

Vellore Arthi, Gary Richardson (UC Irvine) & Katherine Eriksson (UC Davis)
'Labour market scarring in the very long run: Evidence from large-scale longitudinal microdata'

Recessions may have long-run effects that vary across cohorts. Because new labor market entrants may face very different constraints and scope for adaptation than incumbent workers, recessions at the time of labor market entry may shape training decisions and job match, among other outcomes—all with potentially lasting effects on career trajectories, life-course income, and the intergenerational transmission of wealth. This phenomenon, commonly termed labor market scarring, emerged as a major area of research following the 2008 Recession, and has seen renewed interest in the wake of the massive economic disruptions caused by COVID-19. In both of these settings, however, recent work has focused on the relatively short-term consequences of graduating into a recession, and much less is known about the long-run, intergenerational, and distributional effects of adverse shocks around the time of labor market entry. This is largely because for recent downturns, timescale and privacy concerns together limit the data necessary for a comprehensive, life-course perspective. This project contributes some of the first evidence on life-course labor market scarring by turning to a setting that is both intrinsically important, and which allows us visibility into these issues in the very long run: the Great Depression. To do this, we generate large-scale longitudinal microdata by linking historical and modern sources, and pair this with newly collected, high-frequency, and spatially disaggregated data on local economic conditions. This allows us to cleanly identify age-specific exposure, and to track individuals through the end of the working life—all while accounting for factors like migration, which are both strategic responses of substantive interest, and potential confounders in standard analysis. life—all while adjusting for factors like migration, which are both strategic responses of substantive interest, and potential confounders in standard analysis. In this paper, we bring together new data, improved identification, and a truly long-run perspective to advance knowledge on several important issues: 1) the short- and long-term real economic effects of Great Depression, including on locality- and cohort-specific employment; 2) the transitory vs permanent effects of adverse labor market shocks; 3) the mechanisms by which individuals adapt to such shocks, such as migration, occupational switching, and human capital acquisition; and 4) the intergenerational impact of business cycles.