

Do Older Worker's Skills Actually Depreciate during the Period of Unemployment?

ABSTRACT

It takes longer for older workers to find job if they were laid-off from previous positions compared to younger counterparts (Bendick, Jackson, Romero, 1996). At the same time, reemployment wages of recently unemployed individuals can vary with the amount of time spent unemployed (Vishwanath, 1989; van der Berg, 1999) and holding all else constant, older workers may experience larger wage penalties because of the recent experience of non-employment. The latter fact may create discouragement to return to work among older workers after the layoff incidence. The goal of this study is to estimate the effect of duration of unemployment on reemployment wages of older workers using the sample of workers drawn from the Survey of Income and Program Participation (1996, 2001, 2004 and 2008 panels). Since relationship between two factors can be confounded by unobserved factors such as worker's motivation, this study proposes to address the given endogeneity problem using variations in unemployment durations created by a combination of the recent reforms in the Social Security retirement program (specifically, an increase in the full retirement age (FRA) and reduction of benefits for early retirement, at age 62) for certain cohorts of older workers and variations in state age anti-discrimination laws (dimensions) in the US. Neumark & Song (2014) demonstrate that the changes in the retirement program coupled with stronger state age anti-discrimination legislations have positive impacts on older workers' prospects of finding new jobs and overall employment. Although Neumark & Song study does not directly test the effect of the given changes on older workers' unemployment durations, their findings ensure that the given set of instruments may have a substantial explanatory power to explain variations in reemployment wages of older workers due to the changes in unemployment durations.

The negative effect of unemployment duration on reemployment wages can be explained by two competing factors. On the one hand, prolonged unemployment in the worker's credentials can increase a perception among potential employers that worker's productivity has been declined during the period of inactivity; as a result, employers may intentionally offer to this worker lower wages compared to the counterparts. This is known in the literature as a stigma effect (Vishwanath, 1989). On the other hand, worker's productivity can actually decline due to the depreciation of human capital during the period of inactivity. It is important to gain a better understanding of the level of employer discrimination and actual decline in human capital in lower reemployment wages of older workers. To separate these two effects, I propose to estimate the effect of unemployment duration on reemployment wages separately for two groups of older workers: unskilled and skilled workers (workers will be separated to these two groups using occupational codes of their pre-unemployment jobs). We can further assume that the estimate of the effect for unskilled workers can be used as a proxy for the stigma effect since the skill depreciation due to unemployment should be insubstantial for this group of workers. Further, the effect of the actual decline in human capital on reemployment wages can be computed by subtracting the stigma effect from the main effect estimated for skilled workers.

Older workers who lost their jobs and who experienced prolonged unemployment can be discouraged from return to work due to a substantial reduction in their wages (Neumark, 2009). If their wages are actually affected by the duration of unemployment, there are two potential solutions to increase their prospects of reemployment. First, in case of a substantial stigma effect, systematic outreach and training of employers to reduce negative stereotypes about productivity of older workers can be considered as an effective tool. Second, if there is a substantial decline in human capital leading to lower reemployment wages, then various human capital enhancing programs embedded into the current Unemployment Insurance program can be perceived as an appropriate mechanism. This study aims at providing a set of

concrete policy recommendations to increase employability of older workers especially those who recently experienced prolonged unemployment.

References:

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