry, we have to complement the standard “upward comparison” to regular employment with a “downward comparison” to the alternative of nonemployment. Finally, this entry calls for an interdisciplinary and integrative approach analysing not only the work career consequences of bad labor market starts but also the social, economic, psychological, health, and familial consequences.

INTRODUCTION

The transition from education to work is a central stage in the individual life course. It is strongly interrelated to other processes of the transition to adulthood such as leaving parental home, gaining economic independence,

and the family formation. Finding a stable, adequate job is often seen as a central precondition to make successful transitions on the way to become an adult. However, young people often face difficulties in finding a stable, adequate job and they experience periods of unemployment and precarious employment (such as temporary jobs or skill-inadequate jobs) at the start of their working career. Against this background, questions arise why this is the case and what it means for the future life of young men and women. More specifically, why do young people more often face unemployment and precarious employment? With regard to social inequality, which subgroups of youths are most at risk of having to accept such low-quality jobs? And what are the consequences of these nonoptimal labor market entries for the career? Do initial periods of unemployment and precarious employment damage an entrant's career opportunities in the long run? Or, are these only transitory effects in the individual life course?

To answer these questions, this entry summarizes central theoretical ideas and main empirical findings from the existing literature, particularly from the fields of sociology and economics. Moreover, this entry highlights cutting-edge research that has recently advanced our knowledge in two important aspects. First, recent research has addressed the consequences of a nonoptimal start with a specific focus on the career dynamics and the issue of causality. Second, recent research has tried to explain the strong country differences in the probability of having a nonoptimal career start and its consequences. In order to explain the country variation, the role of institutional and structural country differences has been emphasized.

Despite the promising cutting-edge research, however, research on the topic of nonoptimal career starts and their consequences is not yet completed and many aspects remain puzzling. Specifically, there is need for innovative research designs, new data, as well as broader and interdisciplinary perspectives on the research topic. Therefore, this entry concludes with a discussion of five key issues for future research.

FOUNDATIONAL RESEARCH

Previous research has shown that young people particularly face higher risks of labor market exclusion in terms of unemployment but they are also most at risk of needing to accept precarious work, such as temporary jobs and skill-inadequate employment. But why are labor market entrants most affected by risks of unemployment, temporary jobs, and skill-inadequate employment? And what are the consequences of such nonoptimal labor market entries for the career?

DETERMINANTS OF NONOPTIMAL LABOR MARKET ENTRIES

From a theoretical perspective, it is usually argued that young job applicants are at high risk of unemployment and precarious jobs because, being outsiders, they lack experience, seniority, and networks in contrast to the more experienced workers, who represent the insiders (Lindbeck & Snower, 1989). Strong insider–outsider cleavages go hand in hand with labor market segmentation, that is, the division of the workforce into (mainly older) insiders with good jobs located in the primary labor market segment and (mainly younger) outsiders with precarious jobs located in the secondary labor market segment (Doeringer & Piore, 1971). Employers—with the support of insiders—have incentives to form such a buffer stock of precarious jobs and pool of unemployed workers, making it possible to respond to short-term market volatilities without having to dismiss any of the core workers.

Furthermore, youths' problems of finding a (good) job are explained by information problems that arise in the two-sided matching process of young job applicants and employers (Sørensen & Kalleberg, 1981). Employers have difficulty assessing the expected productivity and trainability of applicants fresh out of school, while labor market entrants themselves are still learning about what kind of work they want and fit to. These information problems delay the process of matching young people to jobs and, hence, the school-to-work transition is a prolonged period characterized by unemployment, temporary employment, and skill-inadequate jobs.

Employers try to overcome uncertainty in the hiring process by relying on unalterable attributes—so-called “indices”—(such as ethnicity) and alterable characteristics—so-called “signals”—(such as education) in order to assess the unknown productivity and trainability of young applicants (Spence, 1973). Thus, particularly those young people who have the “right” signals and indices are more attractive for employers and in a better position. However, this implies that the risks of unemployment, temporary employment, and skill-inadequate employment are unequally distributed between different subgroups of young people. A large body of research has shown that especially youths with low levels of education and immigration background are disadvantaged in the job search process and may even experience statistical discrimination and stigmatization based on their group membership (e.g., Kalter & Kogan, 2006; Solga, 2002). Besides the level of education, vocational education and training is a valuable signal in the race for good labor market positions among young job seekers (Shavit & Müller, 1998). However, if the education system does not offer clear signals, many young workers end up in skill-inadequate employment (Wolbers, 2003). Specifically, the problem of overqualification arises if young workers

attended higher levels of education than the level of education that is actually required to perform the job tasks.

