

Off to a bad start: youth nonemployment and labor market outcomes later in life

Mattia Filomena¹, Isabella Giorgetti and Matteo Picchio

Abstract

The paper investigates the presence of scarring effects in Italy, focusing on the impact of nonemployment episodes experienced during the first 3 years after high school diploma on subsequent yearly labor earnings and participation in employment up to 25 years later. From the methodological point of view, we employ a factor analytic model which allow us to take into account time-varying unobserved heterogeneity jointly affecting selection into nonemployment after diploma and subsequent labor market outcomes later in life. Once unobservables characteristics are accounted for, we obtain evidence that school-leavers in Italy who experienced nonemployment after attained high school diploma suffer from relevant scarring effects. The negative effects are very persistent in terms of earnings: they are still sizeable and statistically significant 25 years after school completion. Penalties in terms of participation last instead shorter; they disappear for both men and women by the 10th year after the school completion. These findings suggest that those individuals who randomly experienced nonemployment after school completion were able to get reintegrated after a while, but in a downgraded track; given that people experiencing early nonemployment send a worse signal, accumulate less human capital relatively to their employed peers, and are more likely to face liquidity constraints, they could lower their reservation wage and be more likely to accept worse jobs, characterized by a career track of lower profile, which traps them in lower wages and lower chances of subsequent promotions. Hence, early nonemployment operates by persistently locking the youth who get off to a bad start into low-wage jobs.

¹ Corresponding Author: Mattia Filomena. Department of Public Economics, Masaryk University, Lipová 41a, 60200 Brno, Czech Republic. E-mail: mattia.filomena@econ.muni.cz.