

A scarred generation? French evidence on young people entering into a tough labor market

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Motivation

The late 2000s recession has hit youth very hard

- In France, labor market situation of young people are very sensitive to business cycle fluctuations: from 2008 to 2012, unemployment rate increased by 4.3% points for the 15-24 years old, compared to 1.9% point for the 25-49.
- Concerns that these poor labor market performances would last for a long time: "scarring effects" for cohorts facing unfavourable conditions at entry into the labor market

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⇒ What can we learn from past recessions about such scarring effects in France?

Contribution

- 1 First study on French data
- 2 Results on the whole young entrants population (not only highly educated workers)

Outline

- 1 Data
- 2 Descriptive statistics
- 3 Model and Results
- 4 Discussion and comparison with results from other countries

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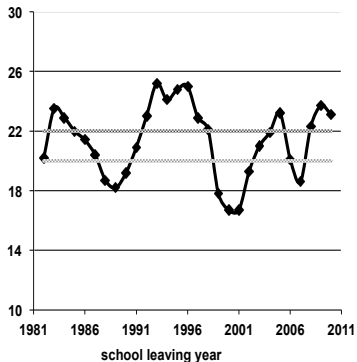
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Data used

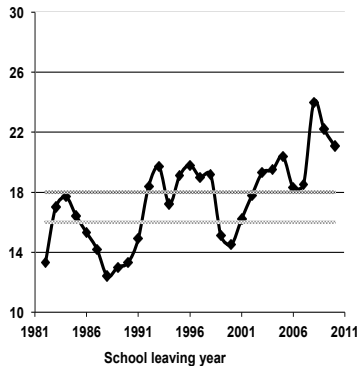
- French Labor Force Surveys 1990-2011
- Cohorts entering the labor market (*i.e.* completing their initial studies or dropping out from school) from 1982 to 2010
- From 1 to 15 years of potential experience on the labor market
- Focus on (French) male

Indicator of the business cycle: Unemployment rate of young people (15-24 years old, men-women)

Unemployment one year after the end of studies (%)



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All cohorts pooled, men

Figure : Employment rate and wage by potential experience



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Main model

We observe each cohort c between 1 and 15 years of potential experience. We regress their employment rate or monthly wage ($y_{c,t}$), on:

- UR at entry into the labor market (initial economic conditions, UR_c)
- catch-up process (piecewise linear function of potential experience, $g(e) \cdot UR_c$)
- potential experience profile (piecewise linear function, $f(e)$)
- current economic conditions (year fixed effect, ω_t)
- cohort's characteristics (education level and cohort size, X_c)

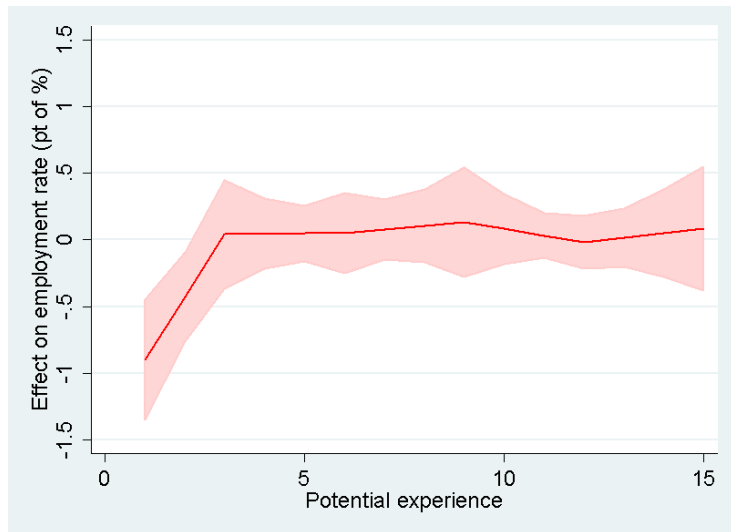
$$y_{c,t} = \alpha + \omega_t + f(e) + g(e) \cdot UR_c + X_c \cdot \beta + u_{c,t}$$

