



Labour Market Matters

Special points of interest:

- Education linked to better adaptability to unemployment shocks. Better educated individuals found to be more creative in job searches, and also found to have better success in finding re-employment.
- Study finds that younger displaced workers face a similar level of earnings losses as older displaced workers.

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Xueda Song
(York University)

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Adaptability to unemployment found to be higher among better educated individuals

As the thousands of Canadians who found themselves unemployed in the midst of the ongoing recession begin to look for work again, the question of which workers will better succeed in finding re-employment is one that has undoubtedly entered the minds of the currently unemployed and policy-makers alike. It has long been known that education helps to enhance employability and the ability of individuals to find better jobs relative to those individuals with less education, but can education also enhance an individual's ability to “bounce back” from unemployment more quickly than lesser educated individuals?

CLSRN study “The Causal Effects of Education on Adaptability to Employment Shocks: Evidence from the Canadian Labour Market” ([CLSRN Working Paper no. 8](#)) by Craig Riddell (UBC) and Xueda Song (York University) examines the impact of a person's education level on their ability to find work again after being unemployed. The study measures the effect of education on adaptability to job loss in two general ways: first, the influence of education on job search success, or the ability to obtain re-employment after unemployment; and second, job search intensity, or number and variation of job search strategies used.

Using data from 1981, 1986, 1991, 1996 and 2001 Canadian Censuses, Riddell and Song find that graduating from high school increases the probability of re-employment by 24 to 27 percentage points. An additional year of school increases the probability of re-employment by an additional 2 to 3 percentage points. In terms of the effect of education on job search intensity, Riddell and Song analyze Labour Force Survey (LFS) data covering years 1976 to 1996. The LFS provides information about the methods that respondents used in job search following unemployment: checking with public employment agencies, checking with employers directly, contacting relatives, looking at advertisements, placing or answering advertisements, and/or other methods. The number of job strategies may reflect both adaptability to unemployment as well as an individual's capacity for generating new ideas and alternative solutions to problems. Riddell and Song found a strong positive relationship between the level of education and number of job search strategies employed.

Riddell and Song's study highlights the importance of education as an effective means of enhancing re-employment success following unemployment, an invaluable asset in an ever-changing and unpredictable labour market. The study



Craig Riddell (University of British Columbia)

lends support to the case for education as a “preventative” alternative to government-sponsored adjustment assistance policies, which are often based on “repair shop” models that deal with problems once they have emerged. As with health care, such preventative strategies may be more efficient than strategies that address labour market problems after they develop. In the long-run, a greater focus on equipping Canadians with the education and skills they need to deal with possible labour market challenges before their onset may be more efficient than paying for such problems after they occur. Furthermore, for those who face labour market difficulties such as unemployment, having the education, skills and adaptability to deal with such problems renders the challenge far less destructive and traumatic than for those who lack such skills and adaptability.

Study finds that younger workers experience similar levels of earnings losses as older displaced workers. Education found to be an insulating factor against deep wage losses.

A growing body of literature has found that the majority of job separations among older Canadian workers ages 50-65 are involuntary, and that these workers have much lower re-employment rates than the rest of the labour force. One study found that four years after a job loss, displaced older workers employment rates are 20 percent points lower than their non-displaced counterparts. These findings suggest both a reduction in the rates of return to employment after displacement and elevated rates of exit from post-displacement jobs. Older displaced workers may also face lack of job prospects compared to the rest of the labour force. Findings such as these have led to a number of policy strategies aimed at reintegrating older workers (aged 55 and up) back into the workforce. An important case is the [Targeted Initiative for Older Workers \(TIOW\)](#), a Federal-Provincial initiative aimed at reintegrating older displaced workers into the workforce.

Although earnings losses resulting from job displacement of experienced workers have long been an important policy concern, little is known about the losses experienced by older workers in Canada. As the wave of baby-boomers age, research into how older workers and long-tenured workers fare following displacement is an area of increasing importance. In her paper, “*Earnings Losses of Displaced Older Workers: Accounting for the Retirement Option*” ([CLSRN Working Paper no. 10](#)), Tammy Schirle (Wilfrid Laurier University) finds that older workers face large and persistent earnings losses upon displacement, but that the losses



Tammy Schirle (Wilfrid Laurier University)

are not substantially larger than those of younger displaced workers.

Education appears to be an insulating factor that protects against earnings losses experienced by older workers. Schirle finds that both highly educated and less educated workers experience a similar dollar value of wage losses following displacement, with earnings roughly \$13,000 lower than otherwise expected in the year of displacement. In proportional terms, though, such losses amount to roughly 23% of pre-displacement earnings loss for highly educated workers, but amount to close to 40% of pre-displacement earnings for lower educated workers.

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Schirle’s findings on the magnitude of earnings losses faced by older displaced workers also accounts for the fact that many older displaced workers will self-select into retirement following displacement. The concern here, for example, is that older displaced workers may face the smallest wage losses and have the best pensions available for retirement. Since their small potential losses are not observed if they choose retirement, we would overestimate the potential losses of all older displaced workers by not accounting for the self-selection into retirement. Of course it could be those older displaced workers facing the largest potential losses that opt for retirement over returning to a low paying job.

When displaced over the age of 50, older male workers can expect earnings losses around \$14,000 in the year following displacement, representing roughly 37% of their pre-displacement earnings. Some earnings losses begin before the displacement actually occurs, particularly among workers who are laid off due to company closing (relative to workers laid off due to business slowdown). High-seniority older men face the largest earnings losses upon displacement, losing over \$22,000 in the first year following displacement and longer-term losses of \$16,314. Low-tenured men face lower losses of \$10,592 in the first year and long-term losses of \$6,394. The pattern of these results is robust to econometric methods that address displaced workers’ self-selection into labour force participation or retirement, a key innovation of Schirle’s paper.

Interestingly, Schirle found that the earnings losses of younger men (aged 25-35) in the first year after displacement are only slightly smaller (and not significantly smaller) than those experienced by older men. The study also found no significant differences between the earnings losses of displaced individuals aged 35-48 and those aged 50-69.

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In light of policy initiatives such as the TIOW that seek to provide funds to help reintegrate older displaced workers back into the labour force, Schirle’s study on the relative magnitude of losses experienced by older workers is key. Schirle’s results open the question of whether, given the longer remaining working life of younger workers, resources might be more efficiently used in programs that target younger displaced workers since these younger workers experience roughly the same magnitude of earnings losses as older displaced workers. Furthermore, younger displaced workers will experience these earnings losses for a much longer period and might hence benefit more than older workers over their respective remaining years in the labour force.

¹Chan, Sewin, and Ann Huff Stevens (2001) ‘Job loss and employment patterns of older workers.’ *Journal of Labor Economics*. 19 (2)

Endnotes

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