CAREER CONSEQUENCES OF NONOPTIMAL LABOR MARKET ENTRIES

In consideration of the fact that many young people experience unemployment and precarious employment, and, because the school-to-work transition is a central stage in the individual life course, the question arises how an initial period of nonemployment and precarious employment affect the work careers. Do nonoptimal starts damage an entrant's future career opportunities? Or, are these only transitory effects?

Looking at the literature, it is often argued that experiencing unemployment at the beginning of the working life lowers future employment chances and wages in the long run. These so-called scar effects are related to the depreciation or loss of skills and work experience as well as the loss of social networks that occur during the period of unemployment. It is argued that these scars may last for the entire working career because initial unemployment induces a stigmatizing signal in future hiring decisions and, thus, recurrent spells of unemployment. An opposing view is that initial disadvantages diminish when unemployed youths find their way to employment and get access to training and networks. In this respect, frequent job moves and recurrent periods of unemployment in the early career are seen as necessary and unproblematic steps in the process of finding the right job. Which view is the right one? Empirical findings suggest that there is some catching-up process but unemployment still damage youths' careers in the long run (Gregg & Tominey, 2005; Mroz & Savage, 2006). Particularly, unemployed youths with low levels of education experience such adverse long-term career effects (Burgess, Propper, Rees, & Shearer, 2003).

With regard to the career consequences of a start in precarious employment, such as temporary jobs and skill-inadequate jobs, there are also two opposing scenarios (Gebel, 2010; Scherer, 2004). According to the *entrapment hypothesis*, precarious jobs are located in the secondary labor market offering only limited chances of skill acquisition, which hinders upward mobility. Furthermore, a worker who begins his or her professional life in a precarious job might be viewed as a bad hire by future employers, inducing a stigmatizing signal. In contrast, the *integration hypothesis* assumes that precarious entry jobs only induce transitory disadvantages, that is, youths who had a failed start can easily catch up. For example, according to the screening argument, employers convert temporary entry jobs into permanent jobs if the young employee fulfils the employer's expectations. Thus, in this regard, temporary jobs can be seen as "entry ports" or "stepping stones" into insider positions. Similarly, with respect to skill-inadequate employment, Sicherman's (1991)

career theory claims that starting the career as an overqualified worker is associated with better promotion chances across firm-internal career ladders into skill-adequate positions. Thus, overqualification is just a temporary phenomenon occurring at the beginning of the working career and it does not induce any long-term damage to the future career. It may even represent the fastest track toward skill-adequate work, offering important work experience and avoiding unemployment scars if the alternative is continued unemployment. This is in line with the idea that “job shopping” is necessary at the beginning of the career in order to find the right job.

Is the entrapment hypothesis or the integration hypothesis empirically supported? With regard to temporary employment at labor market entry, empirical studies are rather mixed when analyzing the early career consequences. Results vary across countries. For example, Barbieri and Scherer (2009) show for Italy that entering the labor market via temporary jobs has strong and long-lasting negative career consequences in terms of lower employment chances and lower chances to end up in stable employment. In contrast, McGinnity, Mertens, and Gundert (2005) find for Germany that the unemployment rates of those who started with a temporary job are higher in the short run but tend to converge with those of permanent-contract workers after five years. Similarly, Gebel (2010) shows that British and German youths who start their working life in temporary jobs suffer from initial wage penalties and risks of temporary employment cycles, but that those differences compared to entrants with permanent contracts diminish during the early career. The integration scenario works most effectively in the United Kingdom. In terms of subgroup differences of young persons, previous research has shown that the integration hypothesis is confirmed for the youths with high levels of education, whereas the segmentation perspective applies more often to the youths with low levels of education (Gebel, 2010). With regard to overqualification, empirical studies are more in line with the entrapment hypothesis (Baert, Cockx, & Verhaest, 2012; Scherer, 2004). There is some degree of catching up but initial disadvantages are not fully compensated for during the early career (Scherer, 2004). Moreover, there is again evidence that the results vary across countries.