Two main assumptions

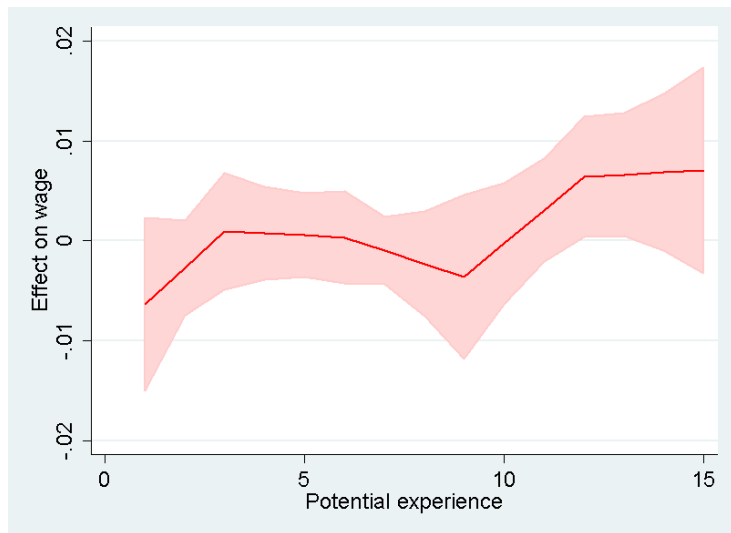
Main assumptions

- Cohorts only differ by the economic conditions they face when they enter the labor market (after controlling for education level and cohort size)
- Only the unemployment faced at entry could have long-lasting effects on employment and wage

Results: Employment (men)



Results: Wage (men)



Results

- Entrants facing unfavourable economic conditions **catch-up** with entrants facing favourable conditions **within 3 years**: dead-loss around 890 euros
- **No scarring effects** in the long run for employment and wage
- No scarring effects on other outcome: permanent contracts, occupation

Robustness checks

Results are robust to:

- Alternative control for current economic conditions: controlling for heterogeneous effects of current economic conditions by level of potential experience ([▶ Link](#))
- Alternative indicator for the business cycle: unemployment level during the first three years on the labor market (and not only the first year)
- Different periods of estimation: cohorts entering the labor market between 1982 and 1995 / between 1990 and 2010 / between 1975 and 2010
- Inclusion of a cohort trend

Is the labor market entry year endogenous to the business cycle?

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Question analysed in a companion paper "School as a shelter? School leaving-age and the business cycle in France?", *Annals of Economics and Statistics* (forthcoming)

- Very weak endogeneity: when labor market conditions are unfavourable, students only slightly delay their labor market entry

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What do our results mean?

- No/Few penalties (employment and wages) for entrants facing unemployment spells at entry
 - general skills provided by education less likely to deteriorate during a spell of non-employment
 - repeated but short-term unemployment spells (limited employability loss, possibility to hide these periods on the resume)
 - if unemployment is relatively high, the stigma connected to it is lower because it is a more widespread phenomenon (Biewen and Steffes (2010))
- tough entry but quickly overcome

Results from the literature

Contrasted results

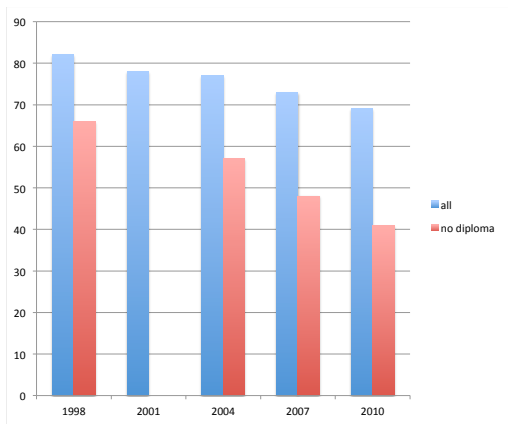
- **Fast catch-up** for employment
- **Wage differentials** last longer
 - relatively rapid catch-up: up to 6 years (Genda *et al.*, 2010 for the USA; Stevens for Germany, 2008)
 - relatively slow catch-up: 6 to 10 years (Oreopoulos *et al.*, 2012 for Canada)
 - persistence (Kahn, 2010 for the USA; Mansour, 2009 for the USA; Brunner, 2010 for Austria; Genda *et al.*, 2010 for Japan)

Why do the results for France differ from results from other countries?

- **High minimum wage**
- **Structurally high unemployment**: noisy signal from unemployment spells
- **Lower wage inequalities** in France (Charnoz, Coudin, Gaini, 2011)
- Consistent with smaller effects of lay-off in France than in the US (Royer, 2012): fewer penalties for job losers? Less specific capital in France?
- **Union strategies**: compensation of unfavourable entries and hiring based on education and potential experience?

What can we learn for the actual crisis

3-years employment rate (y-axis) for different cohorts (x-axis) - CEREQ survey data



Thank you for your attention