

5 Unemployment incidence: labor turnover in the United States and West Germany

Why does unemployment occur to workers, and how do the United States and West Germany differ in this respect? Within the current chapter, this question will be addressed from an analysis of worker flows between employment and unemployment. That is, the nature and magnitudes of such flows will be addressed in greater detail than has been done in the preceding, more descriptive analyses. This focus also implies a thorough analysis of heterogeneity in unemployment incidence, and hence the distribution of unemployment experiences across social groups in the U.S. and in West Germany. However, the key interest of the following analysis will be the attempt to achieve a deeper understanding of labor turnover processes underlying unemployment inflows in both economies. Basically, the current chapter will take up the perspective of unemployment incidence as being rooted in labor turnover, and will develop an empirical model to test institutional and structural effects on employer decisions to discontinue current job matches. A basic analytical distinction this model will seek to implement is the standard one between worker churning flows and job turnover flows (cf. Davis et al. 1996; Anderson and Meyer 1994; Burgess, Lane and Stevens 2000; Schettkat 1996a, 1996b; DiPrete 1993; DiPrete and Nonnemaker 1997; DiPrete et al. 1997). Of the two, job turnover refers to, broadly speaking, processes of job creation and destruction that may involved worker flows through unemployment, whereas worker churning represents turnover, fluctuation and exchange at existing jobs and businesses.

Obviously, these flows will empirically coexist in modern labor markets: businesses are created anew or being forced to close down, which triggers worker flows into or out of the respective businesses; companies constantly restructure production processes, which to some extent involves restructuring of company work forces; finally, job quits, retirement, dismissals or other worker mobility are yet another permanent component of labor market dynamics. Certainly, not all of these different flows are of primary interest to an analysis of unemployment incidence as the extent to which spells of unemployment are involved in such turnover processes varies between types of adjustment dynamics (DiPrete et al. 1997; Stolzenberg 1988). Unemployment ensues if workers threatened by restructuring processes and turnover are unable to secure alternative employment immediately. In a nutshell, unemployment incidence represents that proportion of total turnover where individual workers could not avoid a spell of joblessness.

Hence, it might well be the case that different trigger events underlie actual inflows into unemployment, and that the relative importance of trigger events may

vary cross-nationally. In order to permit empirical assessments, in particular in the cross-national comparison, the following analysis will attempt to identify unemployment inflows due to job turnover as opposed to inflows resulting out of employer churning from the data - i.e. to distinguish between unemployment resulting out of the instability of *individual contracts* as opposed to the *stability of jobs or firms* themselves. Ideally, such analyses would of course be based on matched employee-employer datasets allowing to observe the firm context. As such data are not available to the current study, this chapter develops a more structural model which aims to identify latent processes underlying observable unemployment inflows. This model will be used both to describe structural similarities and differences in turnover dynamics in both labor markets, or at least in the unemployment consequences generated by them. Over and above these descriptive concerns, the model will then also be used to address the effects of institutional and structural conditions on unemployment incidence, and to account for cross-national differences in unemployment incidence rates more generally.

In fact, all the subsequent analysis focuses on unemployment incidence among experienced workers, and on their direct transition rates between employment and unemployment. This setup ignores, in particular, the inflow of new job searchers from the educational system and other non-employment into the labor market and into unemployment. To some extent, the issue will briefly be taken up in Chapter 7, which addresses reemployment chances of unemployed workers within the broader labor market context and job competition processes between groups of job searchers. As a more empirical justification of this particular focus, the first section of this chapter will present some additional descriptive data that situate job-to-unemployment transitions within total inflows into unemployment. Then, a separate section will be devoted to discuss the statistical estimation of the proposed model to distinguish between worker churning and job turnover components of total unemployment inflow. The remainder of this chapter then presents and discusses empirical evidence on unemployment incidence from both the U.S. and German data. While these analyses will provide evidence on the structure of unemployment inflow more generally, the main goal of the chapter is to identify the impact of institutional and structural context conditions on unemployment incidence rates. For both labor market regulation – by both legal regulation and collective organization – and economic restructuring, the analysis seeks to establish evidence on both the empirical magnitudes as well as the mechanisms underlying any effects on unemployment incidence in the U.S. and the West German labor market.

5.1 Job losses and inflows into unemployment

As has already been discussed in Chapter 4, inflow rates from employment into unemployment in the United States have been well above West German levels for much of the 1980s and 1990s. Averaging over the whole twelve-year period under study, the monthly transition rate amounted to 0.86% in the States, but was only at