

# Career Transitions and Firm Quality of Early Job Losers

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## Abstract

This study analyzes the impact of displacement after graduation from the German apprenticeship system on the first five years of younger workers' career development. Early career development will be described through a variety of different variables which are job, industrial and occupational mobility as well as time spent in employment, unemployment and out of the labor force. The analysis was conducted based on the German employment register provided by the Institute of Employment Research (IAB) that includes all workers who completed their apprenticeship within the period from 1992 to 1994.

The incidence of displacement does not represent a random event as firms will keep only the best of their graduates as full-time employees. Another problem occurs because the group of movers does not only incorporate involuntary displacements but also voluntary job changes. Furthermore, workers will search themselves into firms based on its turnover rates whereas low turnover firms attract high-ability workers (and vice versa). Within that framework of selection and sorting mechanisms, OLS regressions are likely to result in biased estimates. The appropriate strategy to tackle the mentioned estimation problems is to use an instrument. The chosen instrument represents the variation of the cohort-specific retention rate per firm from its average retention rate calculated over all of the three years observable in the data. This approach simulates a job loss due to an exogenous event like cyclical fluctuations which is independent of workers' performance and stable towards sorting of employees according to average turnover rates.

The results show that displacement has only a short-term effect on mobility as movers tend to switch jobs (but also industries and occupations) more frequently in the first year. In the same way, the average employment (unemployment) duration is only initially smaller (larger) for movers than for stayers. All effects reverse from the second year on so that stayers undertake more mobility processes and are less attached to the labor market.