CUTTING-EDGE RESEARCH

CAUSAL ANALYSES AND LONGITUDINAL DATA

Recent empirical studies emphasized that it is important to address the methodological problem of causality when analysing the career consequences of early spells of unemployment and precarious employment based on nonexperimental data. When analyzing the career consequences

of nonoptimal starts into the working life, nonrandom selection into unemployment and precarious employment has to be taken into account. As outlined, initial labor market positions are the result of a two-sided choice process, that is, spells of initial unemployment and precarious employment are not randomly assigned to the young persons. These two-sided selection processes induce compositional differences in terms of employee and employer characteristics. Thus, it is an open question whether career differences between successful and unsuccessful labor market entrants are really causal or just the result of different workers' and employer characteristics. For example, lower educated and less motivated youths might be overrepresented among young unemployed people and young people in precarious employment. If we find career disadvantages for these groups, the estimated effects may partly reflect preexisting educational or motivational differences and are therefore not causal. Hence, to understand the career effects of nonoptimal labor market entries, one has to account for such selectivity-induced compositional differences. If these differences are adequately statistically controlled for, the remaining effect can be causally attributable to the nonoptimal start. The bulk of empirical research answers the question of causality with standard regression techniques producing biased results if selectivity is not consciously and adequately accounted for. However, recent empirical studies applied methods of modern causal analysis such as propensity-score matching (e.g., Gebel, 2010), the timing of events approach (e.g., Baert *et al.*, 2012) or random effects models (Baranowska, Gebel, & Kotowska, 2011) in order to address the problem of causality in a more convincing way.

Moreover, recent empirical studies on the school-to-work transition and the career consequences of nonoptimal labor market entries highlighted the importance of taking a more detailed dynamic career perspective (e.g., Brzinsky-Fay, 2007; Gebel, 2010; McGinnity *et al.*, 2005). In this respect, *longitudinal data*, either in the form of individual level panel or retrospective life history data, are necessary to get a full picture of the career dynamics taking place after labor market entry. Moreover, these recent studies have shown that a long-term individual-level dynamic analysis based on longitudinal data is necessary in order to assess whether nonoptimal labor market entries cause only transitory effects or long-term negative career effects (e.g., Barberi & Scherer, 2009; Luijckx & Wolbers, 2009; Steijn, Need, & Gesthuizen, 2006).

THE IMPACT OF INSTITUTIONAL AND STRUCTURAL FACTORS

A second cutting-edge topic in recent research is the explanation of the strong cross-country variation in the incidence of youth unemployment and precarious employment. The role of various structural and institutional conditions

has been highlighted. From a policy perspective, it is particularly important to learn about the best design of institutions in order to guarantee youths' employability.

With regard to structural factors, *unfavourable economic conditions* tighten the competition among graduates and hinder a successful labor market integration of young people, especially for youths with low levels of education (Gangl, 2002; Verhaest & Van der Velden, 2012; Wolbers, 2007). In contrast, stronger competition due to demographic pressures, as measured by *youth cohort size*, does not seem to be an important explanatory factor for youth labor market problems (Gangl, 2002). The structural trend of *education expansion* has been especially made responsible for the phenomenon of overqualification among labor market entrants (Verhaest & Van der Velden, 2012). It is argued that educational expansion induced a "credential inflation," which led to displacement processes from the top, leaving higher educated to take up low-skilled job that were previously occupied by less qualified workers. However, it has been shown that these crowding-out processes have been partly offset by an upgrading of the occupational structure due to technological change (Gangl, 2002). Another structural factor that has been highlighted in recent research is *globalization* (e.g., Blossfeld, Buchholz, Bukodi, & Kurz, 2008). However, the quantitative empirical evidence on the impact of globalization is still scarce and rather ambiguous. All in all, although these recent studies emphasize the role of structural factors, quantitative empirical research on the impact of structural factors is still rather scarce.

With regard to institutional factors, previous research has developed a variety of country-level typologies to explain cross-country variation in youth labor market outcomes. However, recent research challenged these ideas of country typologies arguing that it is important to differentiate between single institutional dimensions. Particularly, from a policy perspective, it seems important to understand which specific institutions support or hinder youth labor market integration. In contrast, country typologies just leave the researcher with a bunch of potential explanations such that no clear policy recommendations can be given.

Previous research has particularly highlighted the role of *education and training institutions*. It is argued that in contrast to education programs teaching general skills, vocational-specific education facilitate school-to-work transition if employers are involved such as in the form of firm-based vocational training (Shavit & Müller, 1998). A classic example is the "dual system" practiced in Germany and other Central European countries, which combines school-based education with workplace-based training. Participating in firm-based training creates a screening opportunity for employers. Moreover, in this on-the-job training process, individuals obtain specific, portable, and up-to-date skills that are aligned with employers' needs. While

previous empirical studies confirmed the strong benefits of dual-system education (Breen, 2005; Shavit & Müller, 1998; Wolbers, 2003, 2007), most recent findings cast doubts. For example, Kogan, Noelke, and Gebel (2011) find equal benefits of dual-system and school-based vocational education in Central and Eastern Europe. Moreover, recent research has shifted the focus from secondary education toward higher education institutions in view of the expansion and differentiation of higher education. For example, Noelke, Gebel, and Kogan (2012) reveal the importance of the vertical differentiation of higher education system, in terms of different degree levels (post-secondary vocational degrees vs Bachelor degrees vs Master degrees), and the vertical differentiation of higher education, in terms of the occupational specificity of different field of studies, for patterns of the transition from higher education to work.

