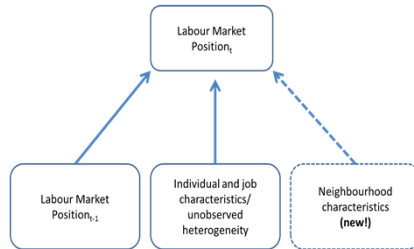


Does Neighbourhood Unemployment Affect the Springboard Effect of Low Pay?

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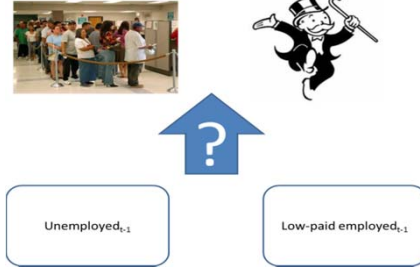
Labour Market Dynamics

What influences labour market trajectories?



- ⇒ However: employment and earnings possibilities are spatially not evenly spread
- ⇒ Matching longitudinal data for England with **small-scale** labour market indicators

Springboard Effect of Low Pay



Research question: How does the springboard effect differ in dependence of the unemployment level in the neighbourhood?

- ⇒ Low-paid better off in neighbourhoods with *high* unemployment

Literature review

Unemployment persistency

- Indicator for low productivity ⇒ stigma (Vishwanath 1989)
- Using length of unemployment as a ranking device (Blanchard & Diamond 1994)
- Maintaining skill level is costly and not observable (Acemoglu 1995)
- Numerous empirical evidence for state dependence in unemployment

Employment and earnings prospects for low-pay workers

- Not clear from theoretical perspective:
 - + Stops deterioration of human capital and signals willingness to work
 - Skilled workers avoid unskilled jobs (McCormick 1990)
- Heterogeneous empirical results (Stewart 2007, Knabe and Plum 2013)

The impact of local labour market conditions

- Opportunities are influenced by the neighbourhood (Galster & Killen 1995)
- Local social code can result in voluntary unemployment (Akerlof 1980)
- Absence of high-income earners leads to an underestimation of returns of education (Streufert 2000)
- Several empirical studies confirm influence

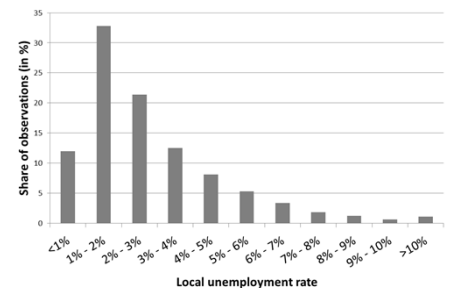
Understanding Society

- First four waves of *Understanding Society* (2009-12), a rich dataset with information on individual and job characteristics
- Restricted to males aged 25-55 years living in England
- Three labour market positions: unemployed (3%), low-pay employed (18%) and higher-pay employed (79%)
- Respondent's home address and geographical identifier

Local Unemployment

- For each respondent we know in which geographical unit (here: LSOA with 1,000-1,500 individuals) he lives
- Using information sourced from the *Department for Transport* about access to eight domains of public service (including employment centres)
- Unemployment rate: $\frac{\text{recipients of job seekers allowance}}{16-74 \text{ year olds}}$
- High unemployment: LSOA belongs to the **25th percentile** of the distribution with the highest unemployment rate (robustness using continuous marker)

Local unemployment rate



Econometric model

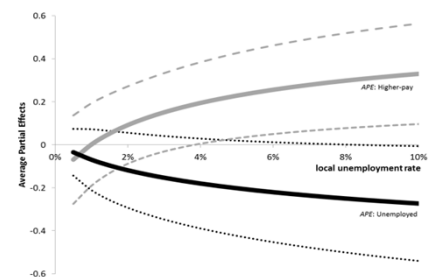
- Bivariate random-effects probit model
- Lagged dependent variable, including an interaction with the lagged labour market indicator
- Unobserved heterogeneity (Heckman 1981a)
- Initial conditions problem (Heckman 1981b):
→ suggestion by Wooldridge (2005)
- Correlated random-effects are simulated using Halton draws
- STATA command `bireprobit` (Plum 2015)

Results

APE: Local unemployment rate	low	high
Unemployed	-0.140 (0.119)	-0.249 (0.161)
Higher-paid	0.089 (0.126)	0.358 (0.144)

Source: Understanding Society (2014), Waves 1-4, 2009-2013. Standard errors in parenthesis

Continuous marker



Conclusion

- Research question: Which effect has the unemployment level in the neighbourhood on the springboard effect of low-pay?
- First study in low-pay research that is matching survey data with local labour market statistics at very immediate geographical scales
- Indications found that future unemployment risk is lowered and the chances of becoming higher-paid employed increased when taking up low-pay instead of staying unemployed in neighbourhoods that face high unemployment
- Findings robust for a range of robustness estimations