

Labour market mobility patterns

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Introduction

Concepts of work are changing, with more flexible and diverse patterns of employment emerging. This is not to say that all workers are constantly shopping around for better jobs, but that on average mobility from one job into another with different working hours, different levels of permanency or different skill and wage levels is expanding, and working patterns have become more diverse.

It may be argued that this increase in flexibility offers workers greater freedom to construct their lives in different patterns, meaning that the life course is following a standard biography less and less, and is changing in favour of more diverse and individualistic life trajectories. Both individuals and households have a greater degree of choice over their working career patterns. The increasing level of social and economic integration, both Europe-wide and globally, together with increasingly rapid changes in the development and application of new technology and knowledge, are likely to give a further impetus to changes in the way people make their work and leisure choices. Over a lifetime, people will probably occupy a larger number of jobs during a shorter period, and many workers will experience longer intermittent periods of unemployment – or they may spend time not in paid work, but engaged in life-long learning activities, caring duties or volunteer work. There is a larger variety of working contracts, and workers are changing jobs more frequently. The notion of a “transitional labour market” as proposed by Schmid (2002) is likely to gain more importance in the light of these ongoing changes. These processes will raise mobility and turnover on the labour market notwithstanding the fact that the majority of jobs are still full-time jobs in paid employment.

However, there is another side to the coin of labour market flexibility. Employees’ changes of status in the labour market are often not a sign of flexibility, or diversity of choice, but are forced by adverse economic shocks and social risks such as sickness and disability. Increasing flexibility in the labour market means not only more flexibility for workers, it also means that employers have more room to dismiss employees and more opportunities to hire workers on non-standard contracts – which goes hand-in-hand with rising work insecurity and rising employment instability. Thus, for some employees at least, the trend towards increasing instability of employment patterns over time has meant a deteriorating labour market position

The increasing degree of labour market mobility and turnover imply that we need to rethink our standard ways of presenting information on labour markets. The standard means of presenting this information is with the use of repeated cross-sectional statistics, presented in the form of time series. They allow us to look at how employment levels are changing over time, or how the labour market

situation of particular groups, such as women, the young or the elderly is evolving. However, they cannot tell us whether the changes – if any – are related to changes in the *composition* of groups within the workforce, or whether they are due to changes over time in the *choices* which people belonging to particular groups are making, due to changing conditions or opportunities. Longitudinal data permit us to study the underlying processes of change in the lives of real people, and the sorts of events which have an impact on how people fare on the labour market over time. There is a growing need for labour market statistics in which the focus is on flows and dynamics. This requires longitudinal data, such as the cross-national panel data used in this study.

The aim of this chapter is to provide a deeper insight into flows in the labour market and the factors that might be responsible for the great variations in employment patterns, both within and across countries. The focus is on longitudinal patterns of employment, meaning that we are particularly interested in people's labour market behaviour patterns over a longer time frame. We call these longer-term behavioural patterns "working profiles". Over time people may change their working profiles, moving from unstable working patterns into stable patterns or vice versa. We will show that the degree to which people change their working profiles varies according to factors such as the person's age, or the institutional framework (as defined by regime type) with which he or she is faced.

At a European level, great concern has arisen about the labour market consequences of population ageing. The traditional view derived from human capital theory is that an ageing work force will lead to reduced productivity, increased wage costs and rising unemployment. It is argued that older workers are less mobile, which will reduce labour market mobility. Moreover, older workers who become unemployed face more problems in finding new appropriate jobs, which will lead to an increase in unemployment rates across Europe. However, these predictions from theory have hardly been tested. The aim of the contributions summarised here is to test whether these predictions hold, when examining the real evidence for a range of countries over a number of years, using properly comparable data.

This chapter will proceed as follows. The first section presents evidence on the longitudinal labour market attachment of workers – defined as the number of months that people spend employed or unemployed during a three-year period – and how this labour market attachment varies between employment regimes (Muffels and Fouarge, 2002).

The second part of the chapter examines the extent to which transitions in and out of employment differ between age groups and between employment regimes, focusing on two age groups of particular policy interest: younger and older workers. The role of individual and institutional characteristics in determining labour mobility patterns is assessed, using the results of Schils and Muffels (2003) on transitions out of employment across Europe, and of Kaiser and Siedler (2000) on transitions out of unemployment in West Germany and the UK.

Labour market attachment and regime types

Comparative labour market research should take account of the evidence that labour market stocks and flows are affected not only by demographic and economic factors at the country level, but also by cross-national institutional differences reflected in labour market policies and social security systems (Muffels et al, 2002). Looking at the national settings, it appears that there is a wide variety in goals, objectives, tools, institutions and policies affecting the labour market.

²⁰Our starting point is Esping-Andersen's classification (1990) into social-democratic, liberal and corporatist regime types, amended to incorporate a fourth, residual, regime type (see Table 1.3 and discussion in Chapter 1). Since the analyses involve the labour market performance of these welfare regimes, the term 'employment regime' instead of 'welfare regime' is used.

We expect that liberal regimes, with less labour market protection and more incentives built into their benefit systems, will have more temporary labour and higher labour mobility rates than social-democratic and corporatist countries, with their stricter labour protection rules and more generous benefit systems with higher replacement rates and less incentives.

Although Esping-Andersen allocates the Southern European countries to the corporatist regime type, there is evidence (European Commission, 1999; OECD, 1999) that labour markets in residual countries are quite different from those in the continental European countries, in terms of employment regulation, unemployment levels, non-standard jobs, and the informal economy. With this in mind, Muffels and Fouarge (2002) test whether the residual or southern countries should indeed be considered as a separate welfare state or employment regime, rather than part of the corporatist type. They find that residual labour markets face stronger employment protection regulations, which may explain why their share of flexible labour is much higher (see chapter 5 in this book). In addition, it emerges that their employment levels are lower and their unemployment rates higher - suggesting that the role of the informal economy is indeed much larger and more widespread in these countries.

One way in which attachment to the labour market may be measured is in terms of the proportion of workers in non-standard employment at a given time. However, this is essentially a static indicator. Muffels and Fouarge (2002) take a dynamic view of labour market attachment, using data from the first three waves of the European Community Household Panel. At the European level, three years seem sufficient to observe a substantial number of transitions from one employment status into another¹.

