

The economic consequences of job-loss. Evidence from Germany and the US

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Abstract

Income inequality has been a topic of major concerns in the literature, yet its ‘permanent’ dimension has been scarcely investigated notwithstanding ‘life-time-inequality’ is the socially much more relevant dimension. Previous studies show that, due to income mobility, permanent inequality is considerably lower than snapshot-measures. However, very little is known about the micro mechanisms that lead to such outcome. Income mobility is mainly attributable to labour market events which individuals experience over their life-course. Though temporary income fluctuation levels out over the long-term, these events can also trigger changes in households’ income trajectories and thus may have long-term consequences on the overall inequality structure of a society, i.e. its stratification. This is especially true as the likelihood to experience these trigger events, as well as their consequences, are stratified by several social characteristics, and consequently might originate processes of cumulative (dis)advantage. The distinction between inequality and its stratification becomes thus very relevant, as well as the distinction between permanent and dynamic aspects of income.

This chapter investigates one of the most crucial event: job-loss. Specifically, the focus is on the way job-loss affects household income dynamics and on the extent to which its economic consequences are unevenly distributed among social groups/strata. Whilst groups are usually defined according to individuals’ socio-demographic characteristics, we use a more encompassing strategy: strata are defined as quartiles of the distribution of ‘permanent income’.

Being social strata defined in this way, individual position in the social stratification system can be interpreted as a latent measure of advantages and disadvantages that over time households accumulate. Therefore, given its link to permanent income, this measure of stratification captures advantages and disadvantages cumulated at both household level and over the life-course.

Further, the way social risks hit households, and thus the overall income distribution, depends on the society’s specific mobility regime. Labour market and the welfare state play an important role in shaping both the rate and, above all, the consequences of events. To take into consideration these aspects we approach these research questions in an international comparison employing longitudinal data for Germany and the US – two countries which strongly differ in structural characteristics relevant for income dynamics. Empirical results come from an innovative statistical model: the distributed fixed-effects.

Introduction

In the existing literature, income inequality has been studied from two different perspectives: from a static perspective and from a dynamic one. The first, refers to inequality measured cross-sectionally, the second refers to inequality measured longitudinally – and is usually referred to as permanent inequality, long-run inequality, long-term inequality or as life-time inequality. The second concept is the socially more relevant (DiPrete 2002).

The heart of long-run inequality is represented by the income dynamics. These dynamics are mainly determined by events in social and economic life that individuals experience over their life-course. In this paper we focus on labour market related events and, more specifically, on the transition from employment to unemployment.¹ More precisely, we are interested in how the loss of a labour income, which represents the main source of individuals' and households' incomes, triggers changes in economic resources. The loss of employment, might indeed translates in a considerable and severe reduction in individual welfare.

In addition, we examine the impact of unemployment events across social stratification, i.e. social strata. Here, social strata are conceptualized to reflect advantages and disadvantages that individuals and households have accumulated over their life course (DiPrete and Eirich 2006; Mayer 2004). In particular, we operationalize social strata as quartiles of the distribution of households' permanent income.

Moreover, focusing on welfare implies to consider the fact that individuals are not isolated atoms but inserted first in a meso level environment – the household –, and second in a macro context – the country. Both these levels enter into play to shape, at least to some extent, the severity of the consequences of individual (trigger) events or transitions. Therefore, we study the impact of job loss on welfare using different income concepts as well as in comparative perspective that permits to disentangle the role of institutions: the market, the household, and the welfare state.

Theoretical considerations

This paper builds on the idea that *events* interact with *attributes* in *context*. We aim to understand if, and to what extent, advantaged and disadvantaged groups are object of different income dynamics after the experience of an event. Life conditions are indeed affected by the individual's position within social stratification. This position may also trigger processes of cumulative (dis)advantage over the life course – or, as Merton would name it, a 'Matthew effect'

¹ In the following, we use 'transition from employment to unemployment' and 'job loss' interchangeably.

(DiPrete and Eirich 2006; Merton 1968). Cumulative advantage is at work when the advantage of a group over another group accumulates over time, when a given amount of resources ‘predicts’ future accumulation of resources. Integrating the insights from the life-course perspective with those from social stratification studies, the following research questions emerge:

Do different social strata experience different income trajectories after job loss? Do the negative consequences of unemployment accumulate on already disadvantaged strata?

The interaction between events and social stratification, moreover, takes place embedded in contexts. The context, characterized by its specific structure of opportunities and constraints, not only contributes to define the likelihood that an event is experienced, but also the consequences deriving from it. The (economic) consequences, indeed, are shaped by a set of institutions. For example, the configuration of the labour market can influence the possibility to recover from the income lost with unemployment, by affecting individuals’ reemployment chances and their wages after reemployment. The household may instead mitigate job loss consequences by pooling and sharing the incomes of other household members, while the state may support individuals via unemployment benefits.

These considerations permit to advance further research questions: To what extent do institutions shape income loss, its persistence, and the subsequent trajectory after unemployment? Do they do so differently for different social groups? How do they operate in different contexts? Does institutions’ role in reducing or reproducing inequality between strata vary in different countries?

Defining the event: job loss

Among the mechanisms that have the potential to produce social stratification, the stratification literature recognizes the role of ‘trigger events’ (DiPrete 2002). Events of this sort are considered life-course events that may have strong implications for economic conditions as well as for intragenerational mobility processes. Job loss falls under the umbrella of ‘trigger events’.

Income from labour represents the largest share of income that individuals and households dispose. Job loss, therefore, has the capacity to negatively affect the economic conditions of individuals and their households.

Up to now, much literature focusing on the economic consequences of job loss studied the impact of (involuntary) unemployment on earnings, but only little research has studied its impact also on other income concepts. In this paper, we define job loss as the transition from employment to *unemployment*, and we investigate its consequences for various concepts of income.

Moreover, whether on the one hand job loss may have significant consequences on individuals' and household' standards of living because it deprives people of a source of income, on the other hand, it may also affect trajectories after individuals have re-entered to employment. Existing literature, indeed, agrees that job loss has negative and persistent consequences on workers' careers. Scholars use the term 'scar effect' to indicate the loss of earnings that reemployed individuals experience in their new job compared with their earnings before job loss. Among others, a well-known study on the United States found a persistent scar effect of job loss: up to four years later, workers did not completely recover their initial earnings (Ruhm 1991). The same conclusion has been reached more recently by (Brand 2004). Studies on Germany also report a scarring effect of job loss, although with a lower magnitude (Burda and Mertens 2001; Gangl 2006).

After having experienced a job loss, reemployment can be viewed as a 'counter-mobility strategy' that individuals may adopt to recover their initial level of income (DiPrete 2002). The extent to which reemployment contributes to recover the initial level of income depends on wages in the new job, and indirectly on the time spent out of employment.

Among the explanations considered in the literature to address earnings trajectories after job loss, some have received particular attentions. Explanations have been mainly derived from the human capital theory, the signalling theory, and the job search theory, and are connected with the time spent in unemployment.

The human capital theory posits that the longer the duration of unemployment, the lower the wages in the new job (Becker 1975). This is because human capital, i.e. individual marketable skills, devaluates if unused. Therefore, a long time spent out of employment translates into both declining reemployment probabilities and declining wages as duration after job loss grows.

Signalling theory leads to the same conclusion, although via a different mechanism (Spence 1973). According to this theory, unemployment is used by the employers to assess worker productivity. Given that employers cannot directly judge the productivity of the workers, they base their assessment on observable factors. This means that spells and duration of unemployment are considered as indicators of low productivity and, in turn, employers will be more reluctant to hire and will pay low wages to low productivity workers.

The mechanisms derived from these two theories are of a demand-side kind, it is the employer decision that defines wages. Search theory, on the contrary, takes into consideration the two-sided process (Mortensen and Pissarides 1999). Job search theory derives the level of wage from the quality of the match between employer and employee.

The mechanism proposed by this theory builds on these considerations: job seekers receive job offers at a certain rate and decide whether to accept or decline the offer. The demand for specific

marketable skills defines the rate of the offers. Those with valued skills will receive job offers at a higher rate, which implies that they will experience shorter period of unemployment and higher wages in the new job because they can choose among many offers.²

However, following search theory, offers that match individual's skills are not so frequent and the job seeker has to search for some time before a good match is met and consequently a well-paid job is found. Therefore, following this reasoning, search theory predicts a positive association between time spent out of employment (time spent searching) and reemployment wages.

These theories are standard tools in labour market research and fruitful tools for the interpretation of our results, although our aim is not to isolate the duration of unemployment spells from wage levels, nor to test the mechanisms underlying the human capital and signalling theories.

The implications from job search theory deserve major attention, especially once the micro mechanisms it implies are approached in the comparative perspective. As said, individuals' options and strategies are situated in contexts characterized by specific institutions. In this case, the outcome of reemployment depends on the structure of the labour market in which individuals are inserted and on the welfare state arrangements supporting unemployed people – most prominently unemployment insurance (Gangl 2003, 2004a). We will discuss the comparative dimension later.

Defining attributes: social strata

Attributes are usually defined according to individual's or household's characteristics such as their demographic or socio-economic characteristics. As mentioned before, here attributes are intended as the individual's position within the social stratification system.

In considering social stratification, two issues should be taken into account. The first is the interrelatedness between the situations and behaviours of individuals that live in the same household. The literature recognizes that within household, decisions, for example to participate in the labour market, are jointly taken (Becker 1991). In addition, Sorensen (1986) argues that in order to fully understand the mechanisms of access to positions in the labour market – and thus also in the social stratification system –, we have to acknowledge the degree to which employment histories and household processes are related. That is what Drobnic and Blossfeld (2004) call the principle of 'interdependent or linked lives'. Therefore, defining individual's position in the social stratification system requires taking into account this interrelatedness, i.e. a household level measure of social stratification.

