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How does the first job matter for an individual's career life in Japan?



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ABSTRACT

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Exploiting annual information on the work status of female workers from the *Japanese Panel Survey of Consumers (JPSC)*, this paper examines how an individual's job status immediately after graduation, referred to as "first job," matters for his/her future job career. Using the ratio of regular employees in the labor force in the year preceding an individual's graduation as an instrument for the first-job status (i.e., regular job or not), we confirm that even for women, whose retention rates are lower than those of men because of marriage and childbirth, individuals' first-job status has a significant effect on their job status in the future. We further find that the effect gradually declines over the years and effectively disappears around 10 years after graduation. Finally, we find that the first-job effect is reversible: no negative effect of failing to obtain a regular job at graduation is observed if an individual can secure regular employment within a reasonable time period after graduation. *J. Japanese Int. Economies* **29** (2013) 154–169. Economic and Social Research Institute, Cabinet Office, Government of Japan; Hitotsubashi University, Japan; Tokyo Metropolitan University, Japan.

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1. Introduction

New school graduates just having completed their education and in search of a job inevitably will have to contend with the macroeconomic situation in their year of graduation. While those who graduate in a good year are likely to find a desirable job, those who graduate in a bad year may be forced to start with a less attractive job or find themselves unemployed due to a lack of employment opportunities. In Japan, the unemployment rate rose substantially during the 1990s and has remained high since then due to the prolonged period of slow growth and repeated recessions following the burst of the bubble economy. In particular the unemployment rate of the young, which increased from 4% to 10%, is causing concern, as young workers who are unable to find a good job upon graduation tend to remain jobless or work as part-time (or temporary) employees in subsequent years. This negative cohort effect impinging on those who graduated during the protracted recession, and especially during what came to be called the employment “ice age” (around 1998–2002), has become an important policy issue in contemporary Japan.

Recent academic studies have found that macroeconomic conditions at labor market entry have a significant impact on individuals' working conditions not only in their entry year but also in subsequent years. Oreopoulos et al. (2012), for example, focusing on Canadian college graduates, found substantial initial earning losses for those who graduated in a bad year, which linger on for up to around 10 years before dissipating. Similarly, Kahn (2010), using U.S. data for white male college-educated workers who graduated in a bad year, found long-run negative effects on wages as well as on occupational attainment. Several studies on other countries also find persistent cohort effects from macroeconomic conditions at graduation, including Brunner and Kuhn (2010) for Austria and Ohtake and Inoki (1997), Kondo (2008), and Genda et al. (2010) for Japan.¹

While the persistence of cohort effects in the labor market is well established, the mechanisms underlying these effects are not necessarily well understood. Although there are various possible theoretical explanations of the persistency of such effects, such as search costs, the accumulation of human capital through work experience, or signaling effects, that is, the stigma caused by the failure to find a job on graduation, there are few empirical studies examining the pertinence of the different explanations, since few datasets containing the necessary information on individuals' employment history are available.

Due to the limited availability of data on individuals' entire job career history, many studies exploring the underlying mechanisms have focused on the effect of individuals' first job obtained immediately after graduation. The reason is that if an individual's first job obtained at graduation matters for his or her later career, the persistence of cohort effects can be attributed – at least in part – to individuals' initial success (or lack thereof) in the job market. Moreover, it would mean that graduating in a bad year affects individuals differently rather than affecting all individuals in a particular cohort evenly, which has important implications also for policy makers. Against this background, a key study is the one by Oyer (2006), who examined the work status of economics Ph.D.s in relation to their first job obtained at graduation. Instrumenting macroeconomic conditions with the demand for economists in the year an individual graduated, he found that there is a causal link between the quality of an economist's first job and that of his/her position 3–15 years later. Focusing on individuals' research productivity, he further found that, for academics, getting a good first job increases publication productivity in the following 10 years. Oyer (2006) interprets the result as indicating that the first job matters in terms of the development of task-specific human capital, which affects an individual's future career.

Similar studies on individuals in Japan are relatively scarce. An exception is that by Kondo (2007), which shows that individuals' current employment status is closely linked to their first job. Specifically, she finds that even several years after graduation the probability of being a regular employee is substantially lower if an individual failed to obtain a job as a regular employee at graduation. She suggests that a possible reason for this finding is the signaling effect: in Japan, companies rarely

¹ Brunner and Kuhn (2010), moreover, provide a brief survey of recent empirical studies, while Genda et al. (2010) provide a comparison of such effects in Japan and the United States.

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