Stability or volatility in the labour market?

Table 6.1 gives an indication of the stability and volatility of different labour market states. Six distinct states are defined: employment, self-employment, unemployment, education or training, retirement, and other non-working. For each regime type, the labour market status in the first year is shown down the left-hand-side, and status in the second year is shown across the top of the table.

It is clear from this table that there is both a degree of stability and a degree of mobility in the labour market. Employment is the most stable state in three out of four regime types (retirement is most stable in residual regimes). Across all regime types, unemployment and education are the least stable states. Retirement and out-of-the-labour force seem to be more or less absorbing states with rather low mobility rates except for mobility between the two.

Table 6.1: Proportion of people moving between main activity statuses between 1993 and 1995: year-on-year transitions

Regime type	Employed	Self-employed	Unemployed	Education/ Training	Retired	Other non- working
Social-democratic						
Employed	91	1	3	1	1	3
Self-employed	10	77	2	1	3	7
Unemployed	28	2	39	5	3	23
Education/Training	33	1	6	58	0	2
Retired	0.6	0	0	0	72	26
Other non-working	4	1	8	1	1	85
Total	50	4	7	6	8	26
Liberal						
Employed	86	3	2	1	2	4
Self-employed	13	78	0.9	0	2	5
Unemployed	39	4	35	3	4	15
Education/Training	48	0	11	32	1	8
Retired	1	0	0	0	88	11
Other non-working	10	2	3	2	18	65
Total	47	8	4	2	21	18
Corporatist						
Employed	89	2	4	1	3	2
Self-employed	8	81	1	0	4	6
Unemployed	32	4	45	3	6	10
Education/Training	22	1	11	59	0	6
Retired	0	0	0	0	96	3
Other non-working	7	1	3	1	9	79
Total	43	6	6	5	25	15
Residual						
Employed	83	3	8	0	2	3
Self-employed	9	75	4	0	4	7
Unemployed	33	6	41	3	2	15
Education/Training	15	2	14	63	0	6
Retired	0	1	0	0	90	8
Other non-working	5	3	6	0	8	77
Total	31	12	9	6	16	25

Notes: Finland, Austria and Sweden excluded. (N=102,788)

Source: ECHP 1994-1996 (own calculations)

Many of the observed differences between regime types are what we predicted beforehand. The stability of employment is greatest in the social-democratic and corporatist regimes, and lower in the liberal and (particularly) residual regimes. The stability of retirement is highest in corporatist and residual regimes, whereas it is much lower in social-democratic regimes. However, a closer look at the figures shows that a large fraction of the retired in social-democratic regimes move into the state of non-working the following year, which is most likely a move from early retirement into full retirement

at the legal retirement age. The magnitude of the retiree flow might be the result of the generous early retirement benefits in this regime, which seem to attract a rather large share of older workers.

Considering the non-employed states of unemployment and being out of the labour force, the corporatist regimes show the highest stability whereas again, the highest volatility is observed in liberal regimes. This high volatility in liberal regimes is accounted for by the very high year-by-year transitions out of unemployment and education/training into employment in these regimes. This corroborates our conjectures about the more efficiently functioning labour markets in liberal regimes. With more mobility into and out of employment, the liberal regimes also seem to have the most flexible labour markets of the four regime-types.

Longitudinal employment status

The flows presented in Table 6.1 represent annual mobility rates between the main activity states measured at the time of the interview. We now proceed to examine longitudinal indicators of employment status and employment mobility. To do this, we use monthly calendar information on the usual activity status of the respondent in each month. Our measure of longitudinal employment status is based on the number of months for which people are employed over a 36-month observation period. We define four categories: persistently employed (100% in employment), mainly employed (50-99% in employment), mainly non-employed (1-50% in employment) and persistently non-employed (0% in employment). Longitudinal employment statuses for the 36-month period covering the calendar years 1993-1995 are tabulated in Table 6.2.

Many of the observed differences between regime types are what we predicted beforehand. The stability of employment is greatest in the social-democratic and corporatist regimes, and lower in the liberal and (particularly) residual regimes. The stability of retirement is highest in corporatist and residual regimes, whereas it is much lower in social-democratic regimes. However, a closer look at the figures shows that a large fraction of the retired in social-democratic regimes move into the state of non-working the following year, which is most likely a move from early retirement into full retirement at the legal retirement age. The magnitude of the retiree flow might be the result of the generous early retirement benefits in this regime, which seem to attract a rather large share of older workers.

Looking at the evidence for the various employment regimes, it indeed seems true that the number of people persistently non-employed is substantially higher in the residual regime, at 41% against 23% in the social-democratic regime. In addition, the number of persistently employed is much lower in the residual regime, at 36% against 49% in the corporatist regime. Hence, attachment to the labour market seems weaker in the residual regime.

Table 6.2: Longitudinal employment status over 36 months (row percentages)

	Persistently Employed	Mainly Employed	Mainly non-employed	Persistently non-employed
Europe	44	14	11	30
Social-democratic	48	17	13	23
Liberal	47	18	12	24
Corporatist	49	15	10	26
Residual	36	11	12	41

Notes: Sample contains all people of working age. Data not available for Sweden. For Austria and Finland the variable is defined over the last 24 and 12 months respectively.

Source: ECHP 1994-1996, covering calendar years 1993-1995. Reproduced from Muffels & Fouarge (2002)

However, unexpectedly, it turns out that the prevalence of precarious employment (mainly employed + mainly non-employed) is higher in the liberal and social-democratic regimes (30%), as opposed to the residual regime (23%). We suspect that this has to do with a higher share of female part-time labour in the liberal and social-democratic regimes compared to the residual regimes of Italy, Spain and Greece. The corporatist regime is in between.

The extent to which the different employment regimes are capable of guaranteeing that people move from insecure employment into full employment should be an important indicator of their labour market performance. Transitions between longitudinal employment statuses over three years are depicted in Table 6.3, by regime cluster.