The second issue to be considered is what can be seen as the 'crystallization' of social stratification, its life-course dimension. Individuals' position in social stratification is itself the

² This line of reasoning is also at the base of the others theories proposed.

result of processes of accumulation of resources over time. The outcome of the accumulation processes and what leads to it is thus what social stratification should measure.

With the aim to have a measure that satisfies the interrelatedness of individuals' lives dimension as well as the life-course dimension of social stratification, we rely on what is termed 'resource approach' (DiPrete and McManus 2000; Sorenson 2000). This approach implies that living conditions are proxied by economic resources, such as (life time) income, which appears to be a better indicator than class based on individual's job characteristics (DiPrete 2003).

Following the resource approach, we define resources using household income over time. More specifically, the first dimension is captured by equivalent disposable household income, which can be considered as a good measure of economic well-being; while to capture the second dimension we average annual income over three randomly chosen years – following Brady and colleagues (2015), this can be considered an adequate measure of the permanent dimension of income. Finally, the individuals' positions in social stratification are defined as social strata corresponding to quartiles of this permanent income distribution.

As highlighted by Mayer, over the life-course '*early influences shape and direct later trajectories in a cumulative manner*' (Mayer 2004: p. 33). In light of what has been said, individual position in the social stratification system can be interpreted as a latent measure of advantages and disadvantages that over the life-course are accumulated (DiPrete and Eirich 2006; Mayer 2004).

Defining the context: the market, household and state in Germany and the US

In the following, we compare Germany and the United States. These countries are useful cases because they are characterized by different institutional settings and can indeed be categorized as distinct capitalism or welfare state (Esping-Andersen 1990, 1999; Hall and Soskice 2001), providing thus the necessary variation in market, household, and state, which possibly shape income trajectories. Germany and the United States also allow the comparison of our results with those of previous studies, which mainly focused on these two countries. The cases/countries differ in many ways. It is therefore not possible to attribute potential differences in the outcomes to specific institutional arrangements, but only to the general macro context.

Given previous knowledge, differences between countries may emerge mainly regarding three aspects, which are related to the three institutions into play. First, in labour income trajectories coming with job loss, which are functions of the rate and the duration of the events. Second, in the capacity that the household has in buffering income losses. Third, in the extent to which the welfare state buffers the losses.

Individual counter-mobility strategy across labour markets

The main strategy to buffer the loss of income after having lost the job is certainly reemployment. The 'buffer capacity' of reemployment may vary according to the time spent out of employment and, partly associated to it, to the re-entry wage. The extent to which reemployment levels out previous income losses, however, is also determined by the context, more specifically by the labour market structure and the structure of welfare state support to the unemployed. Micro-level mechanisms are thus mediated by macro-level institutions and circumstances.

Germany and the United States are characterized by considerable differences in their labour market structure that should also imply differences in the weight of the counter-mobility strategy. Germany is characterized by occupational labour markets (OLM), the United States by what has been labelled internal labour markets (ILM) (Marsden 1986, 1990).

In OLMs, the labour market is segmented by occupations, and jobs are identified by the content and skills that the job requires. Accordingly, the educational system furnishes the (future) workers with standardized and reliable vocational qualifications. These contexts, thus, are characterized by transferable skills that may be used in many firms. Labour mobility is possible between firms within occupations. Moreover, the standardized and reliable character of workers' educational qualifications will favour a better job-skills match that should imply re-entry wages similar to the wages before job loss.

Differently, ILMs are characterized by labour markets segmented by firms, and skills are mainly acquired within the firm via on-the-job training. In line with this, the educational system provides workers with general qualifications rather than vocational skills (Doeringer and Piore 1971). This implies that in ILMs, skills are much more difficult to transfer because there may not be corresponding jobs in other firms or because the access to such jobs is closed by institutional rules. Labour mobility is in this case possible between jobs within the same firm (Eyraud, Marsden, and Silvestre 1990; Marsden 1990). Because of the firm-specific character of the workers' skills, job-skills match in ILMs should be more difficult and wages in the new job lower with respect to wages before job loss.

Such a characterization of the two labour markets has different consequences for individuals that possess different amount of skills. In OLMs, a major cleavage consists between those with and without (relevant) skills, which puts the low-educated/skilled in a particularly disadvantaged position. High-educated workers will thus receive job offers at a higher rate because of their marketable skills and use their credentials to access to better-paid jobs. They are in a particular strong position of advantage with respect to unskilled workers in terms of both re-entry time and wages in the new job. Therefore, the higher the level of skills and the lower the losses after job loss.

On the contrary, given the job-specific character of skills in ILMs, skills are not easily transferable and employers may give relatively less weight to workers' skills level.

Therefore, considering the valuable character of skills in OLMs, in Germany we expect lower income losses in the years after job loss for the highest strata compared to the lowest. This is because the advantaged people occupying the top of social stratification should experience the higher chances of reemployment and the higher wages. On the contrary, in light of ILMs characteristics, in the United States this stratified pattern should not be observed to the same extent than in Germany (*Hypothesis 1*).

Household buffer

The second institution that can have the capacity to cushion the negative consequences of job loss is the household. The main channel through which the household can support its members after a trigger event such as job loss is income pooling. Labour market participation of household members may furnish additional incomes to alleviate income losses after job loss. The partner, in case of couple households, represents the main potential provider of income.

In absence of a partner, individuals should instead face great difficulties to recover their initial level of income. However, the income of a partner is not the only source that can contribute to buffer income losses. Other sources may be the income of other household members, private transfers and private retirement income of retired members living in the household. Therefore, also single-headed households might benefit from the household.

In case of couple households, instead, the labour market participation and attachment of the partner can work as an important compensator to income loss.

In the majority of industrialized countries, full-time employment of men is the norm. Concerning women, although over the last decades their labour market participation has experienced a general increase, participation and employment intensity show some variations across countries. In the United States, women's labour market participation has increased more rapidly and we register a higher share of dual-earner couples than in Germany (though the situation is recently changing). In addition, 'employment intensity' is higher because women are more likely to work full-time, compared to Germany where part-time employment is rather widespread (Crompton 2006; Drobnic, Blossfeld, and Rohwer 1999). In Germany, therefore, women more often occupy the position of a secondary-earner and thus contribute to a lower extent to the household budget (Burkhauser et al. 1990).

This implies a diversified role of the household buffer for sexes and for countries. Given the strong labour market attachment of men, if the woman loss the job, her partner is able to

considerably compensate for the income loss and smooths economic consequences of the event. On the contrary, if the man loses the job, the lower labour market attachment of women implies a reduced capacity to compensate income loss. This should be especially true for Germany where women participation and intensity is lower than in the United States.

Therefore, we expect that the household buffer is more effective for women than for men (*Hypothesis 2a*). This is even more the case considering the gender-pay gap characterizing both countries. Moreover, in case it is the men to lose the job, we expect a lower household buffer for German men compared to American men (*Hypothesis 2b*).

Household buffer can also vary across 'social strata'. Social strata may be viewed as a measure of individuals' and households' economic resources, which include those material and non-material resources that have an economic effect – i.e. resources that generate economic returns, education is one of these assets.

Implications of this for the (possibly) different role of the household across social strata derive from the observation, widely recognized in the literature, that people tend to mate with a person who is similar to them (Blossfeld and Drobnič 2001; Blossfeld and Timm 2003; Christine et al. 2005; Grave and Schmidt 2012; Kalmijn 1998; Smits, Ultee, and Lammers 1998). Literature refers to this tendency with the term homogamy or assortative mating meaning that individuals are more likely to form a household with a partner that shares some (socially relevant) traits. This point is important here because these traits are usually also associated with income potential and with economic success more in general. In this respect, both Germany and the United States present high and similar levels of homogamy. Here we refer to educational homogamy because education is the dimension that is more often considered in homogamy research, and because educational homogamy is pertinent with our argumentation as education is associated with economic success (Blossfeld and Timm 2003; Christine et al. 2005; Shavit and Muller 1998).

Following this line of reasoning, the top of the social hierarchy is occupied by couples in which both partners have a high-income potential, while the bottom is composed of low-income potential partners. Partner's potential to furnish income, thus, rises with social strata.

Accordingly, we expect that the capacity of the household to compensate for income losses increases over social strata in both countries (*Hypothesis 3*).

In this way, the household should lead to an accumulation of inequality at the household level by accentuating income differences between households and to a strengthening of a society's system of stratification.

Welfare State

A further institution at work in managing social risks and redistributing resources is the welfare state. The state mediates the negative consequences of job loss mainly via transfers and taxes. However, also in this case, the extent to which it is able to contain the economic consequences of the event studied varies between countries according to the generosity of the transfers and the progressivity of the taxation system.

Probably the main state program directed at cushion economic consequences after job loss is unemployment insurance. Germany and the United States greatly differ on this program. A corporatist form of insurance characterizes Germany. The entitlement to benefits is based on occupational category and labour force participation – which is in line with the idea that the welfare state not only decommodifies, but also stratifies (Esping-Andersen 1990; Oesch 2008). Benefits are related to previous earnings, and the insurance is jointly administrated by employers and employees representatives (Sjöberg, Palme, and Carroll 2010).

Unemployment insurance that characterizes the United States can be considered of a comprehensive form, although the considerable variations which unemployment policies may have between single states. This form is in general characterized by social insurance contribution payments as the basis for the entitlement to benefits right; unemployment insurance of this kind is not differentiated across occupational groups such as in Germany; and benefits are earnings-related and are practically of a flat-rate character (Sjöberg et al. 2010).

Beyond these differences in the setting of unemployment insurance, Germany and the United States present considerably differences, for example, in the net replacement rate of unemployment benefits, which has been estimated to be of 74% for Germany and 56% for the United States (Korpi and Palme 2007). However, net replacement rate widely varies also within countries between household types and level of wages as well as according to the duration of unemployment (OECD 2007). Overall, individuals who become unemployed are supported by the welfare state to a greater extent in Germany than in the United States, and receive more support when they have a household. This is true not only in the short-run (within the first year), but also in the long run (over a period of 5 years).

