NON-EMPLOYMENT AND SUBSEQUENT WAGE LOSSES

Authors: ***José María Arranz*** **and** ***Carlos García-Serrano***

This work is the first attempt to analyse the existence and the magnitude of wage penalties associated with the non-employment experience of individuals in the Spanish labour market. In particular, we try to analyse whether wage losses (if exist) are affected by the length of job separations and the number of job interruptions. To achieve this objective, we draw on a sample of Spanish workers across the period 1987-1997 with information coming from an administrative dataset (the HSIPRE, Histórico del Sistema Integrado de Prestaciones). The data come from longitudinal linkage of records from monthly payroll computer files for all registered unemployed workers who receive all types of unemployment benefits from the Spanish public agency in charge of the administration of the payment of unemployment benefits (INEM, Instituto Nacional de Empleo). The empirical framework consists of estimating a standard wage equation using the within group (WG) technique, which is similar to a simple least square estimation in which the variables are defined as deviations from their individual means.

We find that non-employment brings an earnings set-back but subsequent employment generates substantial recovery. In particular, the impact of past non-employment duration increases with the time spent since previous job separation, but the non-employment incidence is found to have a temporary penalty effect on wages since it disappears after workers re-enter into employment. Furthermore, individuals with few job interruptions present the shortest wage penalty effect and subsequent spells of job interruption exert a larger wage scar, more pronounced for women than for men.

When we differentiate among various workers' characteristics, evidence shows that certain groups of workers suffer larger wage penalties upon re-employment. The estimated wage losses are more important for older (aged more than 45 years) and laid off workers, and for those in blue collar occupations. Among young workers (aged under 35), subsequent wages do not seem to be damaged by job interruptions. But the penalty effect for workers in blue-collar skilled occupations is more permanent, since after a re-employment relationship of three years or more the wage gain turns out to be very limited.

Our general findings are broadly similar to those obtained in previous studies for other countries. In particular, recent works for the UK obtain that the impact of non-employment duration is proportional to the length of separations among jobs (the long-term penalty attached to non-employment spells is estimated to be around 10 per cent) and that wage gains increase with tenure in the current job after re-employment. For the US, other works find that much of the persistence of wage losses can be explained by additional job separations after an initial one.

These findings suggest important implications for policies. On the other hand, from a macroeconomic point of view, since prevention of unemployment is better than cure, one important feature to enhance the re-employment prospects of the unemployed would be a high level of economic activity, which reduces the duration of unemployment spells.

On the other hand, scarring can contribute to wage inequality and poverty, and can interfere with work incentives. There is a need to provide financial incentives to those individuals to go back to employment that carries a wage penalty. As scarring seems to be particularly important in the case of the long-term unemployed and older workers, programmes aimed at the prevention of long-term unemployment and targeted to particular groups of workers should be in the public agenda. At the same time, active policies towards job finding would be efficient since they can reduce individual unemployment durations and speed up the return to employment.

Finally, appropriate on-the-job training and more stable jobs would avoid depreciation in acquired skills and undesirable effects linked to the employment-unemployment chain. Supply-side policies that make individuals more employable and increase work incentives should go hand in hand with demand-side policies to generate more (stable) employment.