The percentages on the diagonal of the transition matrix show that there is a good deal of stability in the labour market position of workers and job seekers. In liberal, social-democratic and corporatist regimes people in full, secure employment in 1993 have a slightly higher chance of remaining in stable jobs in 1995 than they have in the residual regime. In the residual regime, more people in persistent employment are likely to move into persistent non-employment the following year (10%, as opposed to 5-6% in the other regimes).

Furthermore, mainly employed and mainly non-employed people have a much lower chance of escaping from unstable jobs and moving into stable jobs in the residual regime than in the other regime types. Only about 42% of those mainly employed in the residual regime move into stable jobs, against almost 60% in the liberal countries, 52% in the corporatist countries and 46% in the social-democratic countries (the European average is 50%). Furthermore, the proportion of people moving from being mainly employed into persistent non-employment is higher in the residual regime than in the other regimes (34% against 21% in the social-democratic countries and 28% in the liberal and corporatist countries). The conclusion must be that from the state of partial employment, upward mobility is lower in the residual regime and downward mobility is higher. From a review of the evidence on the labour market performance of these employment regimes, it might be concluded that the residual regime performs worse in terms of enhancing job mobility and preventing labour market exclusion.

Table 6.3: Proportion of persons moving between employment status between 1993 (12 months) and 1995 (12 months) by regime type

	Persistently employed	Mainly employed	Mainly non-employed	Persistently non-employed
Europe				
Persistently employed	87	4	2	7
Mainly employed	50	15	6	29
Mainly non-employed	41	15	12	32
Persistently non-employed	11	4	5	81
Social-democratic				
Persistently employed	88	5	2	5
Mainly employed	46	25	9	21
Mainly non-employed	41	18	14	28
Persistently non-employed	12	6	7	75
Liberal				
Persistently employed	87	5	2	6
Mainly employed	59	10	4	27
Mainly non-employed	47	16	8	29
Persistently non-employed	13	6	6	75
Corporatist				
Persistently employed	88	4	2	7
Mainly employed	52	14	6	28
Mainly non-employed	48	14	8	30
Persistently non-employed	12	4	5	79
Residual				
Persistently employed	85	4	2	10
Mainly employed	42	17	8	34
Mainly non-employed	28	13	20	39
Persistently non-employed	8	3	4	86

Notes: Sweden, Finland and Austria excluded. Figures are row percentages, ie percentages of all persons belonging to the category in 1993.

Source: ECHP 1994-1996, covering calendar years 1993-1995. Reproduced from Muffels & Fouarge(2002)

This issue is further examined in Muffels and Fouarge (2002), by estimating models to explain why some people are more likely to be in or to move into persistent employment whereas others are more likely to be non-employed. Two types of models are estimated, (1) a model which explores the probability of belonging to a given longitudinal employment status and (2) a transition model exploring the changes in longitudinal employment status between the first and the last year.

Different levels of human capital endowments (measured by education level) may be expected to lead to differences in labour market opportunities (Becker, 1964; Mincer, 1993). Furthermore, the well-known 'job search' theoretical approach (Lipmann and McCall, 1986; Mortensen, 1986; Narendranathan and Nickell, 1986) predicts that human capital will play a role in the outcome of the search process for a better job, with more highly-educated people more likely to be successful in getting their preferred job.

Our results from model (1) above (estimates not presented in tabular form) show that people with higher levels of education do indeed have higher chances of being persistently or mainly employed and lower chances of being persistently non-employed. Being married has the same effect. The odds of being mainly or persistently employed rather than mainly non-employed are lower for

households where more children are present, and for households in social democratic or residual employment regimes. Living in a residual regime and having more children also increases the relative probability of being persistently non-employed.

Women are more likely than men to be persistently non-employed, while older workers and people living in countries with a social democratic employment regime are less likely to be persistently non-employed. A higher life satisfaction score is associated with being in stable employment.

We turn now to model (2), which estimates the dynamics of longitudinal employment status. Table 6.4 presents estimates of factors affecting the probability of moving from being mainly employed in 1994 into the other three states in 1996, relative to the probability of remaining in the same situation.

Table 6.4: Factors associated with moving out of being mainly employed

	Movements out of partial employment		
	Into persistent employment	Into being mainly non-employed	Into persistent non-employment
Female	0.058	0.239	0.558***
Age	0.011	-0.050	-0.239***
Age squared	-0.000	0.000	0.004***
Low education level	-0.070	-0.062	-0.198*
High education level	0.813**	0.425	-0.238
Not being single, couple or lone parent	0.840*	1.005*	-0.299
Widow(er)	2.819*	0.955	1.160
Poor health	-0.221	-0.027	0.782***
Engaged in job search	-1.032**	0.002	-0.163
Home-owner	-0.321*	-0.571**	-0.180
Regime type			
Social-democratic	-0.829***	-0.623***	-0.620**
Corporatist	-0.154	-0.262**	-0.074
Residual	-1.315***	-1.134***	-0.218
<i>Household changes from 1994-1996.</i>			
Separated	-0.079	0.727	1.089**
More adults in household	0.575*	0.788*	0.321
N = 2,928, Pseudo R ² = 0.132			

Notes: asterisks denote significance: *** at 1%; ** at 5%; * at 10%

Coefficients are from multinomial logit regressions, relative to staying in partial employment. Coefficients are effects relative to reference category:

Estimated model excludes Sweden, Austria and Finland

Source: Muffels & Fouarge (2002), based on ECHP 1994-1996.

Increasing age has a negative effect on the movement into persistent non-employment - and age squared has a positive effect. In other words, the probability of becoming persistently non-employed increases with age up to a certain point and decreases thereafter. This most likely reflects the effect of work experience and tenure. The older people are, the more likely they are to have more work experience and longer tenure up to a certain age – and thus, they are less likely to become persistently non-employed. However, after a certain age, workers become more likely to leave the labour market

through retirement. There is no significant impact of household composition, i.e. being a single, a couple with or without children or a lone-parent on the changes in labour market attachment except for non-standard families (e.g. a brother and a sister living together). These families more likely move into a persistent job and less likely drop out of employment entirely.

Having a higher education level, as expected, raises the likelihood of making a transition into persistent employment. This effect seems to signal the impact of the knowledge economy because of which higher-skilled workers have a strong labour market position and ample opportunities to improve their work prospects by moving into a more stable job.