That has clear implications for the buffering effect of the welfare state during the time in which individuals are out of employment. In comparative perspective, given the greater generosity of the German welfare state in unemployment benefits, we thus expect that the welfare state buffer is larger for Germany than for the United States (*Hypothesis 4*).

Alongside unemployment insurance, the state may intervene also through social assistance aimed at providing social protection for people in need. Differently from unemployment insurance,

in general social assistance is not directed at covering specific risks, and includes means- or income-tested benefits and minimum income protection (Bahle, Pfeifer, and Wendt 2010). These kinds of programs are directed to different needy groups and may complement unemployment insurances.

Also for social assistance, there are significant differences between Germany and the United States. The public system of benefits in Germany includes, among other benefits, unemployment assistance and general social assistance. The first is a means-tested benefit directed to those that are no longer entitled for unemployment insurance.³ The second, instead, is a non-categorical (general) benefit directed to all residents based on a needs test (Adema, Gray, and Kahl 2003).

In the United States, social assistance programs are basically represented by food stamps and public assistance restricted to households with children (Eardley et al. 1996; OECD 2007).⁴ Another important welfare state measure aimed at supporting income of low-wage workers is the Earned Income Tax Credit. As a negative income tax, low-income household with some labour income do not pay taxes and/or receive a refund. This measure may thus have implications for people who reenter employment with a low-paid job.

The targeted character of these policies suggests that the welfare state buffer is particularly effective for the lowest strata. Therefore, we expect that the more we move up over the social ladder, the lower the role of the welfare state (*Hypothesis 5*).

Over time, both countries have experienced changes in policies that provide supports to unemployed and needy people. However, in comparative perspective, the United States has been and continues to be characterized by the least generous welfare state – in terms of both sum and duration of benefits – between these two countries. The role that social assistance may have in buffering income losses is compatible and even goes in the direction to support *Hypothesis 4* stating a larger impact of the welfare state in Germany compared to the United States.

Individual counter-mobility strategy across welfare states

Welfare arrangements directed to unemployed not only stabilize income in the short-run, but may also stabilize individual's career in the long-run (DiPrete and McManus 2000; McManus and DiPrete 2000). They may in fact indirectly affect income trajectories after reemployment. These income guarantees, by decommodifying workers from market forces, affect the labour market

³ From 2004, the Hartz reform replaced Unemployment Assistance with 'Unemployment Benefits II', an unemployment benefit direct to those who exhausted their Unemployment Insurance entitlement or that were not eligible.

⁴ These programs include the Aid to Families with Dependent Children program and the Temporary Assistance for Needy Families program that replaced the first in 1996.

behavior of unemployed. This view of the welfare state role is consistent with microeconomic job theory (Gangl 2004b). This brings us back to job search theory.

Long run positive effects of unemployment arrangements on income trajectory and career continuity are basically due to the possibility for worker to search longer for adequate reemployment. In presence of institutions that secure a certain level of income during periods of unemployment, unemployed individuals set a reservation wage because they have the possibility to search for an adequate job match. This implies that the job seekers will not accept a job offer under such wage threshold (Estevez-Abe, Iversen, and Soskice 2001). Following job search theory, generosity and duration of unemployment benefits permit to search for longer time and to decline job offers that do not match skills and expected wage (i.e. defined by the reservation wage) and will thus improve re-employment outcomes, reentry wages included (Addison and Blackburn 2000; Gangl 2004b, 2006).

These considerations have implications for the comparative dimension. The different structures of welfare state support to the unemployed that characterize Germany and the United States should lead to distinct outcomes in the two countries.

The German welfare state, as already discussed, is characterized by more generous unemployment benefits and longer periods of coverage for unemployed than in the United States. Accordingly, as job search theory posits, it is expected that Germans spend more time in unemployment but when they find/accept a job, their reemployment wages should be higher with respect to their counterpart in the United States. This means that in Germany reemployment, as a counter-mobility mechanism, should be more effective in permitting individuals to recover from income losses due to job loss. Put in another way, the loss of income that individuals experience after having reentered to employment should be smaller for individuals in Germany than in the United States.

Yet, we are not looking at income after reemployment, but we look at income trajectories right after job loss, which then is a combination of reemployment speed and reemployment wages. To be more explicit, in the results we will present, income levels after job loss are defined by both those who have reentered in a new job (and their wages) and those who have not yet reentered (that are still unemployed). Therefore, it is not easy (or even not possible) to formulate precise hypotheses on possible differences between Germany and the United States.

On the one hand, the United States is characterized by higher dynamics of job destruction and creation with respect to Germany, partly because its more liberal labour market regulation (Abraham and Houseman 1993; Diprete et al. 1997; Diprete, Goux, and Maurin 2002; Grubb and Wells 1993; Schettkat 1992). This, together with job search theory argument, would suggest faster

reemployment in the United States (Gangl 2003, 2006; Machin and Manning 1999). On the other hand, the insights coming from job search theory with the role of unemployment insurance would suggest that the loss of income that individuals experience after having reentered to employment is smaller for Germans than for Americans. This is because job seekers in Germany will face higher reentry wages due to a better job-skills match. Overall, thus, expectations about country differences may be mixed.

Given we cannot test the specific mechanisms/expectations just discussed, we keep it on a theoretical ground and thus we do not formulate hypotheses on this issue. However, these theoretical considerations may be a useful tool in the interpretation of results and might permit us to advance some speculations.

What we already know

Research about income mobility determinants, which also consider the role of the various institutions in defining income dynamics, is rather scarce. Moreover, the existing literature focuses almost exclusively on the US and in some cases on Germany.

To our knowledge, among the first papers published on this issue can be mentioned Fritzell (1990). His study focuses on Sweden between the 1973 and 1980. Among other things, the author examines how changes in household composition and in labour market status of individuals and of their wife/husband lead to a change in economic status, measured in terms of equivalent disposable household income – which, according to Fritzell, can be considered as the most comprehensive measure of economic well-being.⁵ His results highlight that labour market events, in terms of transition in and out of employment, have a somewhat considerable impact on income, although it is differentiated between men and women. Indeed, the income change is sizeable for the first when they enter employment, while it is substantial for the seconds when they exit from employment.

Another study that goes in the same direction is the one by Aaberge and colleagues (2002) which focus on Scandinavian countries (Denmark, Norway, and Sweden) and the US, from 1980 to 1990. Their conclusions, however, deviates somewhat from those of Fritzell for Sweden because they found that employment events do not significantly lead to changes in disposable income – the same hold for Norway. The opposite is true for the US where household economic well-being is considerably hit by the transition from employment to non-employment.

⁵ More specifically the dependent variable measure income changes in a 7-years span, comparing incomes and statuses in 1973 and 1980, independently of what it does happen in the middle.

However, these two studies focus only on disposable household income as the final measure of welfare. A study that deviate from this practice is that by (DiPrete and McManus 2000) in which they also compare the US (from the 1981 to 1993) with Germany (1984-1996). These authors argue that the economic consequences of labour market and household events can be decomposed into a ‘direct’ effect and ‘compensating’ effects of welfare policies and private responses – what they call counter-mobility events. In the paper, the authors analyse the impact of both employment changes of individuals and their partner, and changes in household composition on household’s income dynamics. In order to evaluate the mediating role of the state and the household they study the consequences of events on different definitions of income, mainly: labour earnings, private household income, and post-government household income. Comparing these income concepts, the authors highlight the capacity of the state and the household to affect the net consequences of events. Looking at employment events, indeed, it emerges that the considerable positive (for employment entry) and negative (for employment exit) effects on labour earnings is highly reduced once private household income is considered and even more so if the focus moves toward post-government income. From the comparative point of view, moreover, Germany is more effective than the US in buffering the impact of negative employment events via social welfare policies.

A more recent study by (Ehlert 2012) investigates how the household and the state shape income trajectories after job loss in Germany and the US. By comparing different income concepts, the author concludes that the consequences of job loss for post-government household income are similar in both countries, although the mix of public and private intervention is different among Germany and the US – as it is different among genders. He also studied the added worker effect finding that the extent of this effect depends on previous labour market attachment and varies between the two countries.

Finally, a contribution that fits well with the our article also comes from Ehlert (2013). Studying the economic consequences of job loss in Germany and the US, he found that job loss consequences are unevenly distributed across social strata. Moreover, he shows that the way in which job loss hit household income in different strata varies between the two countries: the most severe income loss is experienced by the poorest quintile in the US while by the middle quintiles in Germany. As suggested by the author, this is due to differences in the factors that buffer income losses between strata.

Data and methods

The data we use come from the Cross National Equivalent File (CNEF) prepared at the Ohio State University in collaboration with national institutions of those countries that participate at the file (Frick et al. 2007). Importantly for our scope, the CNEF includes data for Germany and the US. In particular, data come from the German Socio-Economic Panel (G-SOEP) and from the Panel Study of Income Dynamics (PSID) respectively. This file is particularly suitable because it provides longitudinal and harmonized information at the individual and household level and has its main strength in furnishing harmonized information on numerous definitions of income.

The PSID is the longest running panel in the world. It started in 1968 on an annual basis but, since 1997, individuals have been interviewed biannually.⁶

The SOEP started instead in 1984 and furnishes annual information for the entire time span covered. The design of the SOEP has been influenced by the PSID design: they follow households over time and individuals therein, and collect detailed information about employment histories and incomes, among the other topics.

In order to maximize the comparability of results we select all the waves starting from 1984 up to the recent one, which for Germany correspond to the 2010 while for the US to 2007.

Based on these data, we select all individuals from 25 to 54 years old that declared to be the household head or his/her partner. This age selection has been chosen in order to include in the sample individuals that are potentially in the labour market and that may form a household. We then deleted all individuals for which some information about employment and incomes were missing, and selected only those who were in the panel for at least 5 years – given we need three years to build the permanent income measure, we decided to widen the time span in order to reduce possible problems of endogeneity. Finally, according to the distributed fixed-effect specification, we excluded from the analysis those who never entered in employment – see Dougherty (2006), Yankow (2003), and Kratz and Bruderl (2012) for details about this particular model specification.

