

Searching, hiring and labour market conditions [☆]

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Abstract

This paper attempts to investigate how employers' recruitment strategies (in terms of the recruitment method used and the applicants' characteristics) change in response to different conditions on the relevant regional labour market.

Our empirical results show that the hiring of unemployed candidates and the use of the public employment service are events more likely to happen in a slack regional labour market. Moreover, the use of advertisements and the hiring of already-employed job seekers are more likely to occur in the presence of excess demand on the relevant regional labour market.

This supports the view that shifts in recruitment strategies may be driven by cyclical fluctuations in expected variations (in both the size and composition) of the pool of potential applicants. © 2001 Elsevier Science B.V. All rights reserved.

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[☆] The data are propriety of Intomart. They can be readily obtained at the following address: Intomart b.v., Noordse Boosje 13-15, P.O. Box 10004, 1201 DA Hilversum, The Netherlands. Tel.: +31-35-625-841. The programs used to generate the results reported in the article can be obtained from the first author upon request.

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1. Introduction

The present paper aims to investigate employers' hiring behaviour over the business cycle. Job search and hiring are in fact continuous activities in dynamic economies (Holt and David, 1966). However, search and hiring intensity vary in response to different macroeconomic conditions (for a supply side perspective, see Osberg, 1993).

A common result of studies on gross job creation and destruction (Leonard, 1987; Davis and Haltiwanger, 1992; Cramer and Koller, 1988) is that both take place simultaneously at any time of the business cycle, i.e. in shrinking as well as in expanding industries. Furthermore, activities on one side of the market have external effects on the costs of the other side (thin and thick markets effects, Diamond, 1982). Along these lines, Pissarides (1994) developed a model of on-the-job search and two categories of jobs: "good" (more expensive to set up, with high productivity and high wages), and "bad" (less expensive to set up, low productivity and low wages). In this model, employers have a rather passive search behaviour: they do not signal whether they are posting a bad or good job, and limit themselves to offering the vacant job to the first applicant who is ready to accept it. Unemployed job seekers accept both good and bad jobs, while employed job seekers accept good jobs only. On-the-job search increases employers' expected benefits from creating good jobs. Therefore, during periods of expansion, when more employed job seekers become available in the labour market, it should be possible to observe the creation of more vacancies and of relatively more good jobs. This model predicts that a larger share of already-employed workers are hired during booms when a relatively large proportion of good jobs are created. Conversely, in a recession, hiring from the pool of unemployed would become more important, and consequently, fewer vacancies with a relatively high proportion of bad jobs are observed.

The predictions from Pissarides' model are consistent with observed gross worker flows in the labour market. Burda and Wyplosz (1994) show, for different countries, that the outflow from unemployment becomes more important during recessions, but it becomes much less important during periods of economic recovery. In contrast, the importance of job-to-job transitions is less evident during recessions, but they become much more important during periods of economic expansion (see also Burgess, 1993).

Micro-econometric studies on employers' recruitment behaviour, however, suggest that, unlike what is assumed in the model, employers' search behaviour is in fact not passive. For example, Barron et al. (1985) show that employers do search for applicants actively and that they spend a considerable amount of time screening applicants. Barron et al. (1997a) show that employers tend to screen more applicants for more important positions (with high educational requirements and involving training). Barron et al. (1997b) endogenize the information about the quality of the match. The authors found that both applicants and vacancy

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