The probability of moving into a secure or stable job varies greatly across employment regimes. The likelihood of moving from being mainly employed into persistent non-employment is lower in social-democratic regimes than the liberal regime. The probability of moving into a more stable job is higher in the liberal regime (which acts as the reference regime) than the social-democratic and particularly the residual regime. This observation, that upward mobility into more stable employment is significantly lower in the residual regime, corroborates our earlier results.

Although only three waves were available for analysing transitions across the various employment regime types, the results of Muffels and Fouarge (2002) show remarkable differences across the three distinct 'ideal types' of employment regime. The next section investigates the extent to which labour mobility differs between regimes over a longer period of time; additionally, it will show that labour market patterns are different for younger and older workers.

Labour market mobility patterns of younger and older workers

In the previous section we examined labour mobility patterns across all age groups, observing both a degree of stability and at the same time a degree of mobility. Using ECHP data for the late 1990s, the annual mobility rate (the proportion of people in a particular state moving into another state the following year) is calculated as around 16% on average. Apart from movements into and out of the labour market due to unemployment, disability or (early) retirement, the highest degree of mobility is found into and out of non-standard and part-time jobs. New forms of labour have increased the magnitude of mobility between firms. Additionally, there is reason to believe that mobility is also within firms, due to the necessity for firms to enhance flexibility in order to cope successfully with rapidly changing market conditions. The rise of the knowledge economy poses new demands in terms of life-long-learning and multi-skilling,

In addition, the ageing of the population will substantially affect mobility rates and labour market performance in a number of European countries. The dominant view in academic and policy circles is that the ageing of the population and particularly the ageing work force will have significant effects on the performance of the European economies. Wage costs are likely to rise due to the payment of seniority wages in a number of countries, and labour productivity will fall. This will be a

barrier to economic growth. In some sectors of industry there will be shortage of juvenile labour for jobs requiring skills that older workers generally do not possess (e.g. physically demanding jobs).

Many of these expectations are derived from human capital theory that predicts that investments in human capital will be lower for older workers than for younger workers because the pay-off time is too short to make these investments profitable or efficient (Becker, 1964; Mincer, 1962). The traditional view derived from human capital theory is therefore that the ageing work force will lead to reduced productivity, increased wage costs and rising unemployment. It is argued that due to the low investment in their human capital, older workers will be less mobile, and therefore labour market mobility will fall as a result of an ageing workforce. Moreover, low levels of human capital or lack of investment in maintaining the value of human capital endowments (e.g. during periods of unemployment or disability) are expected to reduce re-employment probabilities, especially for older workers.

For these reasons, we examine the level of human capital investment in terms of the training provided to older and younger workers, and the impact that the level of training has on the labour mobility patterns of different age groups. In Schils and Muffels (2003) and Kaiser and Siedler (2000) the predictions derived from human capital theory have been examined. In this chapter we show particular interest in transitions in and out of employment and unemployment respectively. Due to limitations in the data, we could not investigate internal labour mobility (i.e. mobility within firms) but instead examined investments in training and external mobility patterns across age groups.

The transitional labour market patterns of older workers are analysed and compared with those of younger workers. In addition, institutional differences across countries are examined, particularly with respect to training facilities and early retirement schemes and how these affect age-related labour mobility patterns.

Training

First, we examine how patterns of investment in human capital vary by age and regime type. Figure 6.1 depicts, for four age groups, the share of employed people receiving training or education.

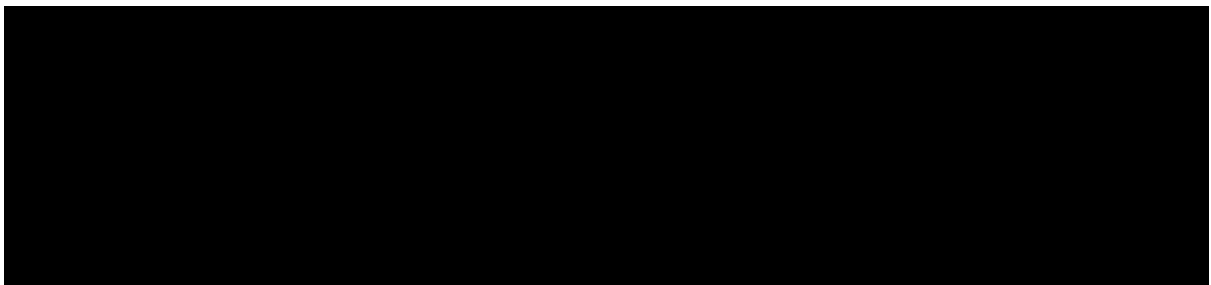
One striking feature of Figure 6.1 is the high percentage of young people receiving training in corporatist regimes. In Germany, one of the largest corporatist countries, a dual system operates, where young people work while still in formal training or education. This may explain the relatively high percentage of young people in training and the large difference between the young and the prime-aged category.

In the liberal regimes, a fairly high percentage of workers of all ages participate in training. This might be explained by the larger turnover on the labour market (higher job-to-job mobility) which encourages employers to invest more in training in order to enhance commitment to the job. Also, employees might be more willing to invest in training in order to be more employable and hence to maintain their standard of living through working, particularly because they know that if they lose

their job they will be entitled to rather poor benefits. In residual countries benefits are also poor but the need to commit workers to the job through training is less prevalent because the existence of strong employment protection rules protect people from dismissal. For this reason there is no need for employers to render opportunities for training and indeed the figures show that fewer people are engaged in training in this regime. For the employees the investment in training pays less off due to worse employment opportunities. The evidence in Schils and Muffels (2003) shows that a relatively low percentage of young people in liberal regimes are in education while out of the labour force, whereas education levels are relatively high among the young workers. The figures in figure 6.1 show, that a relatively large proportion of the young people in liberal regimes receive training on-the-job. Across all regime types, the percentage of people receiving training while employed declines with age. This might be due to a shorter time during which firms receive the pay-off from their investments in older workers, or to ‘discrimination’ against older workers with respect to access to training.