We perform the analyses separately for men and women. That is because we expect different patterns in employment exit behaviours as well as in the buffering capacities of the household and welfare state.

⁶ For this reason, results will be presented in two-years intervals: two years before employment exit and two and four years after.

Definition of measures and variables

A way to measure the capacity of the household and the state in buffering household income after job loss is comparing the job loss consequences across different income concepts. For this scope, three income concepts will be considered.

The first concept is individual labour earning. The CNEF data reports annual labour earnings of all individuals older than 15 years. This income concept includes wages and salary from all employment including training, primary and secondary jobs, and self-employment, plus income from bonuses, over-time and profit-sharing (Grabka 2012).

This concept, thus, measures only the role played by the market in contributing to defining individual's economic resources. The second income concept, instead, takes into consideration also the contribution of the household via the generation of economies of scales and income pooling, while the third adds also the contribution of the state via taxes and transfers. How these concepts are defined in the CNEF data, is presented in Table 1.

All the three income concepts are deflated using the Consumer Price Index at 2010 value, to make them comparable over time. Moreover, household incomes are adjusted for household size using the modified OECD equivalent scale. In this way, it is possible to take into account the role that household plays via the generation of economies of scales. Before adjusting these income measures, we top-coded them at the 99th percentile in order to avoid extreme income values.

Table 1 *Composition of pre- and post-government household income*

Pre-government income	Post-government income
Household Labour Earnings	Household Labour Earnings
+	+
Household Assets Income	Household Assets Income
+	+
Household Private Transfers	Household Private Transfers
+	+
Household Private Retirement Income	Household Private Retirement Income
	+
	Household Public Transfers
	+
	Household Social Security Pensions
	-
	Total Household Taxes

Unfortunately, employment information in CNEF is defined in rather vague way. For this reason, we decided to retrieve employment information from the original G-SOEP and PSID data and merge this information to the harmonized dataset. Variables available in the original datasets

furnish more precise and reliable information. They indeed report the individual's employment status at the time of the interview permitting in this way to precisely identify unemployment episodes and to distinguish unemployment from other types of non-employment.

We define the job loss event as the transition from employment to unemployment according to the employment status at the time of the interview. Then we construct income trajectories around the event.

Based on the variables presented above, we show the effects of the employment transition on incomes in relative terms. Measuring income changes in percentage terms permits to consider that the severity of losses depends on prior standards of living. Operationalize income changes in this way permits to better evaluate employment consequences for individuals and households that are in different positions over the income ladder.

Based on these relative measures, we are able to disentangle the buffer capacity of the household and the state by comparing income changes in the three income concepts abovementioned.

Following Ehlert (2013), we measure the household buffer as the difference between the lost in labour income (LI) and the lost in equivalent pre-government household income (PreG). The effect of the household is thus defined as

$$\widehat{Household\ buffer} = \hat{\gamma}_{LI} - \hat{\gamma}_{PreG}$$

where $\hat{\gamma}_{LI}$, $\hat{\gamma}_{PreG}$ and $\hat{\gamma}_{PostG}$ stand for the estimated percentage changes in labour income, in equivalent pre-government household income, and in equivalent post-government household income (PostG), respectively. In a similar way, the welfare state effect is measured as the difference in income changes between pre-and post-government income and can be expressed as follows:

$$\widehat{Welfare\ State\ buffer} = \hat{\gamma}_{PreG} - \hat{\gamma}_{PostG}$$

These measures have to be interpreted while taking into account the observed losses. Indeed, they represent the observed effect of household and welfare state, and not their potential effect.

Measurement of permanent income and stratification

Our measure of income, at least at the theoretical level, refers to the amount of income that an individual dispose over his entire life-course, or at least over a considerable part of it. Due to extensive data requirement, this dimension of income is clearly not easy to capture. According to Brady et al. (2015), permanent income is well captured through equivalent disposable household income over a time-span of twenty or more years. Although PSID and SOEP data would permit to follow individuals for such a long span, considering only individuals who are in the panel for this

duration would imply problems of sample size.⁷ To circumvent this limitation, we follow Brady and colleagues according to whom it is possible to proxy permanent income with a more limited number of years. Indeed, they found that 20 or more years of permanent income are captured with a good approximation by five consecutive years of annual income (they explain more than 70% of permanent income variance) and even better captured if years are randomly chosen. Overall, they claim that the majority of permanent income is predicted within two (explaining about 70% of the variance) to five (about 90%) random years of equivalent disposable household income.

In light of these considerations, the measure of permanent income that we adopt is built on three randomly chosen years of equivalent disposable household income. Strata are then defined as quartiles of the distribution of permanent income measured in this way.

We are aware that the measure of stratification might be affected by endogeneity problems. For this reason, we performed a series of robustness checks that, however, go in the direction to support the goodness of our permanent income measure. We are thus confident that the measure of social stratification that we use throughout the paper is not affected by possible problems.

Moreover, to support the validity of our stratification measure we repeated the analyses using another stratification variable that in the literature is known to be associated with individuals' resources and opportunities, income levels and security as well as with long-term income prospects: education. Comparing the results based on the two measures of stratification, it emerges that income trajectories are very similar. Stratification based on permanent income stratifies income trajectory almost in the same way that education does: we can conclude that the measure of stratification that we use can be considered as a valid measure of individuals' advantages and disadvantages (results of all these checks are not reported in the paper).

The economic consequences of job loss

As said, we aim to study the economic consequences that individuals experience after job loss. We present income trajectories in different income concepts, separately for social strata and at different point in time. Results are presented in percentage terms. We start by discussing results for German men and women and we then move to American men and women. The concluding section is devoted to the discussion of the results in comparative perspective.

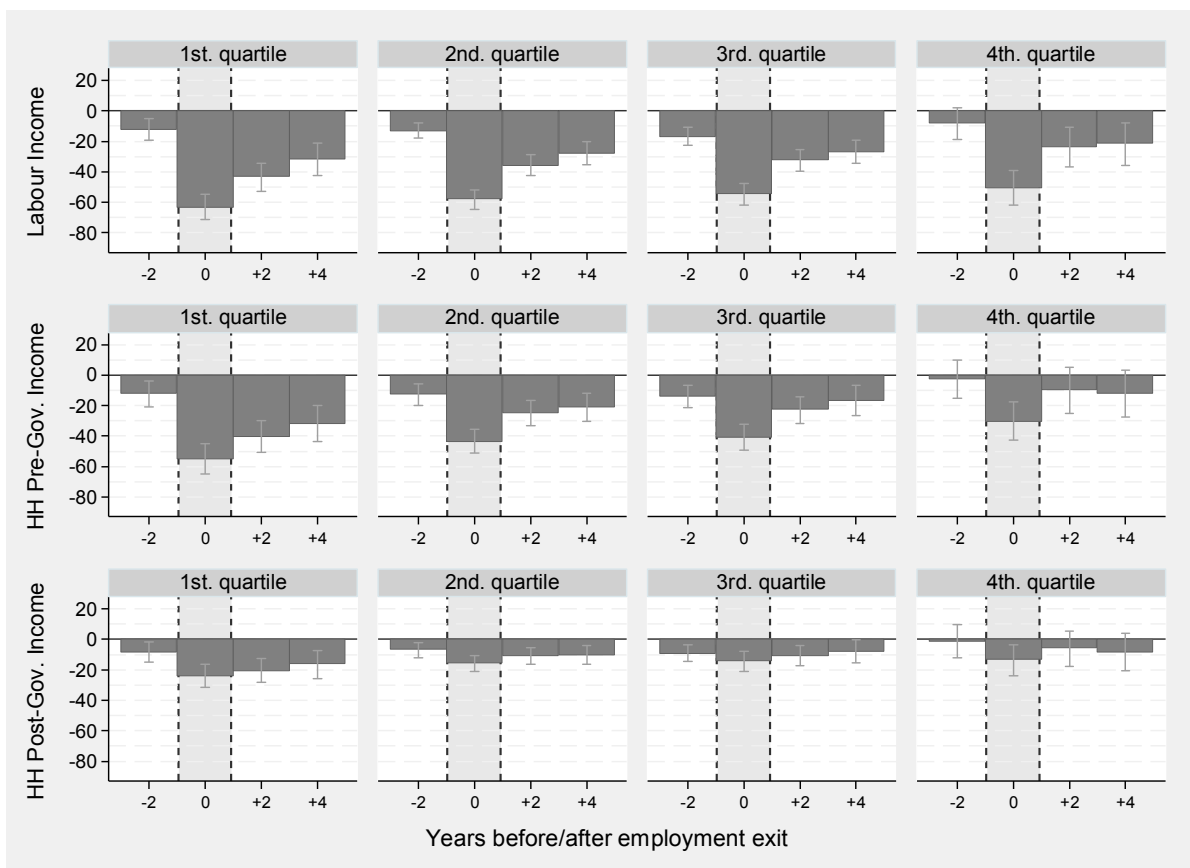
⁷ That, indeed, would lead to a considerable reduction of the sample. Moreover, a strategy of this kind has the risk to incur in endogeneity problems, especially when equivalent disposable household income is present not only in the right hand side of the regression equation, but also in the left-hand side.

Germany

Starting with Germany, Figure 1 presents income trajectories for the three income concepts considered. Income trajectories are expressed in terms of percentage income loss with respect to the reference year before job loss.

We start with trajectories in labour income, the income concept for which only the market is directly involved. If we look at income trajectories in men's labour income, presented in the top row of the figure, we observe different income losses among social strata. The more we move toward the top of the social hierarchy, the lower the income penalty of unemployment. In the year of unemployment, highlighted in the graph with the vertical light grey band and hemmed in by dashed black lines, German men in the two bottom social strata (1st and 2nd quartile of permanent income) experience a reduction of about 60 percent with respect to the reference category. The losses for the upper two strata (3rd and 4th quartile of permanent income) are instead of about 50 percent.