Furthermore, *rigid labor market institutions* have been identified as the main factors causing this strong cross-country variation in youth labor market outcomes. For example, *minimum wages* may induce wage floors and hamper youth labor market integration chances (Neumark & Wascher, 2004). Strong *unions*, mainly representing the interests of labor market insiders by pushing for higher wages and employment protection for older workers, can also be to the disadvantage of youths' employment chances (Baranowska & Gebel, 2010). In addition, *rigid employment protection legislation* (EPL) has been blamed for youths' integration problems in previous empirical studies (e.g., Breen, 2005). While strict EPL reduces hiring and firing rates, it has been argued that employers particularly refrain from hiring young workers in an environment of high firing costs. Against this background, many European countries reacted with the deregulation of employment protection. The most common form of EPL deregulation was the partial deregulation of temporary work contracts while keeping the protection of regular contracts at high levels. However, in the recent empirical literature, doubts on the effectiveness of the EPL reforms—in terms of the effectiveness of reducing youth unemployment—occurred (Noelke, 2011). Moreover, recent empirical findings show that the partial deregulation of temporary contracts just aggravated social inequalities in terms of an increasing spread of temporary jobs among youths but it did not succeed in reducing youth nonemployment risks (Gebel & Giesecke, 2012). These recent studies on EPL have also made an important methodological contribution. While previous studies suffered from potentially biased results as they relied on comparing countries with different levels of EPL, recent studies looked at the effects of various reforms of EPL in each country (Gebel & Giesecke, 2012).

Finally, youths' employability is shaped by the welfare state in terms of the national design of *active and passive labor market policy*. While young school

leavers rarely have the working experience that grants eligibility for financial support from the state, diverse measures of active labor market policy (ALMP), such as help with job search, further training or subsidized work, have been implemented across countries in order to facilitate youth labor market integration. However, a recent meta-analysis of ALMP evaluation studies shows that youth programs are significantly less likely to be effective (Kluve, 2010).

KEY ISSUES FOR FUTURE RESEARCH

Although previous research produced important insights, and although recent research has brought innovative research designs and addressed highly topical new issues, there are still many underexplored topics of research. In the following, I highlight five main topics of an agenda of future research.

INSTITUTIONAL AND STRUCTURAL DETERMINANTS OF SUBSEQUENT CAREER CHANCES

As described, recent empirical studies have challenged conventional wisdom on the institutional determinants of a successful integration of young people into their first job. We still do not know much about the institutional and structural determinants of subsequent career chances. The very few comparative studies that look at the career consequences of nonoptimal labor market starts have revealed strong country differences (Gebel, 2010; Scherer, 2004; Verhaest & Van der Velden, 2012). What we still lack is robust quantitative evidence on which institutional and structural explain country differences. Are the subsequent career chances determined by macroeconomic conditions, or can policy makers influence the career chances via policy reforms? We have to know how to best design the institutional environment of the education and training system, labor market regulation and the welfare state in order to mitigate the any negative career effects of bad starts into the labor market. For example, do rigid labor markets, due to strong unionization and strict employment protection of regular jobs, reduce young people's chances to make up for any initial disadvantages? In this respect, there are some first hints that youth have the best chances to get out of precarious jobs in flexible labor markets, whereas mobility barriers are stronger in rigid labor markets (Gangl 2003; Gebel, 2010; Scherer, 2004).

Another question is whether the effects of institutions may differ with regard to labor market entry chances and career chances, producing potential trade-offs. For example, vocational-specific education systems may reduce the incidence of unemployment and precarious employment at labor market entry but, at the same time, they may aggravate the negative consequences

of nonoptimal career starts by deepening labor market segmentation. Specifically, the additional segmentation of the labor market across occupations may make it difficult for young workers trained in one specific occupation to profit from better jobs in another occupational segment.