As well as the probability of receiving training, the *type* of training received also differs across age groups: older workers are more likely to receive vocational training which will most likely be firm-specific training, whereas younger workers are more likely to receive general training (not shown on graph). Interestingly, older workers are the more likely to receive training paid for by their employers again indicating that their training is firm-specific while that pays-off most to the employer.

Figure 6.1: Percentage of employed people receiving training



Source: ECHP (1994-1998, pooled) reproduced from Schils & Muffels (2003).

Notes: For the Netherlands, no information is available for 1994. Sweden is excluded from this analysis due to a high percentage of missing observations (about 40%).

Theoretically, employers face risks in paying for such firm-specific training: if the worker leaves the firm, the employer must hire a new worker to fill the empty position. The investment in the worker who has left is hence lost to another firm.

Workers also face risks when paying for firm-specific training: if the worker is laid off, he or she will have paid for specific skills which are not transferable to another job. Thus, the theory does not predict clearly whether employers or workers will be most likely to pay the costs of training. Empirical analysis in Schils and Muffels (2003) shows that most training is paid for by employers,

which indicates that to an extent at least, employers are not reluctant to invest in the human capital formation of their older workers and do not intend to lay them off as quickly as possible.

Investment in the training of older workers is highest in the liberal regimes, followed by the social democratic, residual and corporatist regimes in that order. We predict that the lower the investment in training of older workers, the higher will be the rate of mobility from employment to unemployment.

Transitions for different age groups

To examine whether annual transition rates between the main labour market states (employment, unemployment and inactivity) are different for workers of different ages and in different regimes, transition rates between 1994 and 1998 are shown in Table 6.5ⁱⁱ.

Table 6.5: Transition rates between employment, unemployment and inactivity, by regime type and age.

	Aged 16-24			Aged 25-49			Aged 50-58			Aged 59-65		
	E	U	I	E	U	I	E	U	I	E	U	I
Social democratic												
E	81	4	15	93	3	5	89	3	8	67	2	31
U	40	28	32	27	46	27	14	54	31	10	25	64
I	29	4	67	20	17	63	7	7	86	5	1	95
Liberal												
E	88	4	8	94	2	4	91	2	7	76	1	23
U	44	38	18	34	41	25	25	42	33	15	29	54
I	29	6	64	18	3	79	8	2	90	3	1	97
Corporatist												
E	84	8	8	93	3	3	89	4	7	67	2	30
U	37	46	17	33	52	15	13	71	16	1	39	61
I	16	5	78	16	5	78	4	4	91	1	1	98
Residual												
E	83	10	7	94	4	3	89	3	9	74	2	23
U	26	55	20	30	52	18	19	59	22	11	41	47
I	9	12	79	10	7	83	4	2	94	2	0	98

Notes: Employment status (Employed/Unemployed/Inactive) in year t is shown down the left-hand side of the table; destination in year t+1 is shown across the top of the table. Figures are row percentages. Rows do not necessarily sum to 100%, since the destination category of "missing" is not reported.

Source: ECHP (1994-1998, pooled across years) reproduced from (Schils & Muffels (2003).

Remaining in employment

For those employed in one year, the probability of remaining in employment is highest in the 25-49 age group and lowest in the 59-65 age group in all employment regimes. Over 90 percent of 25-49s who are employed in one year are still employed a year later, against 67-75% for the oldest age group. The lowest percentages for the oldest group were found in the corporatist and social-democratic regimes, which might be explained by the generosity of their early retirement arrangements.

The likelihood of workers remaining in employment is highest in liberal regimes for all age groups. This does not imply that labour market mobility is lower in liberal regimes - on the contrary, job-to-job mobility might be higher but intermittent periods of unemployment shorter, due to less generous benefit levels and more efficient labour markets. More evidence on this is given below.

Employment to unemployment

Transitions from employment to unemployment (job to non-job mobility) are quite low for all age groups. In corporatist and social-democratic countries relatively high percentages are found for the 50-58 aged. This demonstrates that unemployment benefit arrangements are functioning as hidden routes into early retirement. For other age groups, the highest percentages of people moving into unemployment are found in the residual regimes, which might be due to the generally higher unemployment rates in these regimes.

Re-entry into employment after unemployment

In all regime types, re-entry rates into employment after unemployment decline with age. This appears to support the hypothesis that older people experience more barriers to finding a new job than young people, for reasons already explained in this chapter. Whether these declining re-entry probabilities are due to employers being reluctant to hire elderly workers or to the elderly themselves not searching hard enough to find a job remains unclear. Across all age groups, the probability of re-employment is highest in liberal regimes, where benefits are less generous and incentives to work are therefore strong. Spell analysis by Kaiser and Siedler (2003) shows that 12 months after the unemployment spell started, one third of the West-German males are still unemployed and did not escape unemployment whereas only one quarter of the British males were still unemployed. For the females the differences between the two countries are even larger: 35% of the West-German females and only 13% of the British females were still unemployed after 12 months of spell duration. ⁱⁱⁱ.

Moving out of the labour force after unemployment

The transition figures show that the oldest age group (those aged 59-65) have the highest probability of moving out of the labour force after unemployment, across all regime types. But the lowest transition rates from unemployment into out of the labour force are found in the liberal regime (54%) and particularly in the residual regime (47%) whereas these percentages are 61% and 64% for the corporatist and social-democratic regime respectively. The rather large differences in the exit patterns of older unemployed across the various regimes may be attributed to the differences in the attractiveness of the existent exit gateways to retirement. Liberal regimes (e.g. the UK) and residual regimes (e.g. Spain, Greece or Portugal) tend to have less attractive exit routes out of the labour force

These findings render only a general picture of the background of these employment transitions. Kaiser and Siedler (2000) and Schils and Muffels (2003) have estimated more elaborated models for explaining these transitions, incorporating both, individual and institutional factors.^{iv} Table 6.6 presents the findings of Schils and Muffels (2003), on the models explaining transitions from work into unemployment or inactivity. Models were estimated separately for men and women because the labour market behaviour of men and women differs markedly. The models include individual- and household-level variables, human capital and institutional characteristics.