Figure 1 *Estimated income trajectories for different income concepts at different points in time, by social strata. Germany, men*

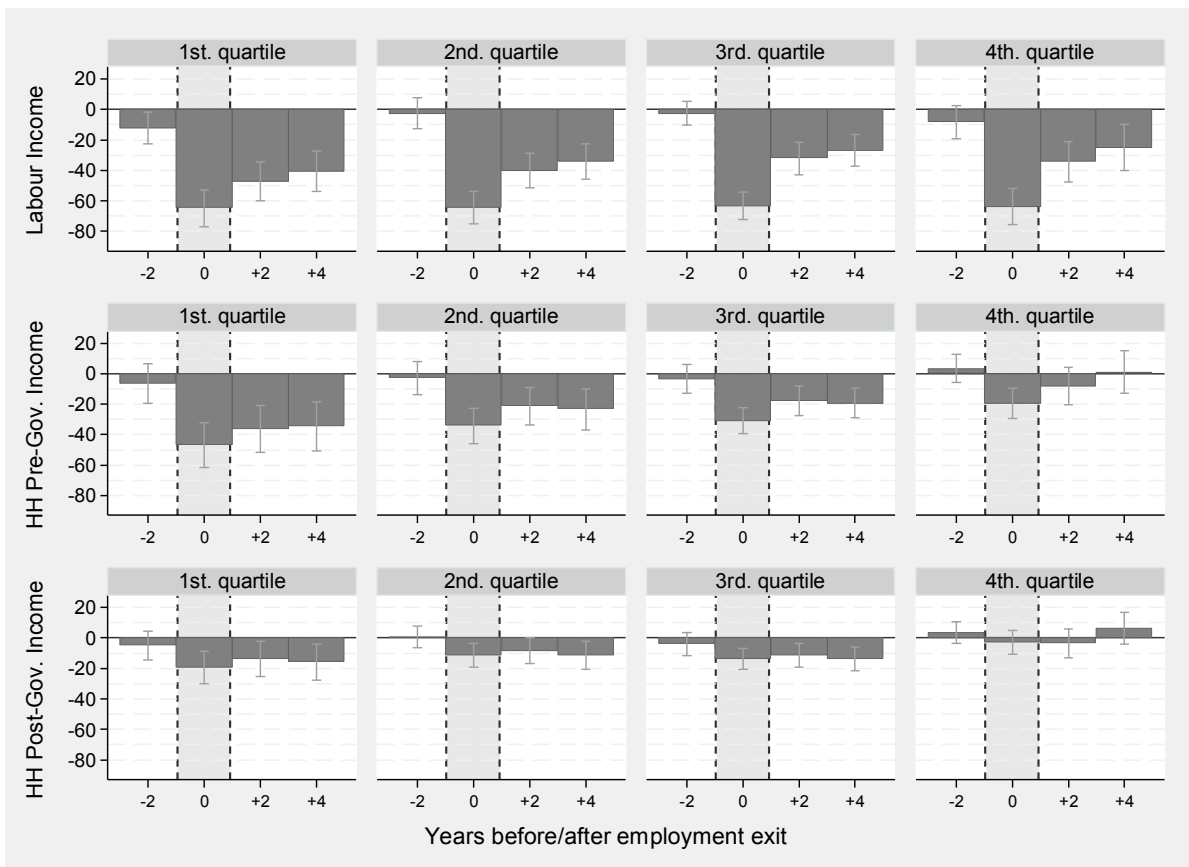


This can be considered as another signal of accumulation of disadvantages between strata. Those already at the bottom, indeed, also have the lower income levels and are more at risk of experiencing events of unemployment. Moreover, in the years after the event they also have more difficulties to recover from their income loss.

Indeed, looking at the years after the event, we observe a lasting income loss, although decreasing over time. Two years after the event the income loss in the bottom stratum is double with respect to the top stratum (40% vs 20%). Concerning the second and the third, the loss is of about 35 and 30 percent respectively. Hence, going up the social ladder, we observe a monotonically decreasing impact of unemployment. This is also true looking at four years after job loss.

These results go in the direction to confirm our first hypothesis: a larger penalty in the years after the event for those at the bottom with respect to those at the top of social stratification. This is because of the labour market structure (and the educational system) of Germany.

Figure 2 *Estimated income trajectories for different income concepts at different points in time, by social strata. Germany, women*



To some extent, the same story holds for German women (Figure 2). On the one hand we do not observe any difference between social strata at the time of the event. All women, irrespective of the quartile they belong, lose roughly 65 percent of their labour income when they experience the unemployment event. The negative consequences of job loss seem indeed to be equally distributed among women.

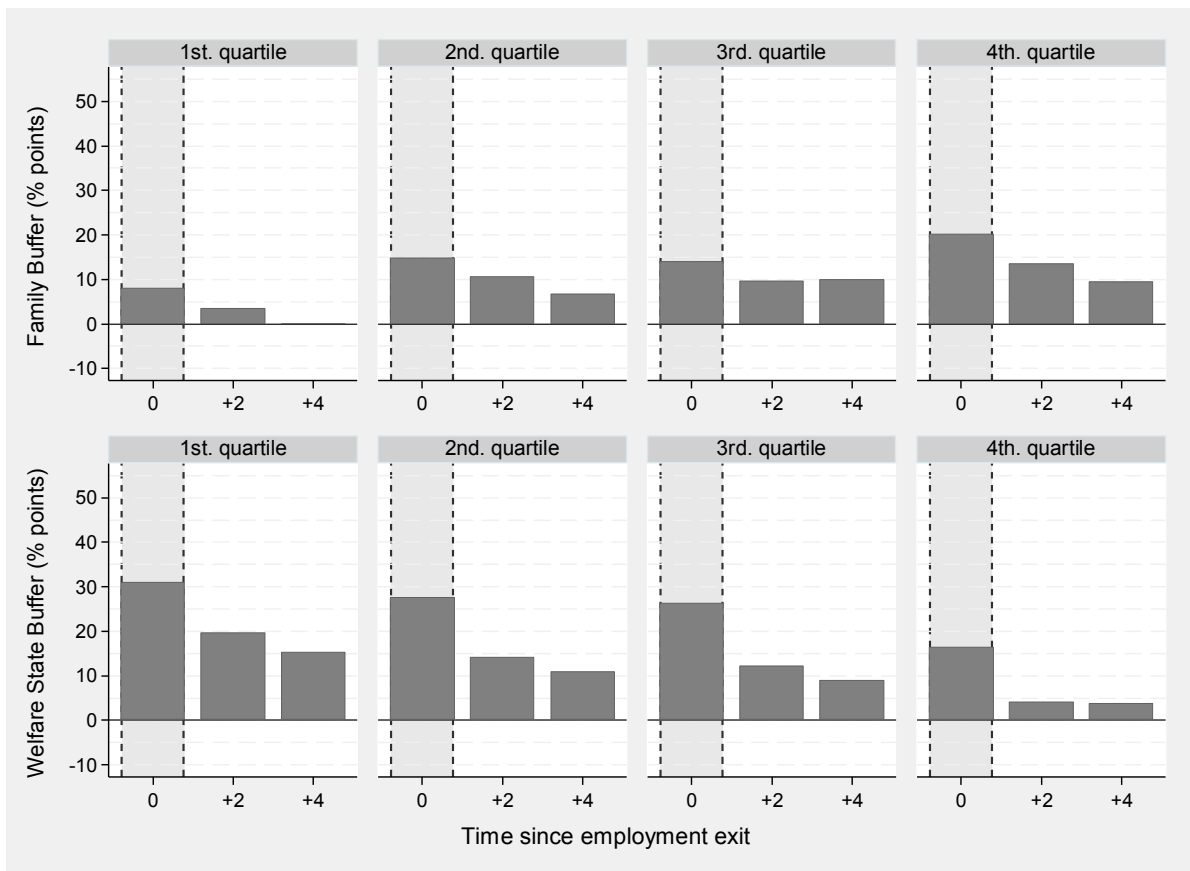
On the other hand, the picture changes if we look at income trajectories in the years that follow the event. In this respect their trajectories are in line with those observed for men: decreasing losses

over time and above all along the social ladder. Accumulation of disadvantages seems to be at work also for women, confirming *Hypothesis 1* also for them.

Comparing women to men, the consequences for the formers, are slightly more long-lasting with respect to the latter. This may be due to the greater difficulty they face to come back to employment, although their transition rate to reemployment is only little lower than for men.

We turn now the attention toward the other income concepts, and thus toward the role that the household and then the state play in redistribute resources and in managing social risks.