To identify the institutional and structural determinants of subsequent career chances, we need new comparative longitudinal data that allow us to track the career of youth in an individual-level dynamic perspective. The few suitable large-scale national panel surveys such as the German Socioeconomic Panel (SOEP), British Household Panel Survey (BHPS), or the US-American Panel Study on Income Dynamics (PSID) are too few in number in order to allow for a quantitative cross-country comparison. Higher degrees of data comparability as well as the larger number of countries are necessary for a more rigorous analysis of country differences. Existing comparative panel data such as the European Union Statistics on Income and Living Conditions (EU-SILC) do not offer sufficient number of observations and information about the careers of young persons. Furthermore, the individual-level panel component is lacking in some countries and the panel component of following individuals up to 4 years is too short in order to evaluate the long-term consequences of nonoptimal starts.

YOUTH LABOR MARKETS IN THE GREAT RECESSION

The economic crisis of 2008/2009 and its aftermath have been seen as a prime example that young people represent the most disadvantaged age group in the labor market (Bell & Blanchflower, 2011; Verick, 2009). Against this background, concerns have been raised that this crisis has produced a “lost generation” of young people. It is not only expected that youth experience more often spells of unemployment and precarious employment during that crisis but also that youths have suffered more in terms of scarring than in previous times. Having a “lost generation” would also have detrimental effects for the social integration of our societies. Thus, future research needs to keep track of the youth generation that experienced the crisis of 2008/2009.

Another important issue is to explain country differences in the reaction of youth labor markets to the crisis of 2008/2009. Some countries in Southern and Eastern Europe have suffered from disastrous effects of that crisis, while youth employment chances even improved in other countries such as Germany. Why did some countries perform better in that crisis than other countries do? Which policy reforms help to mitigate the effects of the crisis? Future research needs to address these policy-relevant questions by analyzing how economic shocks and institutions/policies interact in their effects on youth labor market chances. In order to better disclose the effects of interactions between economic shocks and institutions/policies, trend studies that

compare the impact of the crisis of 2008/2009 with the impact of previous economic downturns might be very powerful.

DIFFERENT FORMS OF NONEMPLOYMENT AND PRECARIOUS EMPLOYMENT

Previous research mainly focused on youth unemployment when analyzing youth risk of not having a job. However, this youth unemployment indicator misses important cases. For example, in reaction to scarce employment opportunities, youths may give up the job search and become discouraged, inactive workers. Moreover, parenthood represents an alternative role model particularly for young women when employment opportunities are rare. Or, young people may avoid competition for scarce jobs by extending their studies or returning to the education system. Thus, in addition to the standard unemployment indicator, a broader nonemployment definition such as the NEET indicator (young people “not in employment, education nor training”) is necessary to fully capture the problem of missing employment opportunities for young people (e.g., Eurofound, 2012).

Similarly, it is important to differentiate between different forms of precarious employment. While previous studies already distinguished different forms of precarious work such as temporary jobs and skill-inadequate employment, there is still a strong heterogeneity within these subgroups and some forms of precarious work such as informal jobs have been rather neglected in research. Finally, all measures need to take the time dimension into account. It should be a difference whether you suffer from nonemployment or precarious work just for one month or for several years.

UPWARD AND DOWNWARD COMPARISONS

When analyzing the career consequences of a nonoptimal labor market entry, previous studies made an “upward” comparison of young people who were unemployed or in precarious employment to young people in good jobs. Not surprisingly, most studies found disadvantages for those with nonoptimal starts. While young job seekers generally prefer good jobs that guarantee secure, skill-adequate employment, these jobs are scarce. Thus, many young job seekers just face the choice of either accepting a precarious job or remaining unemployed. If the job seeker only receives a bad job offer, he or she has to decide whether to accept the offer or to continue the search. Hence, we need to know whether precarious jobs are still better than remaining unemployed. More specifically, is precarious work a “stepping-stone” for the unemployed youths? Thus, the “upward comparison” has to be complemented by a “downward comparison” of precarious work to unemployment. From a theoretical perspective, it remains unclear whether on-the-job search

in precarious jobs or off-the-job search in unemployment is more effective to reach the ultimate goal of finding a good job. Hence, future research should address this important question.

MULTIDIMENSIONAL OUTCOMES

The literature discussed in this entry focused on the labor market career consequences of nonoptimal starts into the working life. However, there is no reason to limit research to the labor market domain. In order to get a full picture of the consequences, it is important to understand all dimensions of social consequences. Career insecurities may translate into economic marginalization (i.e., sharp drops in living standards and increased poverty risks), social exclusion (i.e., social isolation) as well as lower psychological well-being and health problems. Furthermore, failure and problems in the transition from education to work may delay other transitions to adulthood such as family formation. While there are already studies on single aspects, we still miss a comprehensive picture on the interrelationships between different consequences. Future research could piece the puzzle together. An interdisciplinary approach is required as the suggested topics cover the fields of sociology, economics, psychology, health, and social policy.

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