The oldest age group has a significantly higher probability of moving out of employment, into either unemployment or inactivity compared to the prime-aged reference group. Older men and women tend to leave employment to withdraw from the labour market but older women more than men tend to move also into unemployment. The effect for men suggests that the generosity of the early retirement arrangements exerts a positive effect on the transition into inactivity.

With respect to gender differences, young women have a significant higher probability of becoming unemployed rather than withdrawing from the labour market than prime-aged women or men. We suspect that these young women in most European countries have yet no children to care for; they get children likely at later ages and then withdraw due to caring duties arising after childbirth and forcing them to quit their jobs. On the other hand young men tend to move out of the labour force significantly more than young women, most likely due to moving into further education. These results are further supported by the positive effect of the number of children on withdrawal from the labour market for women. Being divorced or widowed, as well as never having been married, have a negative effect on women moving out of the labour market - most likely for economic reasons. Never married single men are more likely to move into unemployment, which may either point to their lower human capital and worse labour market prospects or the disincentive effect of the benefit system. Having poor health is associated with a higher probability of moving out of employment into either of the non-employed states, for both men and women. Having good health is associated with a lower probability of moving out of employment, but this effect is observed only for men.

Human capital variables also play their expected role. A high education level lowers the probability of moving to unemployment, especially for women, whereas a low education level raises the likelihood of becoming unemployed, particularly for men. This mirrors the less favourable employment situation of low educated people in the knowledge economy.

Table 6.6: Factors affecting transitions out of employment into unemployment or inactivity

	Men		Women	
	Unemp- loyment	Inactivity	Unemp- loyment	Inactivity
<i>Individual characteristics</i>				
Aged 16-24	-0.23	0.61***	0.40*	0.22
Aged 50-65	0.36	1.34***	0.83***	0.84***
Number of children	0.07	0.00	0.00	0.09**
Divorced/separated/widow	0.25	-0.14	0.15	-0.25***
Never married	0.30***	0.02	0.13	-0.35***
Good health	-0.17***	-0.24**	-0.13	0.06
Poor health	0.41**	0.81***	0.62***	0.50***
<i>Human capital variables</i>				
High education level	-0.17	0.08	-0.25**	0.12
Low education level	0.44***	0.02	0.11	0.00
Tenure current job (years)	-0.21***	-0.07***	-0.19***	-0.07***
Receiving training?	-0.26**	0.29***	-0.02	0.05
<i>Job characteristics</i>				
Hours worked per week	-0.01***	-0.03***	-0.00	-0.03***
Public sector employee?	-0.29***	0.02	-0.39***	-0.29***
Non-supervisory level	0.04	0.30**	0.02	0.25**
Supervisory level	0.01	0.58***	-0.05	0.40**
Unemployed before this job	0.78***	-0.08	0.40***	0.09
Personal labour income	-0.05***	-0.05***	-0.09***	-0.10***
Other h/hold labour income	-0.01***	-0.00	-0.01**	-0.00
<i>Regime effects</i>				
Social-democratic	-0.09	-0.72***	1.07***	-0.40***
Corporatist	0.15	-0.72***	1.17***	-0.19*
Residual	0.45***	1.10***	1.22***	-0.15
Soc-dem * aged 16-24	-0.01	1.20***	-1.18***	1.13***
Soc-dem * aged 50-65	0.73**	0.261	-0.24	-0.01
Corporatist * aged 16-24	0.91***	0.57**	-0.29	-0.19
Corporatist * aged 50-65	0.28	0.19	-0.88**	-0.53**
Residual * aged 16-24	0.09	1.29***	-0.399*	-0.06
Residual * aged 50-65	0.17	1.04***	-1.05***	0.28

Notes: coefficients are based on multinomial logit regressions. The reference person is aged 25-49, in medium health, with medium educational levels, an intermediate level job, and living in a liberal regime;

Asterisks denotes significance: *** at 1%; ** at 5%; * at 10%

Source: ECHP (1994-1998), reproduced from Schils & Muffels (2003).

Human capital

Longer tenure in one's current job is negatively related to the probability of moving out of employment into either unemployment or inactivity. On the one hand longer tenure signals a good match and on the other people with longer tenure are most likely to have trained on the job and therefore have a more stable employment situation. For both men and women, the effect of tenure is much smaller for exits into inactivity, which might be attributed to early retirement schemes providing better benefits the longer tenure in the current job is

Currently receiving training reduces the likelihood of a transition into unemployment, but only for men. It appears that being engaged in training pays off, at least for men, since the probability of becoming unemployed is reduced. The positive effect for men of training on withdrawal from the labour market appears counterintuitive. Further analysis shows that the effect holds only for young

workers indicating that young workers receiving training are more inclined to leave the labour force to follow further education.

Job characteristics

The more hours a man works, the less likely he is to become unemployed, or to withdraw from the labour market. A similar effect, at least for moving into inactivity, is found for women. The longer hours a woman works, the less likely she is to withdraw from the labour market. These findings show that the longer one works in a job the better the labour market position of the beholder of that job.

Working in the public sector reduces the probability of moving out of employment, into unemployment, reflecting the better employment protection situation within the public sector. The effect occurs for men as well as for women. Women working in the public sector are less likely to withdraw from the labour market, which is not the case for men.

Workers occupying a lower level job (non-supervisory) or a higher level job (supervisory) compared to jobs at the intermediate level, are both more inclined to withdraw from the labour market. It requires further scrutiny to examine the reasons for the higher withdrawal rates of these particular groups. In either case it might be associated with a higher probability to become disabled or to move into early retirement schemes.

The findings also show that male and female workers who were unemployed before their current job are more likely to re-enter unemployment, though no more likely to withdraw from the labour market. People with higher earnings are less likely to quit employment to either destination – possibly because the opportunity costs of losing a well-paid job are higher.

Employment regimes

Effects of employment regimes are shown for each regime type compared to the liberal regime. In corporatist and social-democratic regimes, both men and women are less likely to withdraw from the labour market and to move into inactivity than they are in liberal regimes, while women are more likely to move into unemployment. In the residual regime, both men and women are more likely to move into unemployment, and men are also more likely to become inactive. This reflects the worse employment situation in the residual countries.