Figure 3 *Household and Welfare State buffer at different points in time, by social strata. Germany, men*



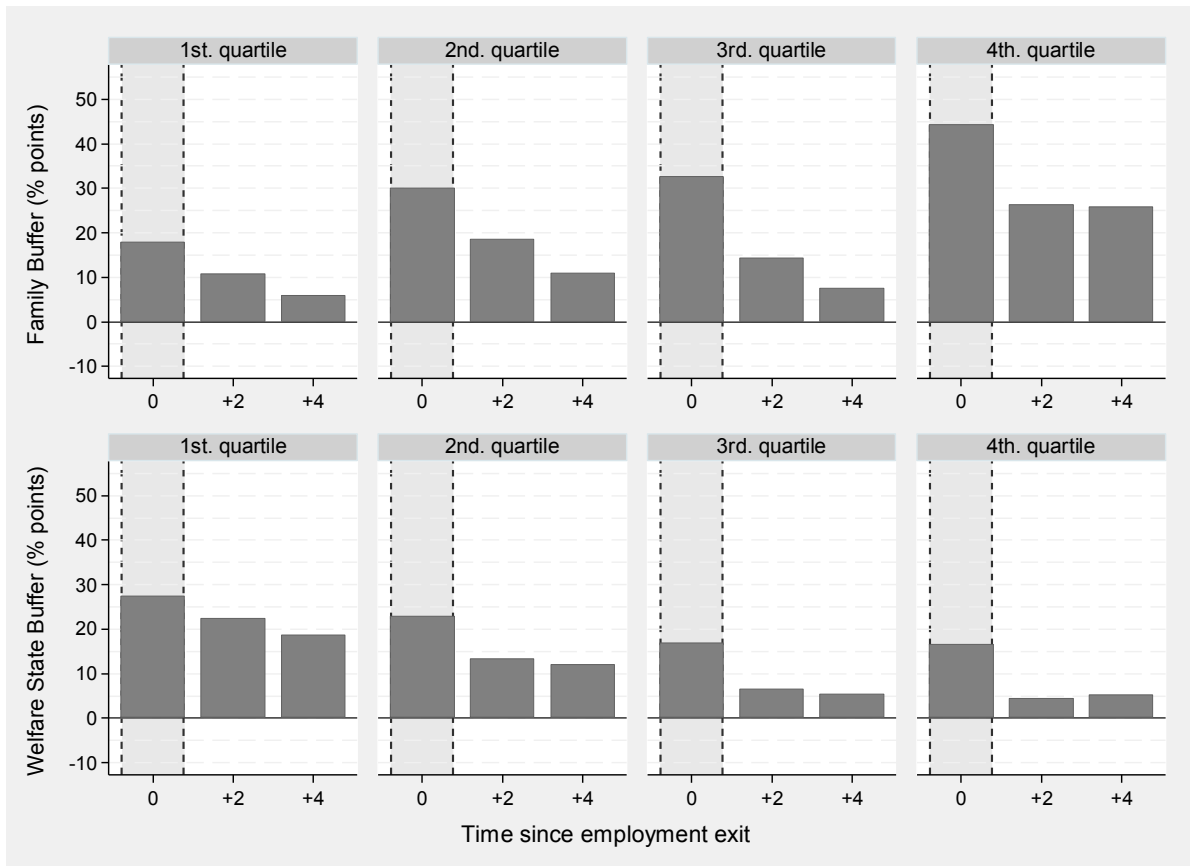
Concerning the household, the second row of Figure 1 shows men's income losses in equivalent household income before taxes and transfers. This income concept includes the household's role via the generation of economies of scale, private transfers and above all the pooling of incomes of other household members, mainly coming from the partner in case of couple households. This leads to lower income losses than in the case of individual labour income. However, it seems that the household plays a moderate role in mitigating the consequences of employment events, especially for some social strata.

To ease the evaluation of the household role, Figure 3 reports the 'household buffer' ('Family buffer' in the figures) measured as the differences in income losses between market income and

income after the household intervention. Overall, when the event is experienced, the reduction of income loss ranges between almost 10 and 20 percentage points, and decreases afterwards.

A different picture emerges if we focus on women (in the second row of Figure 2). For them, in fact, the household plays a huge role; it permits to reach a reduction in income loss of up to 45 percentage points as Figure 4 shows.

Figure 4 *Household and Welfare State buffer at different points in time, by social strata. Germany, women*



Observing a more effective household buffer for women than for men, therefore, support *Hypothesis 2a*. As suggested above, the marked difference that we observe between men and women should be especially due to the labour income that their spouses furnish. The limited impact for men may be attributed to the role of secondary earner that women play in this country. On the one hand, female employment is considerably lower than male employment, implying lower chances for men to benefit from a partner's income, and on the other hand, when she is employed, she is often employed with a part-time job and thus with a lower capacity to support his income loss.

Turning now the attention toward the differences between social strata, it emerges that for both men and women the household is more effective in already advantaged social strata. The household buffer, indeed, gains weight as we move from the bottom to the top of social stratification. This is

particularly true for women: comparing the top with the bottom stratum, we find a difference of about 10 percentage points for men while more than 25 for women.

Therefore, on the one hand, the household is able to support its members when they face the unpredictable events of social life, but on the other hand, it does so to different extent across social groups. That is true not only in the immediate, but also in the medium term. The uneven role of the household as a buffer, indeed, persists also over time. That is also well visible in the diverging income trajectories presented in Figure 1 and Figure 2.

By operating in this way, the household contributes to strengthen the system of social stratification, even more than the market we would suggest.

What has been observed, seems thus to give support to *Hypothesis 3*. We previously argued that the tendency of people to mate with a person who is similar to them, especially in traits that are associated with economic success, should lead to a ‘polarization’ between high- and low-income potential households. This should have the consequence that households at the top of the social hierarchy dispose of more resources to compensate for income losses of their members.

This argumentation, however, holds if only couples are considered. Looking at the household role separately for singles and couples, significant differences in the household buffer are in fact not visible between strata. The uneven role of the household observed seems not to be due to mating behaviours of individuals, in terms of who marries whom, but rather to household formation behaviour in terms of whether one is single or partnered. Therefore, the fact that single households are particularly overrepresented at the bottom while couples at the top of social stratification can explain the stratified compensating capacity of the household observed in Figure 3 and Figure 4. Thus, the *Hypothesis 2a* can be confirmed, although we observe a stronger role of the household at the top of social stratification for different reasons than suggested.

After having discussed the role of the market, and then of the household, we direct our attention toward the last institution that may have the capacity to affect the negative consequences of unemployment.

One of our expectations about the state’s capacity to buffer income losses coming with unemployment deals with the possible differences across social strata. According to the targeted character of the policies aimed at protecting unemployed people, we hypothesized the state’s role to be negatively associated with social stratification, namely the more we climb the social hierarchy, the lower the state intervention.

Starting by looking at men, first of all we note that their economic situation is considerably improved once also the state enters into play (third row of Figure 1). Unemployment insurance, and social transfers more in general, as well as the system of taxation make a big difference for their

economic situation. For those in the lower social strata, the German welfare state is indeed able to reduce income losses up to about 30 percentage points at the time of the event and, although with a reduced capacity, it continues to work also four years later (second row in Figure 3 – in this case, the welfare state buffer refers to the difference in losses between income pre- and post-government). The state role, however, ‘vanishes’ the more we move toward the upper part of social stratification: for the two middle strata the income loss is reduced by about 25 percentage points while only 15 percentage points for those in the uppermost strata.

Concerning women, we can observe an almost identical pattern than men’s (Figure 4). Coming back to our expectations, results go in the direction to corroborate *Hypothesis 5*. At both the time of the event and in the following years, the state plays an important role in first, mitigating, and second, equalizing the negative consequences of job loss for individuals’ welfare. Looking at income trajectories in disposable income, indeed, we observe really similar patterns across social strata.

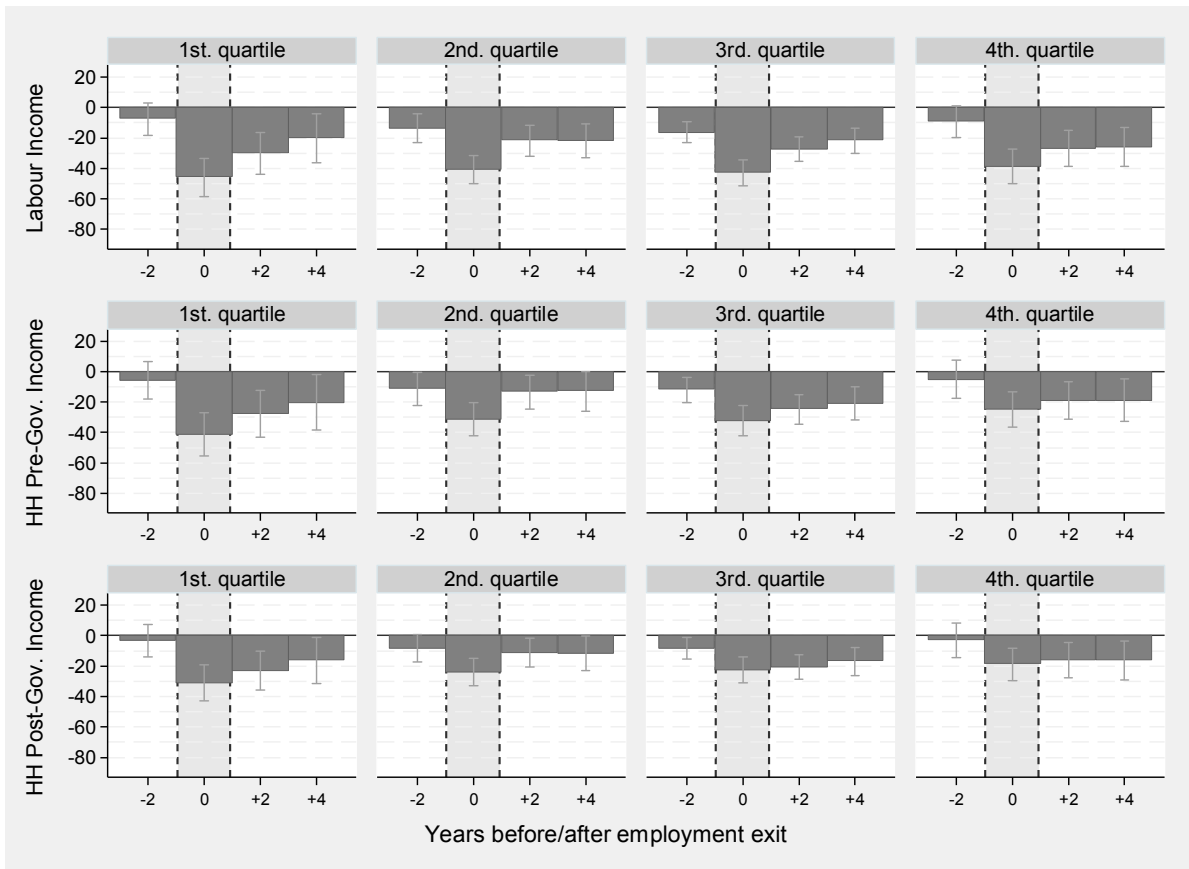
Although the final result is a more or less equal distribution of the consequences of job loss, the institutions at work in determining the final distribution of welfare operate in very different ways. On the one hand, the initial stratification is reproduced by the market – in this respect we observe higher income losses for lower strata; the household, then, by redistributing resources, fosters the accumulation of advantages and disadvantages and strengthen even more this stratification; finally, the state operates in the opposite direction, contributing to equalize the consequences of a negative event such as unemployment.