The interaction effects between regime type and age group are shown to be significant in many cases. The odds of becoming unemployed are significantly lower for the youngest female workers in social-democratic regimes compared to the odds in liberal regimes. Note however that the odds of withdrawing from the labour market are instead larger for the young female and male workers in this regime. This holds for young men in the other regimes too, but the strongest effect is found in the residual regime indicating again that the labour market position of young men is rather weak in this regime. These positive regime type effects on the withdrawal of young workers from the labour market suggest that more than is the case in liberal regimes the youngest workers tend to leave their

jobs to move into education. The reason for the move into inactivity might be their worse labour market situation in conjunction with the more active labour market policy in the corporatist and social-democratic regimes offering them more opportunities to raise their human capital and improve their labour market prospects through education and schooling. The results also indicate that in residual regimes both the youngest and the older generations of male workers have a higher probability of withdrawing from the labour market compared to their counterparts in liberal regimes. The results for the youngest age group might, apart from the poor unemployment benefits, mirror the typical familial features of the residual regimes where large fractions of young people still live in their parents' home, for which reason the economic need to earn a living is less pressing. Looking at the data more carefully it is shown that more than 80 percent of the young who are observed to make a transition from employment into inactivity in residual regimes are living in households with at least three adults. For the oldest generation a similar effect might be responsible for their higher withdrawal rate; incomes are shared within the larger multiple generation households.

For the youngest and oldest generations of female workers in the residual regime the findings show that they are more likely to move into unemployment signalling again their worse employment situation. In Corporatist regimes the youngest generation tend to move into unemployment whereas the oldest generation tend to either move into unemployment or to withdraw from the labour market. In both cases it might reflect the worse employment conditions for which reason they either receive unemployment or retirement benefits.

Finally, we included year dummies to account for business cycle effects. The dummies for the years 1995 and 1997 appear significant particularly for female workers. In 1995 and 1997 the odds of becoming unemployed or to withdrawing from the labour market are significantly reduced likely to be due to the improved employment conditions.

Transitions from unemployment into employment

Kaiser and Siedler (2002) examine transitions from unemployment into employment in the UK and West Germany^v. Estimates from their models (reported in Table 6.7) demonstrate significant positive effects on the probability of moving into employment for some of the household composition variables. For example, being married increases the likelihood of moving into employment for men in the UK. The presence of children has a strong negative effect for German women. This corroborates the findings presented in chapter 4, that women in corporatist regimes tend to withdraw from the labour market when children arrive in the household. Results for the UK show a negative effect of the existence of children for men, which seems slightly odd. The positive effect for married men indicates that the unexpected negative effect for men with children is likely to be caused by a negative effect for single unmarried men with children. Unmarried men who are confronted with the care for their children, just like women, need to reduce their working commitments for which reason they also tend to withdraw from the labour market

The results for the combination of education level and age show a clear picture. The higher the education level and the younger people are, the more likely the unemployed get a job. This holds both for males and females in West Germany. Similar effects were generally found in the UK, however with a striking difference. Those in the UK who are both low-educated and young are no more likely than their low-educated older counterparts to move into employment; this is true both for males and for females. This corroborates our earlier results for the liberal UK, finding that young unemployed people have not a very favourable labour market position because they seem to have low education levels.

Table 6.7: Main effects of the model on the likelihood of a transition from unemployment into employment

	West Germany		United Kingdom	
	Men	Women	Men	Women
<i>Household variables</i>				
Married	0.172	0.096	0.181*	0.192
Having children	-0.075	-0.511**	-0.236**	0.043
<i>Human capital variables</i>				
Low educ * young	0.697**	0.311*	0.093	0.060
Med educ * young	0.709**	0.373**	0.285**	0.308**
High educ * young	0.484**	0.387*	0.247**	0.298**
Low educ * older				
(ref)	0.082	0.236	0.108	0.230
Med educ * older	0.340	0.358	0.332**	0.304*
High educ * older	0.726**	0.627**		
Receiving training	-0.33***	-0.46**	0.11	-0.50**
Immigrant				
<i>Unemployment variables</i>				
Number of spells	0.481**	0.756**	0.438**	0.331**
Duration spells in	-0.058**	-0.099**	-0.054**	-0.047**
months	-0.334**	-0.154	-0.170**	-0.199*
Recipient une	-1.274**	-1.047**		
benefit				
Recipient une				
assistance				

*Notes: the parameter estimates shown are from a Cox proportional hazard rate model; Asterisks denotes significance: *** at 1%; ** at 5%; * at 10%*

Source: ECHP (1994-1997), adapted from Kaiser & Siedler (2000)

For older people in both West Germany and the UK, a high level of education exerts a positive effect on the rate of leaving unemployment – though coefficients are significant for the UK only.

Another assumption of human capital theory relates to the question of whether training during unemployment shortens its duration. Earlier it was shown that training during employment may reduce the probability of becoming unemployed, and the findings in this study show that, at least for Germany, receiving training has a positive effect on the probability of leaving unemployment and moving into employment.

In both countries, and for both sexes, there is a negative relationship between the duration of preceding unemployment spells and the probability of moving into employment: thus, the longer the duration of previous unemployment spells the lower the likelihood of moving into employment. For

each additional month of previous unemployment, the probability of leaving unemployment decreases by about 6 to 9 per cent in Germany and 5 per cent in the UK. This may be because human capital loss during unemployment lowers re-employment probabilities. It might also signal the selection strategies of risk-averse employers, who opt for workers with lower risks of a bad match. The positive effect of the number of spells seems at first instance counterintuitive, but it might signal the better re-employment probabilities of people experiencing multiple spells of unemployment and hence also multiple spells of employment.

The effects of the dummies for being a recipient of unemployment benefits or not on the duration of unemployment are consistently negative, both in Germany and the UK. People are less inclined to search for jobs when the financial burden of remaining unemployed is lower. This reflects the standard disincentive effect of unemployment benefits. In the end, when unemployed people find a job the match might be better due to this longer search, but the data does not provide evidence on this issue. The significant negative effects seem to be stronger in Germany than in the UK, suggesting that the disincentive effects are stronger in Germany. This might mirror the higher replacement rates of unemployment benefits in the corporatist Germany compared to the liberal UK.

Finally, the results show most strongly for Germany that immigrants tend to have lower reemployment probabilities than native-born residents. In the UK the effect is however significant for unemployed women only.

Summary and conclusions

The world of work is changing. There is a larger variety of working time arrangements and labour contracts; workers change jobs more rapidly, and they tend to experience more intermittent periods of unemployment. Working career patterns have changed in the context of rapidly changing economic and cultural influences. These ongoing changes will raise mobility and turnover in the labour market. The aim of this chapter is to provide a deeper insight into labour market mobility patterns and compare them across different institutional settings (employment regimes) and across different age groups. In the first part of the chapter we showed how people's attachment to the labour market, measured both at a point in time and over a longer time horizon, varies across the different policy regimes.

Examining year-on-year transition matrices for the various labour market states, we notice that employment is the most stable, while self-employment is less stable, and unemployment and education/training are less stable still. The less stable the labour market status is the higher the volatility and the more frequent people occupying these states do experience a transition into another state. The states of retirement and out-of-the-labour force are relatively stable, with rather low mobility rates out of these states except for mobility between the two. Across regimes it turns out that stability of employment is largest in social-democratic and corporatist regimes and lowest in residual and liberal regimes.

Looking at longitudinal working profiles we again observe a high degree of stability in persistent employment, a lesser degree of stability in the state of persistent unemployment, but much more mobility when people are mainly employed or mainly non-employed (what we might call insecure or intermittent employment). These findings show that both stability and mobility co-exist in the labour market. The image of a segmented labour market with stable jobs on the one hand and unstable jobs on the other is far from reality in any employment regime.

Examining transitions from one longitudinal employment profile into another shows that upward mobility (into a more stable job) is higher in the liberal and social-democratic countries and lowest in the residual countries. In addition, downward mobility (into a less stable job) is higher in the residual countries: therefore, we conclude that the residual regime is performing worst in terms of enhancing job mobility and safeguarding employment stability. These findings indicate that the residual regime does indeed stand out as a separate and distinct regime type, with a poorer record as far as its labour market performance is concerned. The liberal regime performs best across all regimes in terms of efficiency, but this is likely at the cost of safeguarding secure and stable jobs and stability of income position over time. With respect to guaranteeing a stable income position over time and more work security, the corporatist and social-democratic regimes perform better than the liberal regime, but apparently with some cost in terms of efficiency (see also Goodin et al., 1999).

In the second part of the chapter we examined labour mobility patterns by age group. First we investigated the extent to which investments in training differ between age groups. In general, older workers in all employment regimes are less educated and receive less training than younger workers. Our conjecture that investment in human capital would be lower for older workers is shown to be largely correct. We expected that investment in human capital would be highest in social-democratic and corporatist regimes. We suspected in these regimes, the existence of more employment protection rules and social security arrangements would provide incentives for employees to engage in training and for employers to supply training. However, no support is found for this hypothesis. In social-democratic and corporatist regimes the negative effect of being older on the likelihood of receiving training is largest, which might point to the typical pattern of early retirement in these regimes. Older workers rather move out of the labour force rather than engaging in training.

Second, we looked at the impact which this reduced investment in older workers' training might have on the labour mobility of older workers compared with younger workers. The evidence suggests that in all employment regimes, prime-aged workers move the least of all three age groups. Both the young and the old have the highest job to non-job mobility. It must be noted that although older workers do have a lower probability than young workers of becoming unemployed, once they become unemployed their probabilities of remaining in unemployment are higher. Our conjecture that job to non-job mobility in social-democratic and corporatist regimes is highest because of the use of social security arrangements as early retirement pathways is supported by the data.

Finally, we examined the transition from unemployment into employment in two large countries representing different employment regimes: the UK and West Germany. Most of the predictions following from human capital theory are confirmed by the hazard rate models estimated here. More highly educated people have much better chances of getting a job. Receiving training during unemployment increases the likelihood of moving into another job. A longer duration of previous unemployment spells lowers the likelihood of getting a job offer. Disincentive effects of generous benefit levels are more pronounced in the corporatist Germany than in the liberal UK, where benefit levels are relatively low.

These results, which were based on national panel surveys as well as the five-wave ECHP panel data set, have shown to be very promising and to support most of the theoretical conjectures made. Given the limited number of years of data in the ECHP, we were not really capable of tackling economic cycle effects. In future, the inclusion of more waves of data and more countries will permit us to enrich our analyses and to improve our model specifications by allowing us to control for economic cycle effects and improving the corrections made for selection bias. That the impact of regime type remains significant in most models even after inclusion of a very rich set of covariates supports the theoretical significance of including institutional variables that may account for differences in policy settings in the various countries under scrutiny. Policies are indeed important in improving the performance of labour markets in reducing unemployment and fostering economic welfare for all.

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Notes

ⁱ Considering the relatively short observation period in the mid-nineties, it cannot be ruled out that the mobility patterns observed are influenced by differences in the business cycle across countries. At the time of observation, however, all countries under scrutiny were in the same (upward) phase of the business cycle.

² People are classified into four different age categories: 16 to 24 being young workers; 25 to 49 being prime-aged workers; 50 to 58 as well as 59 to 65 being older workers. This distinction in the older workers' category is made because evidence is found that people aged 50-58 have other labour market patterns than their older co-

workers (Bercovec and Stern, 1991; Guillemard and van Gunsteren, 1991; Blau, 1994; Antolin and Scarpetta, 1998; Blondahl and Scarpetta, 1998; Kapteyn and de Vos, 1998; Heyma, 2001).

³For their study, Kaiser and Siedler used the German Socio Economic Panel Study (GSOEP) from 1991 to 1995 and the British Household Panel Study (BHPS) from 1992 to 1996.

⁴Kaiser and Siedler (2000) estimated a semi-parametric competing risks Cox-proportional-hazard model for the transition out of unemployment into employment or inactivity, whereas Schils and Muffels (2003) estimated a multinomial logit model for the transitions from employment to unemployment or inactivity. For more details on the methods used, see the original working papers.

⁵For Germany, the original model was estimated for both East and West Germany. Here, however, only the results for West Germany are discussed, since East-Germany should be considered a special case.