United States

We now turn the attention toward the United. Regarding the job loss consequences for labour income (first row of Figure 5), at the time that the event is experienced we observe an income reduction ranging from 40 to 45 percent of previous income. In the following years, the losses decrease and four years after they ranges between 20 and 25 percent.

Looking at the differences across social strata, results partially go in the direction to support *Hypothesis 1*. In an internal labour market such as the United States labour market, the most resourceful groups seems not to be more advantaged at all in their income trajectories with respect to the least resourceful groups. Income losses after job loss present in fact very similar values for all the strata. This, however, is quite surprising given that the reemployability chances are rather stratified across social strata.

Figure 5 *Estimated income trajectories for different income concepts at different points in time, by social strata. United States, men*



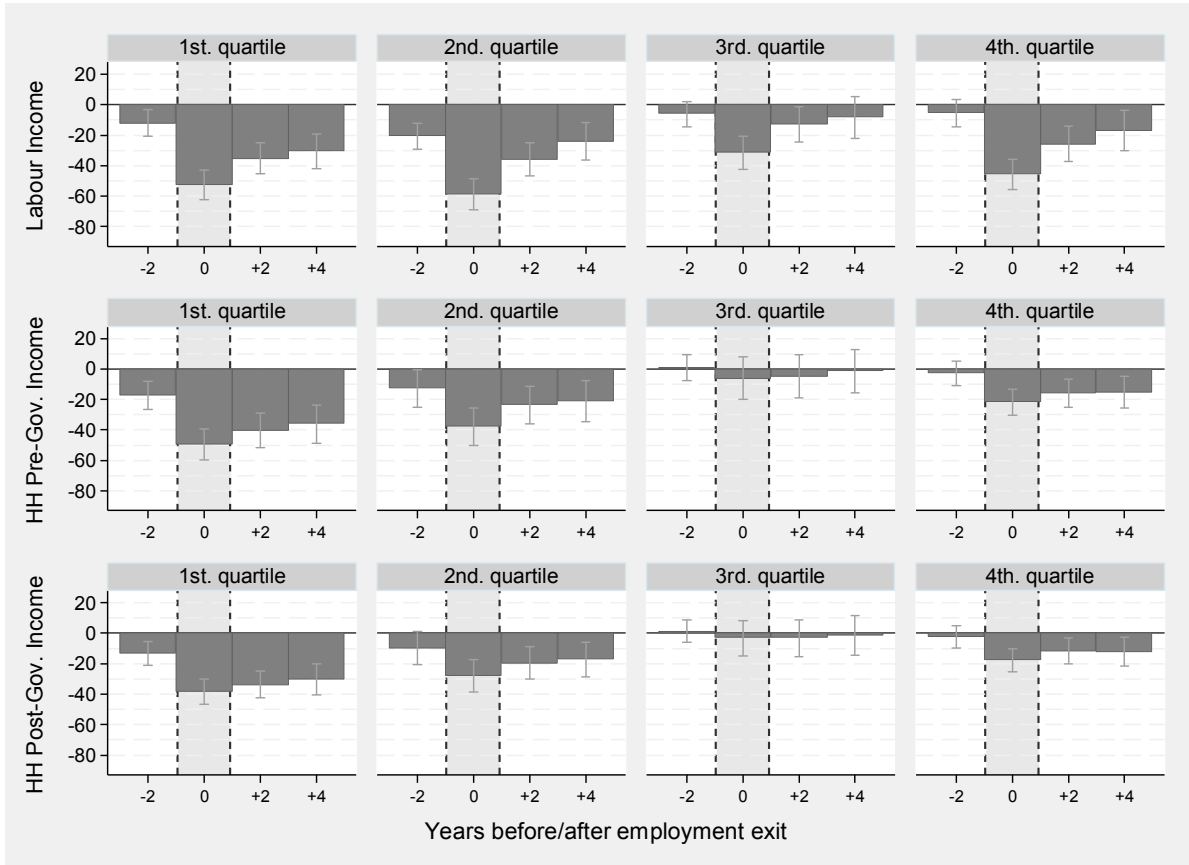
Income trajectories for American women, presented in Figure 6, are rather different for those of men. Overall, we observe a larger penalty for the two bottom strata with respect to the two opposite strata, especially in the years following job lost. Although to a lower extent than in Germany, also for American women we observe different income trajectories leading to the accumulation of disadvantages on the most disadvantaged groups. After four years, indeed, the two bottom strata still experience a reduction in income ranging from 25 and 30 percent compared with the third and fourth strata for which the loss is of about 10 and 15 percent respectively.

Once we consider economies of scale and the labour incomes of the partner, if present, and of other household members, the pictures changes for men and even more so for women.

In Figure 5 we observe that the loss in equivalent household income before taxes and transfers is reduced with respect to individual labour income. In the year of the event, this reduction ranges between 5 percentage points for men in the first quartile to about 15 percentage points for those at the opposite side of the social hierarchy (Figure 7). Therefore, the highest strata are those who benefit the most from the household intervention, although, overall, the household role is quite reduced. Looking at the years after the unemployment event, a clear pattern does not emerge.

Hypothesis 3 seems to be only partially confirmed. The household tends to reinforce pre-existing (dis)advantages, but only in the year of the event.

Figure 6 *Estimated income trajectories for different income concepts at different points in time, by social strata. United States, women*



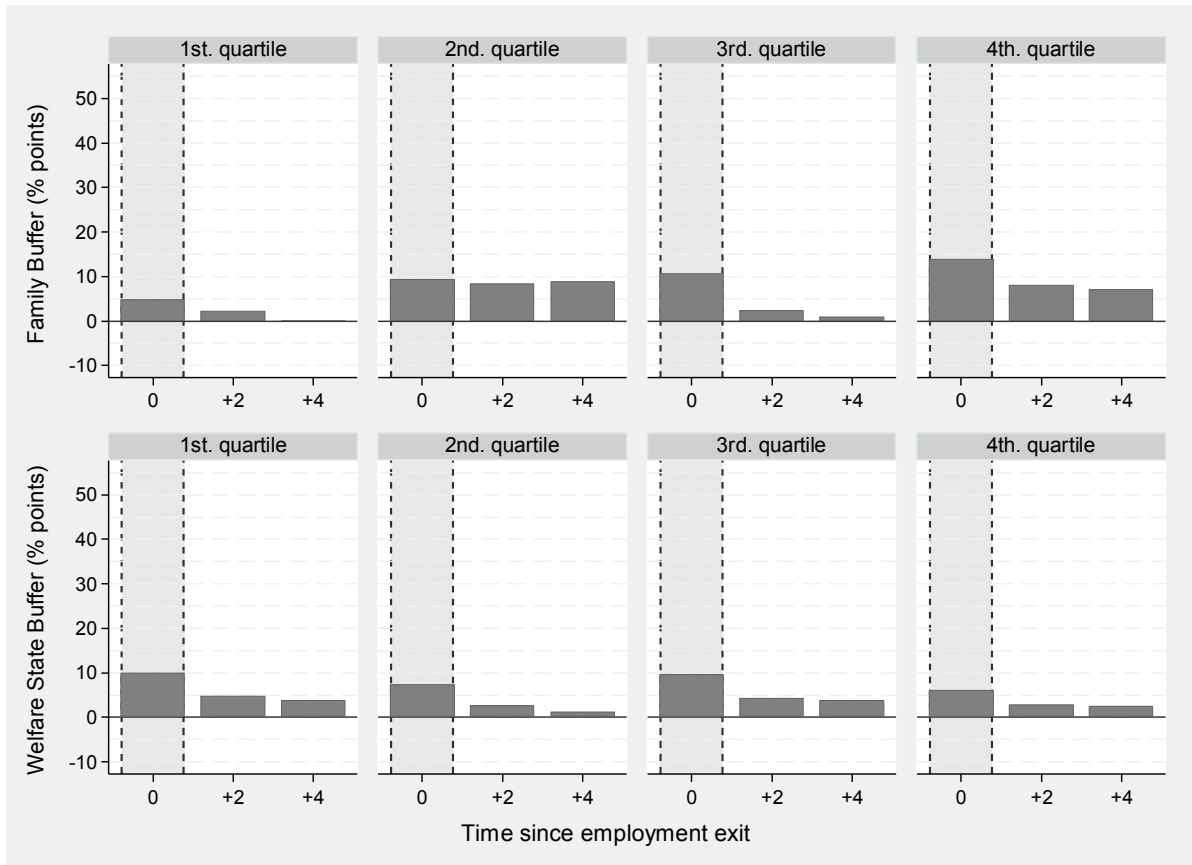
Hypothesis 2a, instead, is completely corroborated. Looking at income trajectories of women, we observe a considerable larger role of the household for them with respect to men (Figure 8).

Moreover, also in their case the household contributes to strengthen inequalities, especially in the year of the event. In the year of non-employment women in the lower quartile profit from a household buffer of less than 5 percentage points and the buffer increases over quartiles reaching a level of 25 percentage points in the fourth one. *Hypothesis 3* is thus confirmed also for American women. As a result, in terms of income losses, income trajectories have substantially changed with respect to individual labour income. For example, the third stratum, after the household intervention, has basically recovered the loss of income experienced with unemployment.

Looking at the composition of social strata, however, it emerges an overrepresentation of single households in the bottom strata also for the United States. This is especially true concerning women. They are probably represented by lone mothers which, as also observed by McLanahan and Percheski (2008), are among the most vulnerable groups and are overrepresented in the lowest strata. This overrepresentation of singles at the bottom of the social ladder, might suggest that, as

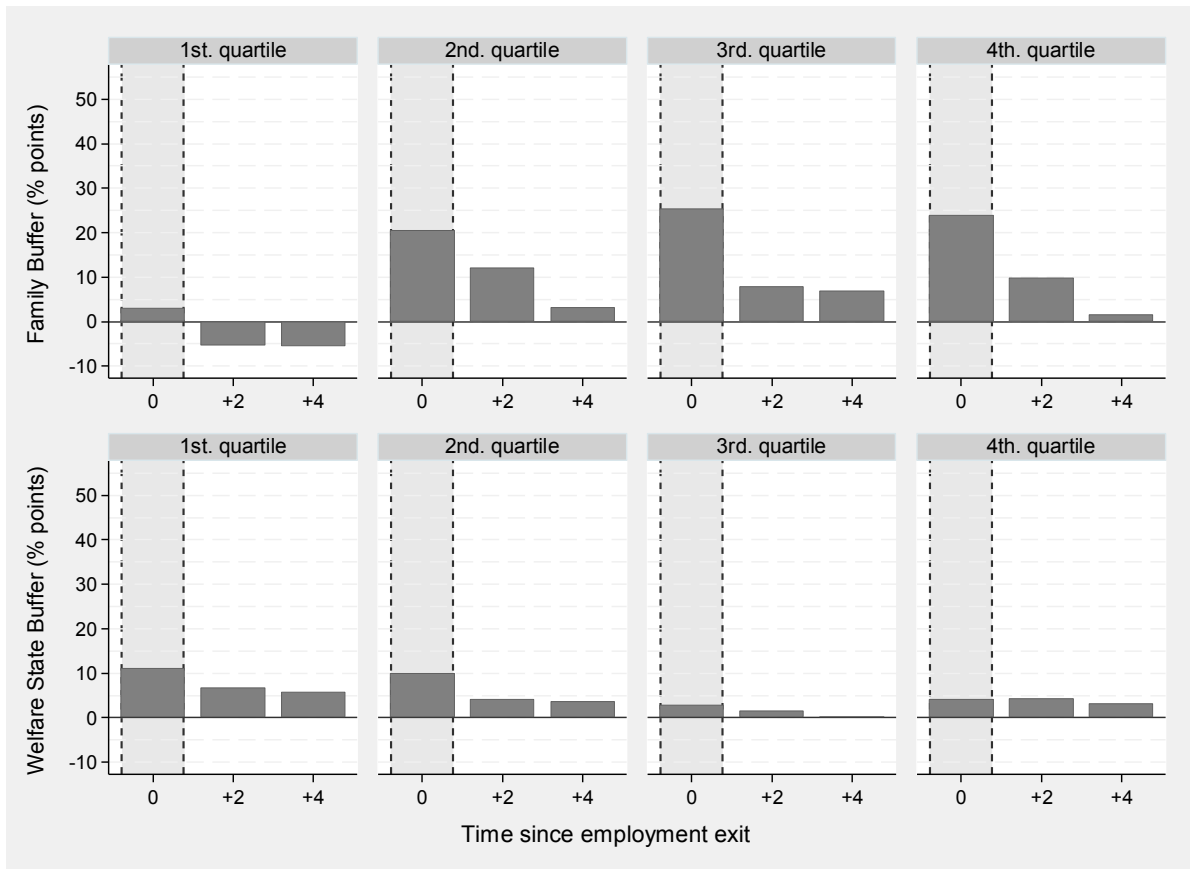
we showed for Germany, the stratification produced by the household is due to household formation behaviours, at least to some extent.

Figure 7 Household and Welfare State buffer at different points in time, by social strata. United States, men



Finally, when also the state is at work, income trajectories changes again, although only partially. As expected, the residual welfare state characterizing the United States, does not contributes much to manage social risks. Concerning American men, the state mitigate income losses by no more than 10 percentage points at the time of the event. Over time, the state buffer is still present, although to a negligible extent. This holds true for both men and women, although the latter benefit from slightly less support from the state if they belong to the highest strata. *Hypothesis 5* cannot be fully corroborated. Only for women, if any, the role of the state decreases over social strata. Thus, it does not contribute to equalize the income trajectories shaped by the market and the household. Overall, differently from Germany, in the United States unemployment insurance and social assistance play a much reduced role in supporting unemployed individuals.

Figure 8 Household and Welfare State buffer at different points in time, by social strata. United States, women



Conclusions

Aim of the present paper was to investigate the economic consequences of a labour market related event: the transition from employment to unemployment. In doing that, we contributed to the existing literature by considering systematically events, attributes (in terms of social stratification and gender), their interaction, as well as contexts (countries with different institutional settings). Alongside the life-course and the stratification perspectives, a comparative perspective has been also considered. This means that the consequences of an event are the result of the interaction between the event and the individual position within the social hierarchy, as well as of the context in which this interaction takes place.

In this conclusion, we focus on the comparative aspect of the chapter by discussing the similarities and differences that have emerged between countries.

Differences between strata in the consequences of unemployment for market income are especially related to income trajectories rather than to the immediate income loss. Concerning the immediate income loss, we observe some differences across strata only for German men: in this

case, the market operates as a force that strengthen inequality between the groups given that the higher the individual position in the stratification system and the lower the income loss experienced. Comparing German with U.S. unemployed, we observe lower income losses for the latter. This might be attributed to the higher dynamism of the U.S. labour market where individuals may experience very short spells of unemployment during the year.

Considering income trajectories after the event, we previously advanced some expectations. The main channel through which unemployed can recover their loss of income is reemployment. However, the income trajectory deriving from this counter-mobility strategy depends on the institutional arrangements of each specific context. In this regard, unemployment related institutions should play an important role and lead to some degree of variation between the countries considered. For example, the higher generosity, and the longer duration of unemployment benefits characterizing Germany, should permit the unemployed to search for longer time until they encounter a job offer that matches their skills and expected wage. According to this argument, reemployment income of Germans should be higher than American's, and thus the losses lower.

However, if we look at the trajectories in the years following the event, overall, American men and women present lower income losses compared with Germans. Accordingly, our expectation about a faster recover for Germans does not find support. This might be due to the faster reemployment that job seekers in the United States may experience given the more dynamism and the more liberal regulation characterizing the U.S. labour market.

In addition to individual's counter-mobility strategy, income losses may be compensated also through other channels. One of them is the household. Concerning its role in managing social risks' consequences, both similarities and differences have emerged between countries. In both countries, indeed, women are those who benefit the most from the support of other household members, principally the partner. Being men usually the primary earners in the household, once incomes are pooled those who benefit the most are the women. Comparing men in the two countries, *Hypothesis 2b* did not found support. American men are not supported to a greater extent by their partner than German men. Given the higher labour market participation and labour market intensity that women have in the United States, we would have expected a larger household buffer in favour of unemployed men in the United States. Instead, results show a slightly larger buffer for German men. This could be explained by the higher share of singles in the United States. Both men and women in the United States are more likely than Germans to not have a partner that support them when facing adverse events. This might also justify the lower household buffer we observe for the U.S. women compared with German women.

Regarding the last institutions at play, we can confirm *Hypothesis 4*: the role of the state is much more prominent in Germany than in the United States. The more generous welfare state characterizing Germany, in fact, performs much better in managing the negative consequences of job loss. Although with different degrees of commitment (where it is very scarce in the United States), in both countries the welfare state operates in the direction to weaken economic inequality. The welfare state buffer, indeed, is inversely related to individuals' position in the stratification system: those at the bottom benefit the most, while those at the top benefit the least.

Comparing our findings with previous research, many similarities can be found. A couple of works are of particular interest for a comparison with our findings, namely those of DiPrete and McManus (2000) and Ehlert (2013). Overall, the analyses presented in this chapter lead to results which are in line with theirs.

First of all, our results have shown that institutions have a substantial role in shaping income trajectories of individuals. However, the extent to which institutions contribute to foster or mitigate the income losses associated with unemployment varies according to several aspects. It varies between men and women. On the one hand, women are those who benefit the most from the household while, on the other hand, men are better sheltered by the welfare state compared with women. In the same direction go results of DiPrete and McManus (2000) and Ehlert (2013).

Variations in institutions' role are also observed across social strata. In this respect, our findings confirm Ehlert's results (2013). Although using a different definition of the event, a different estimation strategy, and a different measure of social stratification, he also found that the household plays a larger role in the highest strata. We have also shown that for both German and American men, the inequality-producing role of the household is almost entirely counterbalanced by the equality-producing role of the welfare state. Instead, this is not the case for women. For them, indeed, the household buffer is disproportionately stronger for the highest strata than the welfare state buffer is for the lowest strata. This implies that the impact of the welfare state is not able to smooth the inequality generated by the household. In this respect, our results differ with those of Ehlert who find differences between countries: welfare state is able to offset the effect of the household in Germany but does not in the United States.

The two countries considered share a very important aspect regarding their capacity to affect the accumulation of advantages and disadvantages and the (re)production of the system of social stratification. The institutions of both countries play a considerable role in strengthening or containing inequality between strata, and thus between individuals and household. More precisely, while on the one hand the household operates as an inequality 'booster' because its role in

supporting individuals is larger for the better-off strata, on the other hand the state operates in the opposite direction by targeting its intervention to the worst-off.

These two opposite forces, however, only partially counterbalance one another: the role of the household is generally larger than the role of the state, especially for women. This implies that the unevenly distributed consequences of employment events have the capacity to foster inequality even more.

The very last consideration that can be done regards, again, the role of the three institutions at work. While market-related forces are usually declared as the main drivers of income inequality, at least at an aggregated (macro) level of analysis, our results suggest that in some cases this is not necessarily the case if the focus moves to a life-course (micro) perspective. Overall, that is especially true looking at income losses at the time of job loss, but also looking at income trajectories. Trajectories in labour (market) income are less unequal than those in household income are. As we showed, the differences between social strata are more marked after the intervention of the household than when income trajectories are defined by market forces only. It seems that it is the household the main institution at work in stratifying resources and in strengthening inequality.

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